

Compliance Best Practice

This document is an industry guideline for implementing compliance best practice for the remittance providers (remitters) industry in Australia. Remittance customers and other interested parties may find this document provides them with useful information about a remitter's approach in managing their anti-money laundering (AML), counter-terrorism financing (CTF) and sanctions program, and assist them when dealing with remitters.

This industry guideline does not have legal force or prescribe binding obligations on individual remitters. While the ARCPA's industry guidelines are voluntary, this industry guideline has been developed with direct and indirect input from banks, government and law enforcement agencies in Australia. The ARCPA encourages remitters to adopt this industry guideline and incorporate it into their internal processes, procedures and policies.

1. Purpose of Compliance Best Practice

This industry guideline:

- Explains what best practice in Compliance may look like and how it can positively impact the remitter and its relationships with its banks; and
- Outlines a framework for remitters to raise compliance practice standards and promote consistent methodology in managing money laundering, terrorism financing and sanctions.

The Compliance Best Practice has been developed with reference to obligations under the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth.) (AML/CTF) and Rules and other regulatory regimes such as the Charter of the United Nations Act 1945 (Cth.) (COTUNA), Autonomous Sanctions Act 2011 requirements and other extra-territorial sanctions obligations imposed by foreign jurisdictions.

2. Background

ARCPA recognises the importance of remitters obligations to comply with the AML/CTF regime and sanctions regimes of Australia, United Nations and foreign jurisdictions.

This Compliance Best Practice document is issued under ARCPA's Remittance Code of Practice (Code). The Code is a voluntary code of conduct which sets standards of good remittance practice for remitters to follow when dealing with their customers.

The Compliance Best Practice will impact on remitter's operations, but it is expected that more detailed internal policies and guidance will be developed by the remitter, specifically tailored to suit their needs.

This document contains a higher set of compliance standards that will help remitters uplift its compliance practice across the remittance industry with a view to enable banks to manage remitters as bank customers.

3. Meeting Banks' Standards

This Compliance Best Practice document was created in response to the perception of high risk the industry is faced with, requiring the implementation of increased and more consistent standards.

This perception of high risk has had a serious flow on consequences for the business operations of remitters and their employees, and on financial inclusion for businesses and individuals who suffer restrictions in their access to low-cost financial services, especially in unbanked or under-banked communities. Further, this may hinder the ability of regulators and law enforcement agencies to deter and detect illicit remittance activity in the future.

ARCPA in consultation with banks, the Australian government and law enforcement agencies developed this Compliance Best Practice. ARCPA envisage banks will assess eligibility of onboarding the remitter as a customer by reference to the remitter's adoption of Compliance Best Practice. This will be verified by an Enhanced Independent Review (EIR) subject to the respective bank's direction.

4. Standard for Compliance Best Practice

The Standard for Compliance Best Practice will accredit members who adopt industry best practice (as defined by meeting statutory obligations plus additional compliance and business standards). Elements of the Standard include:

- Enhanced Due Diligence of Remitter
- Enhanced Independent Review conducted to review:
 - Parts A & B of AML/CTF Program and ML/TF Risk Assessment
 - Politically Exposed Person (PEP) screening policy
 - Sanctions screening policy (including DFAT, UN, EU and US sanctions)
 - Employee and Affiliate (if applicable) Training Program
 - Employee and Affiliate (if applicable) Due Diligence Program
 - Beneficial Ownership Management
 - Data Acquiring and Authentication obligations
 - Efficiency of Transaction Monitoring
 - Red Flags, Suspicion Escalation and Reporting Processes
 - Instances where Re-KYC is triggered
 - Sample testing
 - Review of previous Independent Reviews and AUSTRAC Compliance Assessments
 - Appointment of an AML/CTF and Sanctions Compliance Officer

Specific minimum requirements must exist in each of the above elements to achieve Compliance Best Practice.

To avoid doubt, these minimum requirements will be set above statutory obligations.

5. Enhanced Due Diligence of Remitter

Minimum requirements of each Enhanced Due Diligence element is described in detail below.

- Remitter must be registered with AUSTRAC Remittance Sector Register (RSR).
- Where conditions are imposed by AUSTRAC, remitter must provide details of the conditions, current status and remedial action in progress.
- Board and Senior Management of Remitter must be Fit and Proper people to engage in remittance services. To be Fit and Proper means the person:
 - is competent to operate a remittance business (as demonstrated by the person's knowledge, skills and experience);
 - has the attributes of good character, diligence, honesty, integrity and judgement;
 - is not disqualified by law from performing their role in your remittance business; and
 - has no conflict of interest in performing their role in the remittance business.

6. Enhanced Independent Review Criteria

Minimum requirements of each EIR element is described in detail below.

Parts A & B of AML/CTF Program and ML/TF Risk Assessment

- Remitter must have a methodology, scope and process for its ML/TF risk assessment and risk matrix for customers.
- Remitter must have an effective design of its AML/CTF Program in addressing the outcomes of its ML/TF risk assessment.
- Remitter must consider the extent to which the risk assessment has been taken into account in any other relevant systems, processes and controls that support its AML/CTF Program.
- Remitter must implement its AML/CTF Program, Parts A and B, related policies, procedures and other documentation including AUSTRAC feedback, AUSTRAC reporting (TTR, IFTI and SMR) and record keeping obligations.
- Remitter must update its current AML/CTF Program against the requirements outlined in the AML/CTF Rules, including how it is able to address the changes to additional customer due diligence (CDD) requirements made effective from 1 June 2014.
- Remitter must have its Transition Plan created and approved by its Board prior to 1 November 2014, detailing how to achieve full compliance by 1 January 2016 if the additional CDD requirements have not yet been implemented.



- Remitter must consider and assess the effectiveness of its governance and risk management framework underpinning the operation of its AML/CTF Program.

PEP Screening Policy

- Remitter must perform PEP screening and have implemented policies and procedures.
- Remitter must perform PEP screening on employees, customers, beneficiaries and other parties associated with the provision of remittance services.
- Remitter must automate screening of PEP and PEP list must be automatically updated by its supplier.
- Remitter must subscribe to a reputable PEP list supplier.
- PEP list must contain domestic and foreign PEPs.
- Remitter must integrate PEP screening into its AML/CTF Program.

Sanctions Screening Policy

- Remitter must perform sanctions screening and have implemented policies and procedures.
- Remitter must perform sanctions screening on employees, customers, beneficiaries and other parties associated with the provision of money remittance services.
- Remitter must automate screening of sanctions and sanctions list must be automatically updated by its supplier.
- Remitter must subscribe to a reputable sanctions list supplier.
- Sanctions list must contain proscribed lists from Australia and foreign jurisdictions (DFAT, UN, EU, OFAC, HMT).
- Remitter must integrate sanctions screening into its AML/CTF Program.

Employee and Affiliate (if applicable) Training Program

- Remitter must conduct ML/TF and sanctions risk awareness training for all Board members, senior management and employees.
- Remitter must assess the knowledge of those who attended training and conduct follow up as appropriate.
- Remitter must conduct training for new employees and regular refresher training.
- The Remittance Network Provider (RNP) must conduct ML/TF and sanctions risk awareness training for all of its affiliates at the start and regularly throughout the lifecycle of an affiliate.
- Remitter must maintain training registers or other documentation demonstrating employee and affiliates (if applicable) attendance as required.



Employee and Affiliate (if applicable) Due Diligence Program

- Remitter must conduct employee due diligence procedures for new hires, promotions and transfers.
- Remitter must maintain employee records demonstrating due diligence performed.
- Remitter must perform PEP and sanctions screening on its employees and affiliates. .
- RNP must conduct due diligence for all of its affiliates at the start and ongoing due diligence throughout the lifecycle of an affiliate.
- RNP must identify all key personnel including decision maker of its affiliate's business.
- RNP must ensure National Police Certificate (NPC) is collected from all key personnel of an affiliate.
- **Beneficial Ownership Management**

Remitter must check the true entities behind each corporate customer or associate it deals with, Money Launderers usually conceal their participation by involving other individuals, corporate entities and complex trusts in place while attempting to launder il earnt funds or remitting funds for terrorism related purposes, therefore it is essential for the dealer to drill down and find the individual behind the corporate veils. FATF currently anticipates that anyone holding morethan 25% of any corporate structure must be identified as an individual against that share.

- **Data Acquiring and Authentication obligations**
Law requires entities that are onboarding customers using any remote means have to make reasonable attempt to make sure that the identification documents acquired during such process must be authenticated using at least two means of data origin. This is to avoid bitten by the fake identifications.
- **Efficiency of Transaction Monitoring**
Transaction monitoring is often confused with Sanctions Screening obligations, Transaction monitoring process is a process where an organisation must pay much attention that the customers are not engaged in intentionally slipping by thresholds and other reporting obligations. This is best automated than manual. An efficient Transaction Monitoring program is so much interactive and accommodative. Information and findings from the previous tickets may be best useful in managing the risk of transaction as a whole if fed back into the system.
- **Red Flags, Suspicion Escalation and Reporting Processes**
Remitters must be alerted to new and emerging risk patterns that their channel may be used by launderers and terrorism financiers, AUSTRAC had been publishing annual typologies reports where remitters will be able to find the best possible risky transactions and patterns, further there are universally available risk red flags that can be readily adopted into as well. Red Flags once hit must be raised as a ticket and investigated properly to make sure they are not what really flagged for before considered safe. A definitive process has to be enumerated in the compliance program rather than random finding and reporting. Best is if the Red Flags are

converted into an algorithm which dynamically check the historical and new transactions for similar pattern by means of filtes and ticket them as a case.

- **Instances where Re-KYC is triggered**
Every time something unusual happens, the first point of call within the line of CDD should be to check the identification of the entity concerned once again using newer documents that are not submitted earlier during the KYC process.

Sample Testing

EIR must include test of controls of the remitter's underlying procedures, practices, systems and controls in operation, of which includes:

- Sample test of Customer Due Diligence (CDD) and Enhanced CDD (ECDD) documentation for customers, beneficiaries and other parties associated with the provision of money remittance, including screening against PEP and sanctions lists.
- Sample test of RNP's onboarding new affiliates and ongoing review of existing affiliates, including checks performed against PEP and sanctions lists.
- Sample test of remitter and its list of affiliates (if applicable) against AUSTRAC RSR.
- Sample test of training register or other documentation demonstrating employee and affiliates (if applicable) attendance at required AML/CTF and sanctions training.
- Sample test of employee records demonstrating due diligence performed, including PEP and sanctions screening.
- Review and assess relevant documentation regarding Board and senior management oversight of the AML/CTF and sanctions program.
- Sample test of SMR, IFTI and TTR records and reports lodged with AUSTRAC.
- Sample test of unusual or suspicious activity and relevant investigation processes, including where initial alerts/reports do not result in an SMR.

Review of Previous Independent Reviews and AUSTRAC Compliance Assessments

- Remitter must review previous Independent Review reports, management comments and resolve or address findings/recommendations.
- Remitter must review AUSTRAC reports, consider feedback and resolve or address findings/recommendations.
- Remitter must make updates to the AML/CTF and sanctions program and relevant policies and procedures as appropriate.

Review of Appointed AML/CTF and Sanctions Compliance Officer

- The appointed AML/CTF and Sanctions Compliance Officer must be Fit and Proper as described above.

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- Remitter must assess the suitability of its appointed AML/CTF and Sanctions Compliance Officer.
- Remitter's AML/CTF and Sanctions Compliance Officer must obtain the relevant experience and training.
- Remitter may acquire AML certification or qualification.

7. Summary

ARCPA sets out the minimum standard as required in order to achieve Compliance Best Practice. Remitters who choose to adopt this practice will help banks differentiate them from the industry and will help reduce the burden of the banks in their effort to conduct enhanced due diligence of remitters. The Compliance Best Practice is not a guarantee for remitters to have a bank account. Each bank will have their respective requirements. However, the adoption of Compliance Best Practice will in effect, demonstrate to the bank of the remitter's competencies and capacity in managing ML/TF and sanctions risks.