



Guernsey Financial
Services Commission

Industry Seminar – 20 October 2011

AML/CFT Cross-Divisional Presentation

Sylvia Sirett - Deputy Director, Policy and International Affairs

What I would like to do is to give you a brief overview of what the Commission is doing on anti-money laundering and countering the financing of terrorism at a policy level and, to act as a brief introduction to the representatives of the Commission's supervisory Divisions also present on the stage.

Anti money laundering and countering the financing of terrorism is always in the forefront of our minds but never more so than in the lead up to the evaluation of Guernsey's compliance with the FATF 40 + 9 Recommendations undertaken by a team from the IMF in May last year.

The IMF report which was issued in January of this year, commended Guernsey for having a legal framework which provides a sound basis for an effective AML/CFT regime with preventative measures being largely in line with the requirements of the FATF Recommendations. However, as with any review there are always recommendations as to what needs to be done to improve and strengthen the AML/CFT framework.

The recommendations made by the team are mainly technical in nature and we have been considering how best to address them. The next time the IMF come calling it will expect to see the identified shortcomings rectified or at least detailed, demonstrable reasons, based on risk, as to why we have considered that different action to that in the recommendations is necessary.

One example of how we are responding to an identified shortcoming is in respect of a FATF Recommendation which requires there to be a direct obligation for financial services businesses to maintain an adequately resourced and independent internal audit function to test compliance with AML/CFT policies, procedures and controls.

Before we can consider how we can address this recommendation we need to fully understand what happens in practice. We know that a considerable number of firms, especially the larger ones, do already maintain such an audit function. But what we **don't** know are the numbers and, in the absence of an independent audit function, whatever that function is called, how firms check their compliance with the policies, procedures and controls they have put in place.

The first step which we will undertake will be to issue a questionnaire on this subject to all firms. The information gleaned will allow us to know how many firms don't have some kind of independent check on how they meet policies, procedures and controls and why they don't. What are the arguments based on risk?

The assessment team also showed an interest in how the Commission undertakes a risk-based approach to supervision. They were interested in the how, whys and wherefores of the on-site and off-site monitoring processes and, in particular, how we used the information which we had gathered when making an assessment of the potential ML/FT risk of any one firm. ML/FT risk is also attracting significant attention internationally. Whatever emerges from this, it is clear that virtually all jurisdictions will have to think a lot harder about having a risk based approach, the basis on which it works and whether it does work in practice.

This interest in risk, led in part, to the recent issue by the Commission of the ML/FT Assessment Return. I say only in part as we were already looking to ensure a more consistent approach and to ensure that our resources were used in the best possible way.

The adoption of a risk management process for dealing with money laundering and terrorist financing encompasses recognising the existence of the risk, undertaking an assessment of the risk and developing strategies to manage and mitigate the identified risks.

The information provided in response to the questions asked will allow us to have a more rounded understanding of the ML/FT risks faced by individual firms, by a particular industry sector and also by the jurisdiction as a whole. The Assessment Returns will give us information current for this year but they are not static assessments, they will change over time depending on how circumstances develop and we do intend to ask for information on an annual basis.

It is important to remember that ML/FT risks can only be effectively managed through a risk-based process that assesses all potential risks, and which is built on a true cooperative arrangement between the authorities and financial services businesses. Without cooperation and understanding between these parties, there can be no effective risk-based process.

And finally, I want to mention another project which will be undertaken. This is the provision of written feedback to industry from the Commission. The Proceeds of Crime Regulations and the AML/CFT Handbook for Financial Services Businesses have been in existence for nearly 4 years. Many firms have now been subject to on-site visits by the Commission in order to assess their compliance with the regulations and the rules in the handbook. Our document will provide feedback on the common findings of the on-site teams over the last 4 years – both good and bad. We want to coordinate the feedback with the Financial Intelligence Unit and you can expect to receive it in the spring of next year.

Hopefully, industry will find this information useful in understanding the aims and expectations of the Commission and it will help all of us to achieve our aim of keeping bad business out of Guernsey plc.

Thank you.