

AML/CFT/CPF NEWSLETTER

ISSUE 12 DECEMBER 2023



NAVIGATING THE WAVES

CHALLENGES AND OPPORTUNITIES IN FORTIFYING THE AML/CFT/CPF FRAMEWORK IN THE EASTERN CARIBBEAN CURRENCY UNION

By Mr Ron Leon - Senior Manager Corporate Services, Republic Bank (EC) Limited

The Eastern Caribbean Currency Union (ECCU), renowned for its picturesque landscapes and rich cultural heritage, grapples with a formidable challenge – labelled a high-risk region for money laundering. Despite commendable efforts by the competent authorities, financial regulators, and governments, the region faces unique challenges in meeting obligations established within the international Anti-Money Laundering and Combatting the Financing of Terrorism and Proliferation (AML/CFT/CPF) framework as follows:

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CHALLENGES IN SIGHT

1. Correspondent Banking Pressures (De-risking)

Licensed Financial Institutions (LFIs) within the ECCU often find themselves constrained in their relationships with correspondent banks. The stringent controls required by correspondents, force regional banks to limit their appetite or forego relationships with sectors deemed high risk for ML, such as the gaming industry and money remitters. Additionally, the decriminalisation of cannabis in some ECCU territories has introduced new challenges; limiting options for cross-border transactions due to the lack of alignment with federal laws in the United States (US). This eliminates the possibility of utilising US banks who are primary providers of correspondent services to the region.

While options are not expansive, LFIs should consider diversifying correspondent banking relationships to reduce dependency on a single institution. Exploring partnerships with institutions that align with business goals and risk tolerance. Management should also ensure that lines of communication are maintained with the correspondent banks on emerging risks identified; providing their strategy to mitigate appropriately.

2. Perception of the Populace

Rules designed to protect the financial sector and the general public sometimes lead to LFIs being labelled as stringent or unreasonable in conducting business. Standardisation across the financial sector, particularly in application of AML/CFT/CPF controls, is crucial to address this perception and create a level playing field.

In addressing these perceptions, the industry must proactively emphasise the importance of AML/CFT/CPF controls in safeguarding the integrity of the financial system. Furthermore, fostering communication between regulators and financial institutions to establish common ground on compliance measures will contribute to a more cohesive and efficient framework. In such regard, LFIs' internal processes should be tailored to mitigate the inherent ML risk, however, full consideration should always be given to overall customer impact.

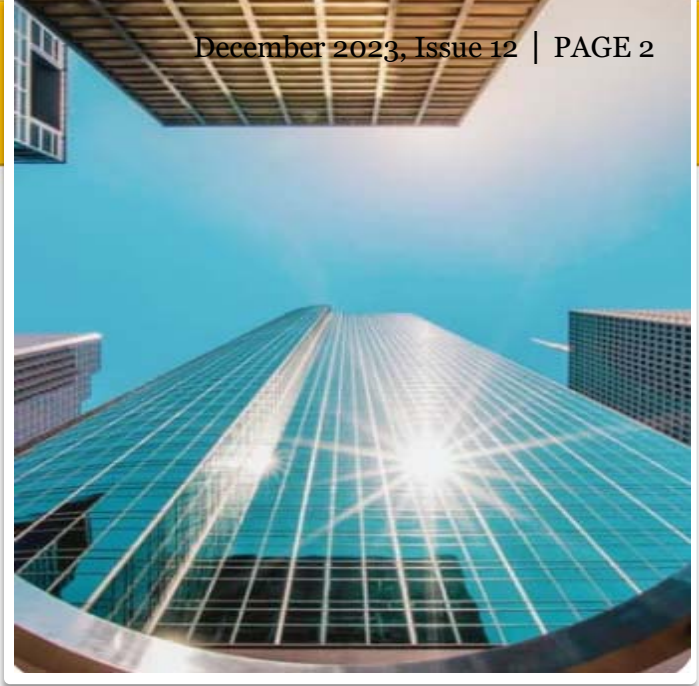
3. Misuse of Citizenship by Investment (CBI) Programs

While the unique risks associated with the misuse of Citizenship by Investment (CBI) programs are commonly acknowledged, there is a glaring lack of international or regional standardisation on how financial institutions should minimise this risk. Collaborative efforts are needed between governments, regulators, and banks to formulate effective strategies to address concerns surrounding CBI programs. As these programs continue to attract attention and investment, the region must work towards establishing clear guidelines and frameworks to mitigate the potential misuse of CBI programs. Standardisation at the international level would provide for a robust foundation for financial institutions to operate within and enhance the region's credibility.

4. Resource Allocation Dilemma

The compliance unit, operating independently of business decisions, focuses on mitigating risks that may not immediately impact solvency or liquidity. There is a continuous challenge in identifying a strong cost/benefit correlation. Increased costs for maintaining robust compliance frameworks, coupled with higher capital requirements, provide less incentive for institutions to invest in AML/CFT/CPF risk management.

To address this dilemma, LFIs must explore innovative approaches to allocate resources effectively. This includes developing technologies that streamline processes, making them more cost-effective and less resource-intensive.



Investing in training programs and capacity-building initiatives can also enhance the effectiveness of procedures and controls in all areas of the organization.

5. Risk-Based Approach Dilemma

Despite the global shift towards a risk-based approach (RBA), there is a persistent fear of "*not doing enough*" by management and officials within the financial sector, who at times self-inflict constant pressure to meet stringent rules; hindering the full implementation of the RBA. Regulators and institutions should undertake proactive efforts to promote knowledge and acceptance of RBA through active campaigns and targeted training for banking and finance professionals. The region must foster a cultural shift towards embracing RBA as an effective and efficient approach to AML/CFT/CPF compliance. Providing ongoing training and education will empower financial institutions to adopt risk-based practices confidently; enhancing the overall effectiveness of the framework. Auditors, who are major influencers in this regard, should ensure they are fully cognisant of the concept and utilize such principles to determine the materiality of findings in their audit engagements.

6. Supervisory Authority Consolidation

The ECCB's role as the supervisory authority for AML/CFT/CPF in many countries is a positive move towards streamlining efforts. However, further consolidation of AML/CFT/CPF supervision under one regulator for all ECCU countries would ensure a unified and effective approach, avoiding inconsistencies in enforcing AML/CFT/CPF measures. Consolidation of supervisory authority can lead to more efficient coordination and communication between regulator and licensee. A unified approach would facilitate the sharing of best practices, ensuring a consistent and high standard of AML/CFT/CPF compliance across the region.

OPPORTUNITIES ON THE HORIZON

Addressing these challenges presents numerous opportunities for the ECCU to strengthen its AML/CFT/CPF framework; fostering a more secure and resilient financial sector.



1. Collaboration and Standardization

The commitment of regulatory bodies, collaboration with financial institutions, and the adoption of standardised practices can pave the way for a balanced and effective AML/CFT/CPF landscape. Regional and international partnerships can help establish common standards and facilitate the exchange of information; reinforcing the region's commitment to combating financial crimes.



2. Technological Innovation

Embracing technological advancements offers an opportunity to streamline AML/CFT/CPF compliance processes. Implementing artificial intelligence and machine learning tools can enhance the detection and prevention of illicit activities, reducing the burden on compliance units and making the overall framework more efficient and cost effective.



3. Capacity Building

Investing in capacity-building initiatives and continuous training programs for professionals in the financial sector can significantly improve the effectiveness of AML/CFT/CPF measures. Empowered and knowledgeable professionals are essential in implementing and sustaining a robust compliance framework.



4. Public Awareness Campaigns

Creating awareness among the general public about the importance of AML/CFT/CPF controls can garner support and understanding. Public support is crucial in fostering an environment where compliance measures are seen as necessary for the overall well-being of the community.



4. International Advocacy

Engaging in international advocacy efforts to promote standardised regulations and guidelines can position the ECCU as a proactive and responsible participant in the global fight against financial crimes. This could include actively participating in international forums and contributing to the development of best practices. While this may be executed by representatives from the supervisory bodies, there is a need for dissemination of the information to stakeholders within the financial sector. This will foster unity and support for the common goal, which is the development of our region, specifically our financial sector.

CONCLUSION

In navigating these challenges and embracing the opportunities presented, the ECCU can redefine its narrative; transforming from a perceived high-risk destination to a beacon of robust AML/CFT/CPF compliance. The journey requires collective effort, strategic planning, and a commitment to fundamental principles, ultimately contributing to the sustainable development of the region. As we navigate the intricacies of AML/CFT/CPF compliance, our region has the potential to emerge not only as a secure financial hub but also as a model for effective and resilient frameworks in the global fight against financial crimes.



REGULATORY UPDATES



Results of the Financial Action Task Force Plenary - Paris (October 2023)

The fourth Plenary of the Financial Action Task Force (FATF), under the Presidency of T. Raja Kumar of Singapore, took place in Paris during the period 25-27 October 2023. The following were the key discussion points and actions emanating from the Plenary:

- Ongoing discussions on the situation in the Middle East.
- A decision was made to publish a key report on Crowdfunding for Terrorism Financing. Members also agreed on revisions to the FATF Recommendation 8, to clarify measures applying to Non-Profit Organisations.
- Reports on the *Illicit Financial Flows from Cyber-Enabled Fraud* and the *Misuse of Citizenship and Residency by Investment Programmes* were adopted and published in November 2023.
- A report, which sets out recommendations to strengthen the roles and use of asset recovery networks in pursuing transnational ML cases, was released. This was deemed necessary to further improve global asset recovery.
- The Plenary agreed to release for public consultation, the updated FATF Risk-Based Guidance on Recommendation 25 - Beneficial Ownership and Transparency of Legal Arrangements. The revised guidance was expected to be finalised at the February 2024 Plenary meeting.
- Indonesia was welcomed as the 40th member, while the suspension of the membership of the Russia Federation continued.
- The joint FATF- Financial Action Task Force of Latin America (GAFILAT) assessment of Brazil was discussed.
- Amendments to the FATF Methodology, used to assess how effectively countries have implemented FATF's beneficial ownership and transparency requirements, were finalised. This was in preparation for the 5th round of mutual evaluations.
- In achieving its goals of developing a more cohesive and inclusive global network, the FATF agreed to a comprehensive set of procedures that all relevant assessment bodies, including all FATF-Style Regional Bodies, will use to assess countries' compliance with the FATF standards in the next round of mutual evaluations.

1

READ MORE



<https://www.fatf-gafi.org/en/publications/Fatfgeneral/outcomes-fatf-plenary-october-2023.html>

Updates to the FATF Black and Grey Lists

2

On 27 October 2023, the FATF added Bulgaria to the *Jurisdictions under Increased Monitoring* list known as the "*grey list*". The FATF also highlighted Albania, the Cayman Islands, Jordan and Panama's significant progress in addressing the strategic AML/CFT deficiencies previously identified during their mutual evaluation, and as such, these countries were removed from the "*grey list*". There were no changes to the group of high-risk jurisdictions with significant strategic deficiencies in their regimes to counter ML/TF/PF, known as the "*black list*".


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<https://www.fatf-gafi.org/en/publications/Fatfgeneral/outcomes-fatf-plenary-october-2023.html>

Taxation: Antigua and Barbuda, Belize and Seychelles Added to EU List of Non-Cooperative Jurisdictions for Tax Purposes

3

The Council of the European Union (EU) added Antigua and Barbuda, Belize and Seychelles to its list of non-cooperative jurisdictions for tax purposes as at 17 October 2023. The Council noted that these jurisdictions were not yet cooperative on tax matters, and encouraged them to improve their legal framework in order to resolve identified issues. The EU list of non-cooperative tax jurisdictions include countries that either have not engaged in a constructive dialogue with the EU on tax governance, or have failed to deliver on their commitments to implement the necessary reforms. The EU list now consists of sixteen (16) jurisdictions. Antigua and Barbuda joined Anguilla as the second ECCU member state on the EU list. The other jurisdictions on the list includes American Samoa, Bahamas, Belize, Fiji, Guam, Palau, Panama, Russia, Samoa, Seychelles, Trinidad and Tobago, Turks and Caicos Islands, US Virgin Islands and Vanuatu.


 READ MORE

<https://www.consilium.europa.eu/en/press/press-releases/2023/10/17/taxation-antigua-and-barbuda-belize-and-seychelles-added-to-eu-list-of-non-cooperative-jurisdictions-for-tax-purposes/>

FATF Turns Sights Towards Citizenship and Residency by Investment Programmes

4

In November 2023, the FATF published a report titled "*Misuse of Citizenship and Residency by Investment Programmes*". The publication focused on the general analysis of CBI and residency-by-investment (RBI) and proposed strategies for guarding the programmes from abuse. These programmes can have significant impact on countries' economic growth but is vulnerable to attracting illicit finance. FATF President T. Raja Kumar called on governments operating these programmes to implement a variety of safeguards to ensure these programmes are administered in a risk sensitive way. The report comes at a time when FATF is preparing for its next round of mutual evaluations.


 READ MORE

[Misuse of Citizenship and Residency by Investment Programmes \(fatf-gafi.org\)](https://www.fatf-gafi.org/en/publications/Misuse_of_Citizenship_and_Residency_by_Investment_Programmes)

EMERGING TREND

PIG BUTCHERING



Have you ever received a text, email or chat message from an unknown sender with an attractive profile picture in recent months?

Or have you received a message regarding an attractive job opportunity that seems too good to pass up? This might have been the first step to lure you into becoming a victim of pig butchering.

What is Pig Butchering?

Pig Butchering is a sophisticated scam with the objective to lure persons into crypto investments where they eventually lose their investment, or recruit human trafficking and forced labour victims, who in many cases become penetrators. The term “*pig butchering*” alludes to the practice of fattening a pig before slaughtering. The goal is to gain trust. Once the target’s trust is established, the victim is ready to be lured into making fake crypto investments and accepting fake job offers. This is a disturbing phenomenon, and there is concern for the increase in cases of human trafficking. In addition to the financial impact, this scam causes immense physiological impact on victims.



Caribbean Financial Action Task Force: Understanding Pig Butchering

In its first of three-part “*Emerging Trends*” series in October 2023, the Caribbean Financial Action Task Force (CFATF) focused on the “*Pig Butchering*” scam. The publication explains the concept of pig butchering, how the scam is perpetrated, estimates losses, and behavioural red flags.

READ MORE



<https://www.cfatf-gafic.org/home-test/english-documents/research-corner/22093-pig-butchering-understanding-the-crypto-investment-scam-october23-pdf/file>



OUTCOMES OF THE 57th CFATF PLENARY AND WORKING GROUPS MEETINGS

The Caribbean Financial Action Task Force (CFATF) 57th Plenary and Working Groups Meetings took place over the period 26 November to 1 December 2023 in Aruba. The main agenda items included: the mutual evaluation reports (MERs) of Saint Vincent and the Grenadines (SVG) and the British Virgin Islands (BVI); follow-up reports (FUR) for seven (7)¹ CFATF Members; Saint Lucia's Voluntary Tax Compliance Report; Co-chairs' reports from the various CFATF working groups; and reports of Cooperating and Supporting Nations and Observer Organisations.

The following were the key discussion points and actions emanating from the Plenary:

- The 4th round MERs of SVG and the BVI were approved.
- The FATF reached an agreement that Barbados had substantially completed its action plan, and qualified for an on-site visit, which was the final step towards removal from the FATF List of Jurisdictions Under Enhanced Monitoring. Barbados' removal from this list will signify that the country has made substantial progress in strengthening the effectiveness of its regime to combat ML/TF/PF. The CFATF Chair and members also congratulated Jamaica and Haiti for their progress made in addressing the strategic AML/CFT deficiencies previously identified during their 4th round mutual evaluations.
- Saint Lucia presented its 3rd FUR at the Plenary meeting and sought technical compliance re-rating for twenty-two (22) recommendations. Technical compliance re-rating upgrades were granted for twenty (20) recommendations and the status quo was maintained for two (2).
- The on-site portion of Anguilla's 4th Round Mutual Evaluation took place over the period 26 June to 7 July 2023. The 3rd draft of the MER will be discussed at the May 2024 Plenary.
- The United Nations Office of Drugs and Crime (UNDOC) made a presentation on "*Illegal Deforestation and Associated Financial Flows*". The presentation aimed to raise awareness on environmental crime, highlighting the ongoing work by the UNODC on illegal deforestation in the Amazon region, methods used to launder proceeds and red flags. While the risk of such offences were noted as low within the Caribbean region, emphasis was placed on the need for increased awareness of such crimes.
- The CFATF Risks, Trends and Methods Working Group Projects – '*Potential Implications of Decriminalisation, Legalisation or A Hybrid Decriminalisation Approach of Cannabis on AML/CFT*', and '*the 2023 Stocktaking update on 'De-risking' in the Caribbean Region*' were discussed and adopted. The reports will be published on the CFATF's website as public documents.

¹ Antigua and Barbuda, Bahamas, Jamaica, Saint Kitts and Nevis, Saint Lucia, Suriname, Turks and Caicos Islands, Venezuela.

PRESS RELEASE

COMPLETION OF SAINT LUCIA'S 2023 RE-RATING



Saint Lucia's 4th Round MER was published in January 2021. The country was subject to the enhanced follow-up process due to inadequacies in relation to the FATF 40 Recommendations. In May 2023, Saint Lucia requested the re-rating of twenty-two (22) FATF Recommendations which were rated partially compliant or non-compliant during the country's 4th Round Mutual Evaluation process.

As part of the effort to improve Saint Lucia's technical compliance ratings for the 40 Recommendations, the National Anti-Money Laundering Oversight Committee (NAMLOC) undertook a campaign to address the deficiencies. Accordingly, amendments were made to ten (10) pieces of legislation to include the Anti-Terrorism Act, Cap 3.14, Companies Act, Cap 13.01, Money Laundering (Prevention) Act, Cap 12.20 and associated Regulations, and the United Nations Sanctions (Counter Proliferation-Financing) Act, Cap 12.30.

The Registration of Supervised Entities Act, No. 12 of 2023 was enacted, and established a framework to facilitate the registration of designated individuals engaged in other business activities that present a risk in relation to money laundering and other criminal conduct, and related matters. The Virtual Assets Business Act, No. 24 of 2022 was enacted, and provides for the regulation and supervision of a virtual asset business in or from Saint Lucia and for related matters.

Another critical aspect of the work programme was the revision of Saint Lucia's National Risk assessment (NRA), which is linked to Recommendation 1 "*Assessing risks and applying a risk-based approach*".

The NRA was finalised and adopted by the Cabinet in May 2023. A total of twenty-one (21) sectors were assessed and assigned ML and terrorist financing (TF) overall risk ratings ranging from low to high. Among the sectors that were assessed were commercial banks (medium risk), non-profit organisations (low risk), and securities (low risk).

The NRA resulted in the development of Saint Lucia's 2023-2026 National AML/CFT/CPF Policy and National AML/CFT/CPF Action Plan.

As of December 2023, Saint Lucia's ratings in the 40 FATF Recommendations were as follows:

Rating	Number of Recommendations as at December 2023	Number of Recommendations as at January 2021
Compliant	16	1
Largely Compliant	14	9
Partially Compliant	6	24
Non-Compliant	4	6

The Saint Lucia NAMLOC remains vigilant in monitoring the efforts of agencies to address the outstanding deficiencies outlined in the 4th Round MER, as the country prepares for the 5th Round MER.



THE THREAT WITHIN

THE EMPLOYEE PERSPECTIVE

By The Management Information Systems Department, ECCB

Organisations face a number of cyber security related threats on a daily basis including ransomware, denial of service attacks, and data breaches. Cybersecurity has often focused on security threats external to the organisations as opposed to threats from within. **Internal threats including threats from unscrupulous employees now present a risk that affects all public and private domains within society.**

An insider threat can best be described as the potential for an insider to use their authorised access or understanding of an organisation to harm that institution.¹ An insider may include:

- An employee working for an organisation, on either a contractual or permanent basis with access to electronic assets (desktop, laptop, mobile device) and organisational data. This includes employees with both privileged and non-privileged access;
- An individual working for a third-party vendor that has been contracted to provide a service for an organisation; and
- A former employee of an organisation.

There are two common types of insider threats, the malicious insider and the accidental insider. The malicious insider is one who intentionally abuses their access to steal information or disrupt operations. This can be done by leaking sensitive information and Intellectual Property (IP) and sharing Personally Identifiable Information (PII) of an organisation's customers and colluding with third parties to cause damage to an organisation, to name a few.

The accidental insider is one whose actions are accidental rather than malicious, but still result in significant risk to an organisation. Insider threats often manifest through the actions or inactions of internal users. An example is an employee who downloads pirated software, containing malware, to a company device that can be exploited by an external actor. These negligent insiders inadvertently pose a significant risk, however unintentional, and by doing this can expose an organisation to external threats like malware, ransomware and other cyber-attacks. In 2017, an employee at aerospace company Boeing emailed his wife a spreadsheet "so she could assist him with formatting issues". Unbeknown to him the spreadsheet contained personal information of approximately 36,000 employees in hidden columns.²

¹ <https://www.cisa.gov/topics/physical-security/insider-threat-mitigation/defining-insider-threats>, CISA: Defining Insider Threats.

² <https://www.code42.com/blog/insider-threat-examples-in-real-life/>, Real Life Insider Threats

Employers have an important role to play in protecting against insider threats. At minimum, employers should:

- Conduct enterprise-wide risk assessments that consider risks due to both insider and outsider threats.
- Harden their network perimeter security. The network should be segmented into virtual local area networks (VLANs) to prevent users from freely traversing the corporate network.
- Consider implementing a Security Information and Event Management System. This is an important step in collecting, aggregating and analysing volumes of data from an organisation.
- Maintain a comprehensive employee termination procedure to protect the organisation from unauthorised access of former employees.
- Expose all employees, including third parties and contractors, to security awareness training as part of their on-boarding process.
- Understand Cloud Service Exposure. Most organisations are extending their network perimeter to the cloud. If security controls are not revisited, it is likely to result in inadequate and ineffective security controls. A risk assessment should be conducted on all proposed outsourced information, particularly sensitive data such as intellectual property or financial information. It is paramount that the cloud service provider meets or exceeds an organisation's security practices.

The insider threat risk landscape is constantly evolving. To adequately protect against insider threats there needs to be a collective effort between the organisation and its employees towards maintaining a secure work environment. Both organisation and employee have a role to play and therefore it is important that the right training, tools and resources are utilised in keeping the organisation safe while transforming the employee from being the greatest insider risk to that of an integral defence mechanism.



MESSAGE FROM DIRECTOR FSSD

Happy New Year to all from the management and staff of the Financial Sector Supervision Department.

May your 2024 journey be one of reflection, inspiration, hope and determination!

As a guide on this journey, we would like to share some of our main initiatives or focus areas which will form part of the AML/CFT/CPF Programme for the upcoming year.

These include:

- Continued implementation of the ECCB's risk based AML/CFT/CPF Supervisory Programme;
- Greater focus on AML/CFT/CPF training and sensitisation for LFIs and National Competent Authorities;
- Strengthening the AML/CFT/CPF Supervisory Regime within the ECCU through technical assistance and cooperation;
- Supporting member countries in their 4th Round CFATF Mutual Evaluation and Re-Rating Exercises;
- Updating of ML/TF/PF Banking Sectoral Risk Assessments;
- Issuance of guidance notes and standards to assist in the harmonisation of AML/CFT/CPF best practices; and
- Launch of Phase II of the ECCB's Mentorship Programme.



SCHWBACH CAINES

Director

Financial Sector Supervision Department

We are very excited about what is in store for 2024 and we look forward to continued partnership with you, our valuable stakeholders, on matters that not only strengthen or respective organisations but the Eastern Caribbean Currency Union.

Have you read the previous issues of the AML/CFT/CPF Newsletter?

AML/CFT/CPF NEWSLETTER

ISSUE 11 SEPTEMBER



MANAGING THE RISKS AND VULNERABILITIES ASSOCIATED WITH THE MEDICINAL CANNABIS INDUSTRY

In its 2020 flagship report entitled - *The Medicinal Cannabis Revolution - Challenges in Banking a Resurgence Industry in the ECCL*, the Eastern Caribbean Central Bank (ECCB) noted that the legal use of medicinal cannabis had expanded over the last ten (10) years, as more than thirty (30) countries had legalised the use of the drug for medicinal and therapeutic purposes.

Given the favourable climate and rich agricultural experience in many of the Eastern Caribbean Currency Union (ECCU) member states, the region was viewed as being well-suited to developing a medicinal cannabis industry through a viable domestic and export market. Crucial to this is the facilitation of banking services to facilitate domestic, regional and international transactions.

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INTELLIGENCE TECHNOLOGIES

In the Anti-Money Laundering, Counter the Financing of Terrorism and Proliferation (AML/CFT/CPF) space, artificial intelligence (AI) has grown significantly given its potential to revolutionise AML/CFT/CPF efforts. AI refers to the ability of a computer or computer-controlled systems to think like humans and to perform tasks commonly associated with human beings. With the rapid advancement in digital solutions, and as financial institutions (FIs) seek to remain competitive, AI has no doubt found its way into the banking and financial services sector.

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Download your copy from the Publications section of the ECCB Website at <https://www.eccb-centralbank.org/publications/other-publications>

The Financial Action Task Force (FATF) defines a VA as any digital representation of value that can be digitally traded, transferred and can be used for payment or investment purposes. It does not include digital representation of fiat currencies or securities. The presence of VAs has grown rapidly and is becoming part of the financial landscape throughout the Eastern Caribbean Currency Union (ECCU) and the wider Caribbean. Therefore, it is important that persons understand what are VAs and how it may impact us.

Thank you!

The Eastern Caribbean Central Bank

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