



FINANCIAL SERVICES AUTHORITY

ST. VINCENT & THE GRENADINES

AML/CFT RISK BASED
SUPERVISION FRAMEWORK

JULY 2022

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1. INTRODUCTION

1.1. AML/CFT Supervision

The Financial Services Authority (FSA) is responsible for overseeing compliance of the non-bank financial institutions and international financial services sector pursuant to the requirements of the Financial Services Authority Act, No. 33 of 2011, Proceeds of Crime Act, 2013 and Anti-Money Laundering Regulations and Code and provide guidance on how to comply with these requirements.

AML/CFT supervision is mainly carried out through off-site and on-site activities. The FSA applies a risk-based approach to ensure that institutions falling under its oversight are well supervised and that threats and risks are identified and addressed in a timely manner. The frequency and intensity of the on-site and off-site AML/CFT activities is determined, inter alia, on the basis of:

- The ML/TF (inherent) risks present and the quality of the AML/CFT controls (such as the ML/TF risk assessment, the AML/CFT policies and procedures and the internal controls) associated with the sectors and/or institutions' ML/TF risk profiles (as established by the FSA);
- The ML/TF risk present in St. Vincent and the Grenadines (SVG) (based on the National ML/TF Risk Assessment SVG); and
- The characteristics and risk profiles of sectors and the individual institutions that operate in these sectors.

1.2. Methodology

This document outlines the methodology the FSA applies for determining its AML/CFT risk-based supervisory approach. Based on this methodology, a ML/TF risk profile is compiled (and periodically updated) of the sectors and institutions supervised by the FSA. The methodology is also used for determining the

AML/CFT supervisory plans/ actions and annual examination schedule. Sectors and institutions which are considered to have a lower ML/TF risk will be subject to less intensive supervision than sectors and institutions with a higher ML/TF risk. Nevertheless, a minimum level of supervision is conducted on all sectors and institutions.

In Chapter 2 of this document, the methodology the FSA applies for measuring the ML/TF risk of a sector and/or institution, as well as the establishment of the ML/TF risk profiles, is described. In Chapter 3, the methodology applied for establishing the AML/CFT supervisory strategy and approach is discussed.

2. ML/TF RISK MEASURING METHODOLOGY

2.1 Definitions

2.1.1 ML/TF Risk Assessment

In this document, ML/TF risks are defined as the risks that arise from the supervised sector and institutions (financial entities/service providers) that purposely or unknowingly legitimize funds derived from criminal sources or activities or that purposely or unknowingly provide financial support to individual terrorists and terrorist organizations. This includes the risks arising from non-compliance with locally and internationally sanctioned laws, Regulations, Codes and Guidance.

The FSA uses multiple sources to assess the ML and TF risks of the sectors and institutions under its AML/CFT supervision, including:

- The ML/TF National Risk Assessment 2020;
- (Results of) AML/CFT on-site examinations;
- (In-depth) analysis of AML/CFT questionnaires;

- Information obtained from the Financial Intelligence Unit (FIU) (such as statistics on the reporting of unusual transactions and on specific concerns the FIU has);
- Information obtained from the Office of the Director of Public Prosecutions and the Royal St. Vincent and the Grenadines' Police Force (such as information derived from criminal investigations);
- Reports from international and regional organizations (e.g., FATF, IMF CFATF);
- Open sources (e.g., media, internet);
- Information derived from incidents reported to and complaints received by the FSA;
- Information gleaned from prudential supervision of the FSA.

The ML/TF risk is assessed on the basis of the inherent ML/TF risks the sector and/or institution faces (2.1.2) and the quality of the AML/CFT controls within the sector and/or institution (2.1.3). Based on these elements, a ML/TF risk profile of the sector and/or institution is established (2.1.4).

2.1.2 Inherent ML/TF Risk

The inherent ML/TF risk refers to the overall outcome of the assessment of the probability and impact of ML/TF risks/factors related to the nature and characteristics of an institution's business operations and clients. These aspects can be exploited to launder the proceeds of crime and/or to fund terrorism.

- Size & nature/type of business: The type of business activities is assessed and their probability to facilitate ML/TF, as well as the market size of the sector (asset size, number of entities and whether there are major players dominating the sectoral market); The ML/TF risks are likely to increase in

cases where the sector or institution has a significant position within the (financial) markets, in size and/or in the number of entities.

- Risk Appetite: The risk appetite of an institution may be clearly outlined in a statement by its Board of Directors or may be determined by the tolerance levels of the institution which will contribute to the level of ML/TF risks that it is exposed to.
- High Risk Clients (Types of customers): The types of customers serviced by the institution are assessed to determine the level of ML/TF risk related to the customers. Certain types of customers can increase the ML/TF risk, especially when there are large numbers of these customers. For example, the number of PEPs and non-resident customers may be indicative of a higher risk level.
- High Risk Products and services: The assessment of the types of products and services the institution offers, to determine the ML/TF risk level related to these products and services e.g., high cash-intensive products and the complexity of the products or services rendered.
- International operations and transactions: The availability and size of cross-border transactions to high-risk countries and the existence of head offices and subsidiaries abroad may increase ML/TF risk levels. In addition, cross-border transactions, a very high number of transactions of a very high value and/or transactions to high- risk countries may significantly elevate the ML/TF risk present.
- High risk geographic locations of operations: The risk level will increase for sectors or institutions that are heavily internationally active, creating the risk of cross-border criminality, as opposed to sectors or institutions that only operate domestically.

- Reliance on third parties/Delivery channels: The assessment of what types of distribution channels are used to provide business services and products. For example, non-face to face services may increase the ML/TF risk level.

2.1.3 Quality of AML/CFT controls

AML/CFT controls refer to the measures that are required by the FATF Recommendations and corresponding AML/CFT laws and regulations in SVG. The quality of the AML/CFT controls is evaluated by assessing how effectively the sector or institution manages the ML/TF risks and by assessing the sectors' and/or institutions' AML/CFT oversight activities.

- Management's commitment to AML/CFT: The success of the AML/CFT program depends on a strong governance structure which includes company-wide commitment to a culture of compliance. As the first line of defense, management must plan, direct and control the day-to-day operations of an institution to ensure compliance with policies and procedures and management of AML/CFT risks.
- Understanding of ML/TF risks: A robust ML/TF risk assessment provides the basis for creating a strong AML/CFT framework within the organization and is the main source for determining the ML/TF risks that will need (enhanced) attention.
- Independence and Effectiveness of Compliance Function: Institutions are required by law to appoint a Money Laundering Compliance Officer (MLCO) and a Money Laundering Reporting Officer (MLRO). Having these functions staffed with qualified and experienced personnel, with independence of function, can significantly contribute to ensuring the

institution is compliant with the ML/TF regulations and will also help to establish a strong ML/TF awareness within the institution.

- Adequacy of AML/CFT Policy and Procedures: Institutions are required to draft and implement clear policies and procedures that can be followed by staff members, in order to ensure consistency and continuation of practices and strict adherence to relevant requirements. The policies and procedures must be based on the national and institutional ML/TF risk assessment.
- Effectiveness of Customer Due Diligence (CDD): CDD is a key element in preventing criminals from abusing an institution for ML/TF purposes. Strong knowledge about the customer (and his/her/its business) and their financial behavior and the ML/TF risk presented can significantly contribute to mitigating the ML/TF risks.
- Effectiveness of Monitoring: Institutions should have in place effective systems for the continuous monitoring of customers and transactions, with (digital) supporting tools (such as a transaction monitoring systems).
- Effectiveness of SAR Analysis and Reporting: The reporting of suspicious transactions to the FIU requires a strong and efficient infrastructure within the institution to detect suspicious transactions in a timely manner, which is a key element to prevent ML/TF. Reporting should be conducted in a timely and qualitative manner.
- Effectiveness of Record Keeping: The requirement to keep records is a statutory obligation in keeping with FATF standards as set out in Recommendations 5 to 12. Institutions are required to keep customer identity and transaction records for at least seven (7) years following the termination of an account.

- Effectiveness of Internal Audit: Internal Audit provides independent oversight of the effectiveness and adherence of the institution's procedural controls and must review the AML/CFT compliance program for adequacy and reasonableness.
- Effectiveness of Training Activities: Providing (periodically) qualitative AML/CFT training programs to all relevant staff members and creating ML/TF awareness, will contribute to mitigating the ML/TF risk. An assessment of the training material and an examination of training logs to assess the adequacy, frequency, and level of staff exposure is undertaken.

2.1.4 ML/TF Risk Profile

Based on the assessment of the inherent ML/TF risk and the quality of the AML/CFT controls, the FSA compiles an ML/TF risk profile for every sector and/or institution under its AML/CFT supervision.

The risk profiles consist of ratings and the substantiation thereof. The risk profiles of the sectors and/or institution are evaluated and, if necessary, updated at least quarterly, or following significant changes and/or developments such as, on-site findings, ML/TF-survey results, incidents, and international developments.

2.2 Methodology

2.2.1 Weighting of ML/TF inherent risk and AML/CFT Controls

The following weights are assigned to each indicator of inherent risk:

1. Low
2. Medium Low
3. Medium
4. Medium high
5. High

In assessing the impact of each factor, the following weights are then assigned to each risk or mitigation factor:

1. Low
2. Moderate
3. Medium
4. Substantial
5. Crucial

2.2.2 Assessing the Residual ML/TF Risk

After assessing the inherent ML/TF risks and the mitigating AML/CFT controls, a certain level of risk remains ("Residual Risk"). Thus, the assessment of the residual ML/TF risk considers the extent to which the ML /TF inherent risks are effectively managed by the AML/CFT controls in place. The controls in place will never totally take away the inherent risks present. However, they may significantly contribute to minimizing the overall ML/TF risk level.

Ultimately, the residual risk level is an indication of the impact of the effectiveness of the mitigants on the inherent risk. The results are presented between 0 and 100, where 100 represents the highest possible risk score.

Subsequently, the overall ML/TF risk profile for the supervised institutions and sectors are assigned as follows:

Table 1: Overall ML/TF Risk profile

Residual Risk Score	Overall ML/TF Risk Profile
0-25	Low
25-50	Moderate
50-75	Above Average
75-100	High

2.2.3 Sectoral Impact

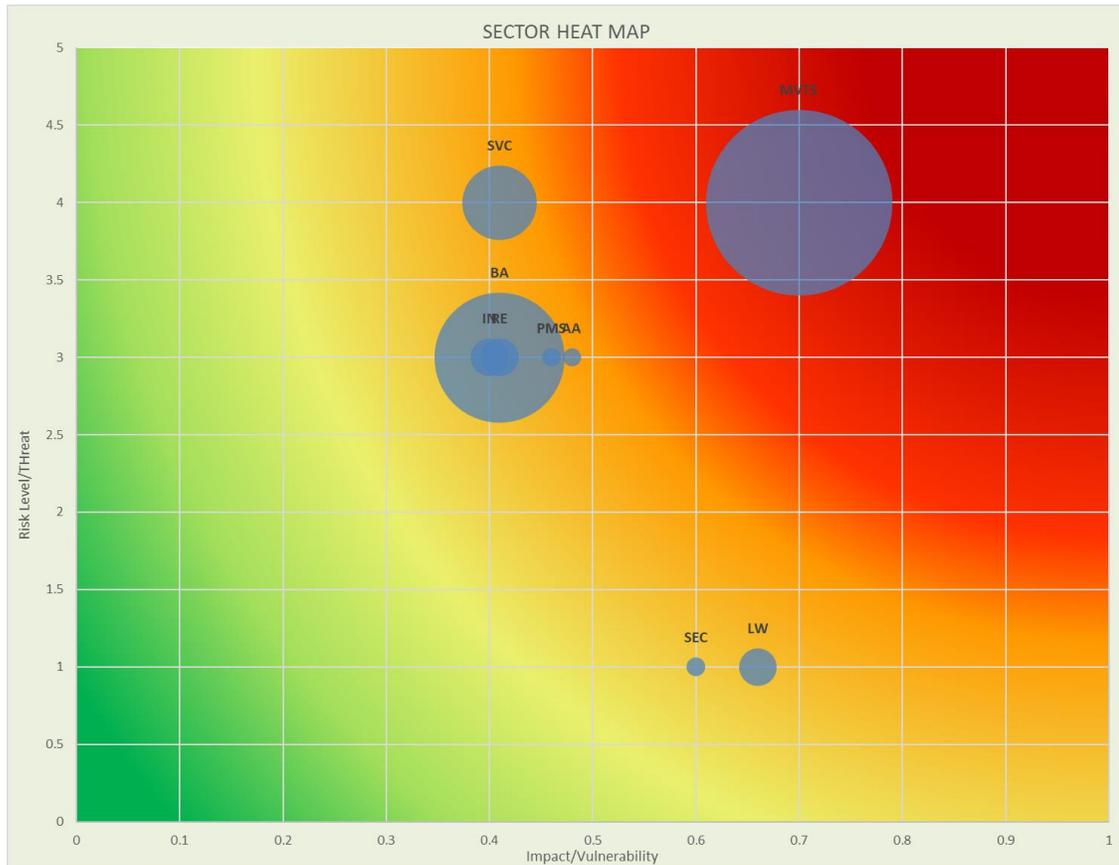
Besides determining the overall risk score assigned to each sector or institution, a sectoral weight will be assigned to each sector to determine the (overall) impact the sector has as compared to the other sectors. The FSA's resources must primarily focus on the supervised sectors and institutions which are most significant and pose greater risks.

Once the overall ML/TF risk of a sector or institution has been determined, the level of residual risk will be reflected in a heat map. (Refer to paragraph 2.3 below).

2.3 Heat Map

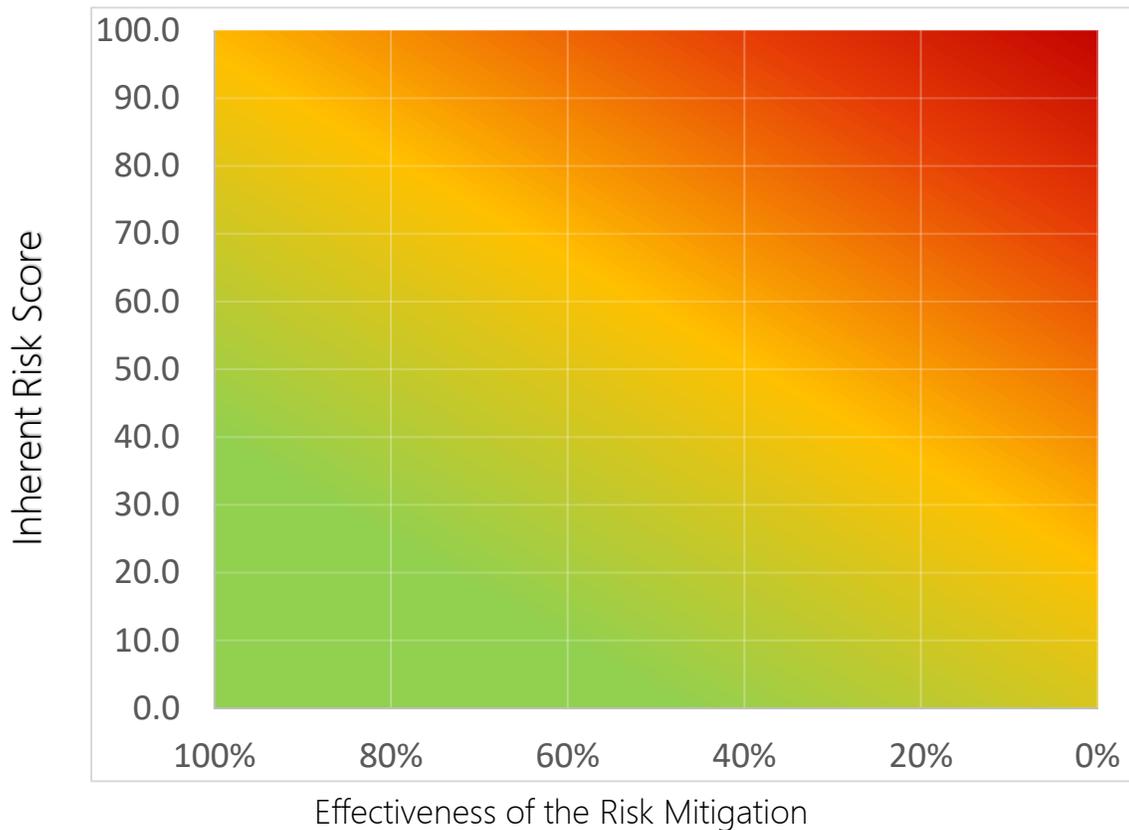
The results of the individual ML/TF risk assessment per sector or institution is generated in a heat map (Chart 1 below), illustrating ML/TF probability (overall risk level) and impact (sector weight). All the supervised sectors are included in one heat map.

Chart 1. Sector Heat Map



The position of an institution or sector on the heat map (Chart 2) is used to determine what the *prima facie* AML/CFT supervisory approach will be (e.g. on-sites, information session, letter/guidance, questionnaires). Sectors/ institutions where the risks are perceived the highest, will be subject to more intensive supervisory approach, such as on-site examinations, as opposed to sectors with lower risk which will be subject to a less intensive supervisory approach.

Chart 2. Supervisory Attention Index (Heat Map)



3. FSA'S AML/CFT SUPERVISORY STRATEGY AND APPROACH

3.1 Supervisory Strategy

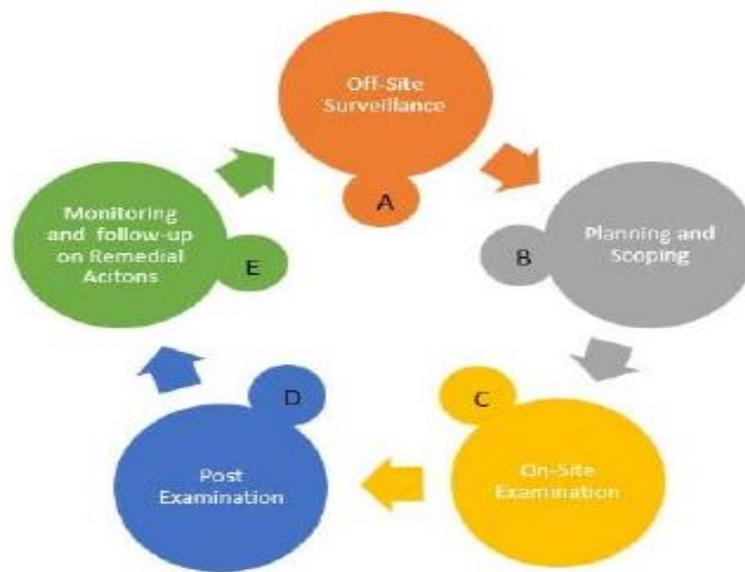
The FSA applies a risk-based approach with respect to its AML/CFT supervision and conducts its supervision through off-site and on-site activities. The FSA's supervisory strategy is sufficiently flexible to consider and respond to new and emerging risks.

The FSA's Risk Based AML/CFT Supervisory Strategy consists of the following elements:

1. Offsite surveillance (ML/TF Risk Assessments);

2. Planning and Scoping of examinations based on ML/TF Risk Profile;
3. Onsite Examinations;
4. Post Examination assessment and revision of ML/TF Risk Profile; and
5. Monitoring and follow-up of remedial action and supervisory action plans.

Fig. 1 Risk- Based AML/CFT Supervision Strategy



Each step highlighted above utilizes relevant documentation to facilitate communication, reporting and coordination.

3.2 Off-site Activities

The FSA conducts a variety of desk-based off-site activities to ensure supervised institutions comply with the relevant AML/CFT legislation. Desk-based reviews assist the FSA's understanding of supervised institutions' operations on an ongoing basis. Desk-based reviews include amongst others, reviews of ML/TF risk assessments and AML/CFT policies and procedures, as well as in-depth analysis of responses received from surveys conducted, information the FSA receives during interactions with the different sectors, bilateral meetings with the sector

and/or institutions, as well as incidents, complaints and other information received by the FSA, as well as from the FIU, regarding the institutions under its AML/CFT supervision.

3.3 On-site Activities

On-site examinations offer the FSA the opportunity to assess the level of compliance of individual institutions with the AML/CFT requirements, including, inter alia, the requirement to conduct an ML/TF risk assessment, to have AML/CFT policies and procedures in place, to conduct customer due diligence and to report suspicious transactions in a timely manner to the FIU.

The examination cycle of an institution is based on the overall ML/TF risk rating and is outlined in the table below. The FSA can determine a higher frequency of on-site examinations based on ML/TF developments at the institution, within a sector or within the country.

Table 2-Onsite Examination Schedule

OVERALL ML/TF RISK PROFILE	DESCRIPTION	MINIMUM EXAMINATION FREQUENCY
LOW	Measures to combat money laundering and terrorist financing at the financial institution are considered strong. There is a high level of effectiveness with the applied AML/CFT Compliance Program with only minor improvements required.	ONCE EVERY 36 MONTHS
MODERATE	Measures to combat money laundering and terrorist financing at the financial institution are considered satisfactory. There is a substantial level of effectiveness with the applied AML/CFT Compliance Program with only moderate improvements required.	ONCE EVERY 24 MONTHS
ABOVE AVERAGE	There are some weaknesses in the measures to combat money laundering and terrorist financing at the financial institution. There are significant deficiencies in the AML/CFT Program which results in a moderate level of effectiveness.	ONCE EVERY 18 MONTHS
HIGH	Measures to combat money laundering and terrorist financing at the financial institution are weak which can potentially result in a significant loss to the institution. There is a low level of effectiveness with the applied AML/CFT Compliance Program with fundamental improvements required.	ONCE EVERY 12 MONTHS

3.4 Annual ML/TF Supervisory Plan

The main focus thereby lies on the prime areas of ML/TF- concern which the FSA may have, based on the sources mentioned in chapter 2 (with an emphasis on the National ML/TF Risk Assessment 2020 and the FIU reporting statistics), as well as the professional judgment of the FSA's Examiners. The 'themes/topics' that the FSA will dedicate its supervisory resources to, are determined on an annual basis by its annual supervisory plan. The plan entails the areas of greatest risk and concern. The supervisory attention index, shown above, forms a guide for the supervisory activities that will be determined in the supervisory plan. The supervisory plan ensures that the limited resources are dedicated to the most urgent 'themes/topics'.

The FSA will determine the 'themes/topics' during multiple discussion sessions between the ML/TF experts ('professional judgment') and responsible management, the priorities ('themes/topics') for the upcoming year, and by taking into consideration the risk profiles assigned, the National ML/TF Risk Assessment as well as other relevant sources of information (as mentioned in subparagraph 2.1.1). Themes/topics chosen can be either sector specific or broader across different sectors. Often times commonalities overarching different sectors are identified. In such cases, the FSA incorporates relevant sectors into thematic projects.

Thematic projects may consist of specific on-site inspections, surveys, information sessions, all with the objective to get an overall picture of any issue that may be present within specific sectors. The place of a particular sector or institution on the heat map and the interconnectedness of sectors, determines the intensity of the supervisory activities that will be undertaken.

Adjustments to the supervisory plan may take place throughout the year, e.g., following major events or developments. The AML/CFT supervision will be premised on offsite (3.2) and on-site (3.3) activities.