CENTRAL BANK OF
TRINIDAD & TOBAGO

AML/CFT/CPF RISK-BASED
SUPERVISORY FRAMEWORK

JANUARY 2020

CONTENTS

LIST OF ACRONYMNS

AML/CFT/CPF	Anti-Money Laundering/Combatting the Financing of Terrorism and Proliferation Financing. This will collectively be referred to as "AML" throughout the document unless otherwise stated.
CBA	Central Bank Act, Chapter 79:02
ECA	Exchange Control Act, Chapter 79:50
FATF	Financial Action Task Force
FIA	Financial Institutions Act, Chapter 79:09
FISD	Financial Institutions Supervision Department
FSRB	FATF-Style Regional Bodies
IA	Insurance Act, Chapter 84:01
ML/TF/PF	Money Laundering / Terrorist Financing / Proliferation Financing. This will collectively be referred to as "ML" throughout the document unless otherwise stated.
POCA	Proceeds of Crime Act and Regulations, Chapter 11:27
RBA	Risk-Based Approach

1. INTRODUCTION

1.1. One of the primary objectives of the Central Bank of Trinidad and Tobago (Central Bank/Bank) is to maintain confidence in, and promote the soundness and stability of, the financial system in Trinidad and Tobago. As part of its supervisory oversight mandate, the Bank authorizes financial institutions to provide financial services in accordance with specific legislation (e.g. FIA, IA, ECA, CBA), sets regulatory rules and guidance, monitors compliance with statutory obligations and takes appropriate enforcement action for non-compliance.

1.2. The responsibility for fulfilling this mandate lies with the Financial Institutions Supervision Department (FISD) of the Central Bank.

1.3. The supervisory process involves assessing the safety and soundness of its financial institutions on an ongoing basis. This is achieved by, inter alia, evaluating an institution's risk profile, financial condition, governance and risk management frameworks, internal controls and compliance with applicable legislation and guidelines.

1.4. In this regard, since 2003 the Central Bank has adopted a risk based approach to supervision. The general principle of risk-based supervision is that the intensity of supervisory oversight and engagement (whether through on-site examinations or off-site monitoring) is graduated according to the risks posed by the regulated financial institution.

1.5. FISD's supervisory attention and resources are therefore focused on institutions that pose higher risks to the stability of the financial sector, while maintaining adequate and appropriate levels of supervision of those institutions that present lower risks.

1.6. As a designated Supervisory Authority for AML/CFT/CPF, (hereinafter collectively referred to as 'AML' unless otherwise stated), the Central Bank's role in the national AML regime entails certain key activities, including regulation and supervision of entities under its purview, enforcement of statutory obligations, and co-operating and sharing information with domestic and foreign regulators on matters of common interests, including sharing information with other regulators with responsibility for financial institutions in the same financial group[1].

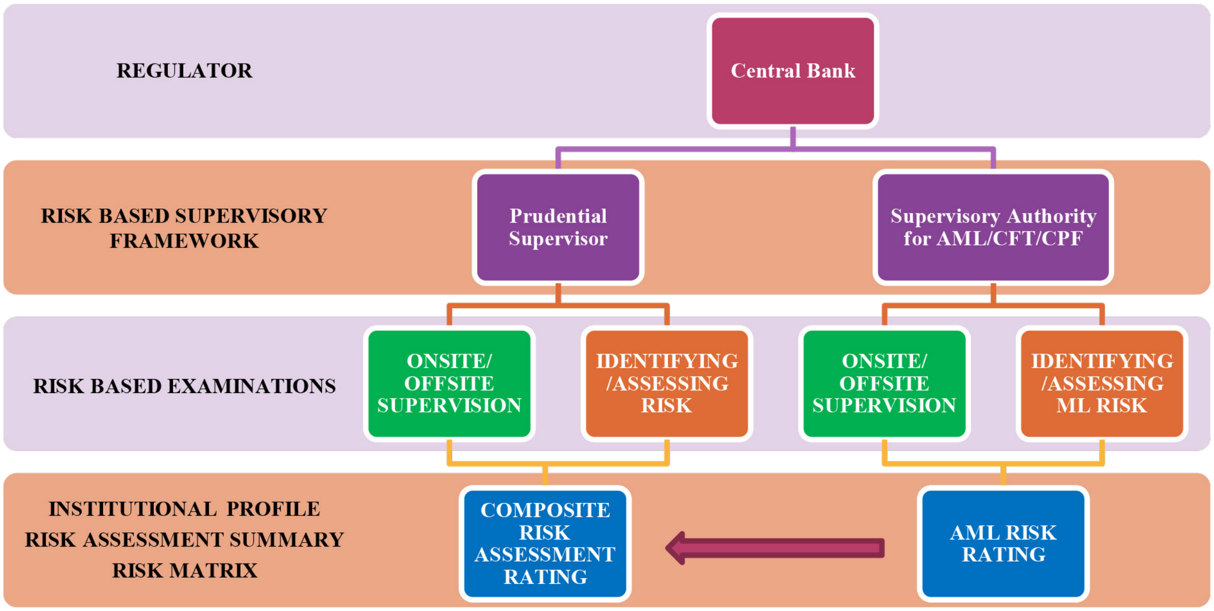
1.7. This document extends FISD's general risk based supervisory framework to treat specifically with AML supervision.

1.8. The overall effectiveness of the AML Framework requires recognition of the synergies that exist between AML, prudential regulation and market conduct supervision (See Figure 1). The integration of AML supervision into the broader framework of prudential regulation and market conduct supervision can also leverage synergies, expertise and resources to enhance the effectiveness of the overall supervision of financial institutions.

1 "Financial Group" has the same meaning as assigned to it in Section 2 of the FIA.

1.9. The role of the supervisor in the AML Framework is to supervise financial institutions to determine whether they are complying with AML requirements. AML supervision is not a 'tick-box' approach and requires judgement in understanding the characteristics and situation of every financial institution. In the context of an integrated supervisory model as exists in FISD, AML supervision can leverage information on the quality of the institution's governance, risk management and internal controls gained during on-going supervision of the entity and also provide insights on how well the ML/TF risks in the institution are controlled.

Figure 1: Relationship between Prudential and AML Supervision



2. BACKGROUND

2.1. In 2012, the FATF updated its Forty Recommendations to strengthen global safeguards and introduced additional measures to protect the integrity of the financial system against the threat of money laundering, terrorist financing and financing the proliferation of weapons of mass destruction. One of the most important changes was the increased focus on the risk-based approach (RBA) to AML, especially in relation to preventive measures and supervision.

2.2. FATF notes that the frequency and intensity of AML supervision of financial institutions or groups should be determined on the basis of:

i. the ML risks and the adequacy of policies, procedures and internal controls of the institution or financial group, as determined by the supervisor's assessment of the institution's or the group's risk;
ii. the ML risks present in the country and the characteristics of the financial institutions or groups and in particular, the diversity and number of financial institutions; and
iii. the degree of discretion allowed under the risk-based approach.

2.3. Consequently, Trinidad and Tobago updated its AML legislative regime to encompass the risk-based approach and the Central Bank issued an updated AML Guideline to its regulated entities in April 2018.

2.4. In this regard, the Central Bank has reviewed its AML supervisory approach to align it more closely with the espoused risk-based approach. The risk-based approach will ensure that supervisory resources are appropriately focused on higher risk institutions and activities, and that the frequency and intensity of supervisory engagement will be commensurate with the identified risks.

3. SCOPE AND APPLICABILITY

3.1. This Framework applies to the following institutions and persons, collectively referred to as financial institutions:

- Commercial banks and financial institutions regulated under the Financial Institutions Act, Chapter 79:09 (FIA);
- An insurance company or broker registered under the Insurance Act, Chapter 84:01 (IA);
- A person licensed under the Exchange Control Act, Chapter 79:50 (ECA) to operate a Bureau de Change;

3.1. This Framework applies to the following institutions and persons, collectively referred to as financial institutions: ***(Continued)***

- Persons engaged in money transmission or remittance business pursuant to Section 36(cc) of the Central Bank Act, Chapter 79:02 (CBA);
- The Home Mortgage Bank established under the Home Mortgage Bank Act, Chapter 79:08;
- The Agricultural Development Bank established under the Agricultural Development Bank Act, Chapter 79:07; and
- The Trinidad and Tobago Mortgage Finance Company.

4. BENEFITS OF A RISK-BASED APPROACH

4.1. The principle benefits of adopting a risk-based approach to AML supervision are:

i. ensuring compliance with international standards and best practices, such as FATF, Basel Committee of Banking Supervisors and the International Association of Insurance Supervisors;
ii. ensuring that the level of supervisory intensity/engagement is aligned with the level of ML risks and controls of each institution;
iii. ensuring a more efficient allocation/ alignment of supervisory resources;
iv. facilitating more proportionate supervisory enforcement action based on identified risks; and
v. ensuring early identification of emerging ML risks and system-wide issues.

5. KEY PRINCIPLES

5.1. The following key principles form the basis of the AML Risk-Based Framework:

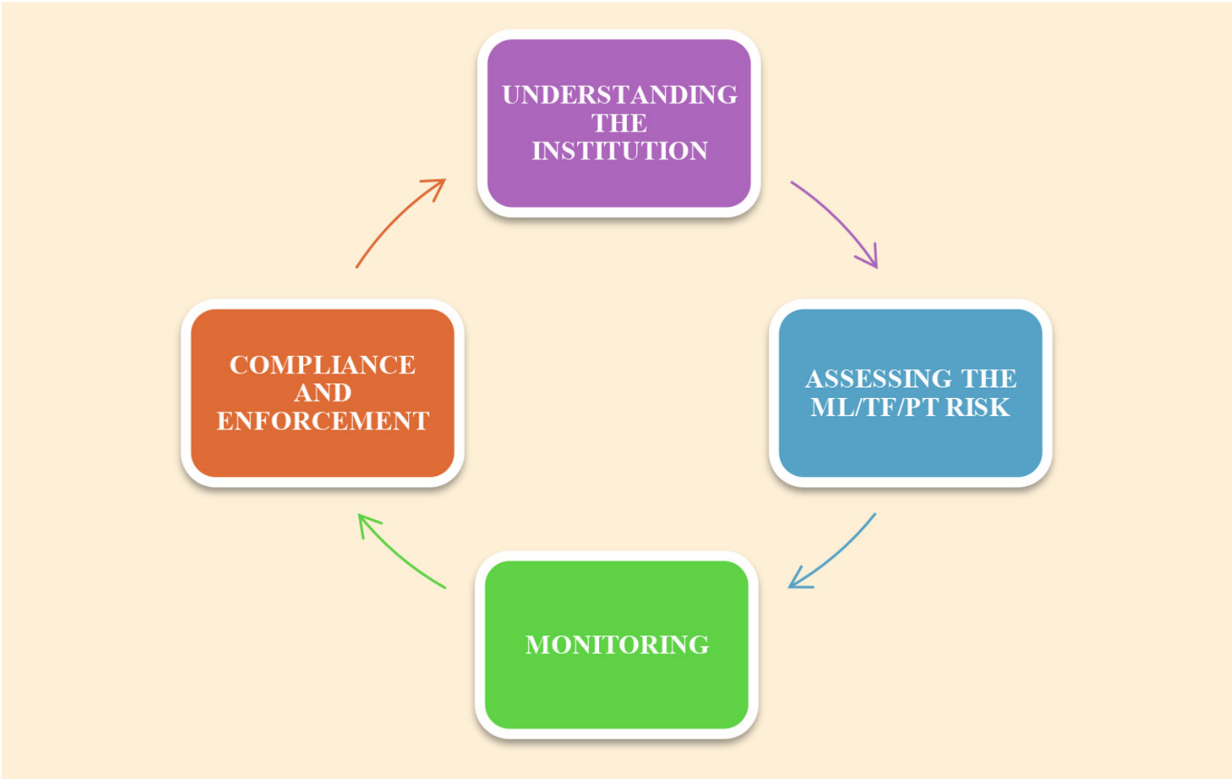
i. AML risk-based supervision is an ongoing process. It is not a one-off exercise.
ii. The level and frequency of AML supervisory intensity/engagement will depend on the overall ML risk assessment of the institution.
iii. No two financial institutions are the same. ML risks may vary for each institution depending upon the size, complexity and scope of their business and the specific risks involved.
iv. The size or systemic importance of an institution is not, by itself, indicative of its vulnerability to ML risk; smaller institutions that are not systemically important can pose higher ML risk.

6. CENTRAL BANK'S RISK-BASED APPROACH TO AML SUPERVISION

6.1. This Framework describes the Central Bank's RBA to AML supervision of financial institutions and should be used in conjunction with the AML Examination Manual and the AML Supervisory Ladder of Intervention, where necessary.

6.2. The different stages of the risk-based supervisory framework are not intended to be discrete or rigid sequential steps in practice, but to operate in a dynamic and interrelated manner. The Bank's risk-based approach to supervision entails four major steps (See Figure 2) as follows:

Figure 2: Risk Based Approach to Supervision



6.2. ***(Continued)***

a) STEP 1 - Understanding the Institution

By developing the ML risk profile of the financial institution through awareness and knowledge of:

i. the institution's profile and business model to determine the level of exposure to ML risks. Knowledge of the institution allows for an understanding of where vulnerabilities reside Key questions would include "Who are the institution's customers?", "What type of products/services does the institution offer?", "What sectors of the economy is business concentrated in?" etc.

ii. the ML risks identified at the national level or during the course of routine prudential supervision, in order to identify any risk factors that would impact the ML risk assessment of the institution.

b) STEP 2 - Assessing the Institution's ML risk

By evaluating:

i. the extent to which the risk factors identified under Step 1 impact the overall ML risk assessment of the institution; and

ii. the effectiveness of the AML systems and controls that are in place to mitigate the ML risks that the institution is exposed to.

It should be noted that each financial institution is required to conduct an ML Risk Assessment[2]. These should be reviewed as well in determining the institution's ML risks.

c) STEP 3 - Monitoring the Institution

By:

i. applying the appropriate level of supervisory oversight (on-site and off-site supervision) based on the assessed risks (see Table 1); and

ii. reviewing the risk profile and Risk Assessment of the institution to ensure that they are up-to-date and relevant. This review can be done at least annually but should consider the occurrence of events that would trigger a reassessment. Additionally, the review will include both an annual external audit report and a periodic self-assessment questionnaire that the company is required to submit.

1 In this context, this is a requirement of the institution under Regulation 7(2)(b) of the FOR.

6.2. (Continued)

d) STEP 4 - Compliance and Enforcement

By taking:

i. early action to mitigate emerging and increasing risks; and

ii. the necessary proportionate enforcement measures to secure compliance, prevent the commission of an unsafe or unsound practice and minimize risks of financial crime.

7. AML SUPERVISORY PROCESS

7.1. Understanding the Institution – Building the Institutional Profile

i. The first step in an effective AML risk-based supervisory framework requires a thorough understanding of the institution in order to develop its ML risk profile.

ii. The institutional risk profile is based on, inter alia, knowledge of the organization structure, who owns the business and who is directing the business, the business model, the profile of the institution's customers, the significant products/services/activities offered, the delivery channels utilized to engage with customers including the use of agents, intermediaries and non-face-to-face channels, number and location of branches or subsidiaries and counterparties, in particular, whether they are located in high-risk countries or local areas, business strategy, financial performance, major sources of income/profitability, and countries where the institution does business.

iii. Information for compiling and updating the institutional profile initially and on an ongoing basis should be collected from various sources including information gathered during the prudential onsite and offsite supervisory process, information provided by the institution itself during the application/ licensing process and other returns/ reports submitted by the institution e.g. PQDs/ CQDs/ Quarterly Shareholding reports/ new product approvals/ financial statements/ annual returns or reports/ large exposure reports etc. In developing the ML risk profile for the financial institution, the institutional risk profile developed for prudential supervision should be leveraged as much as possible. As noted in Figure 1, information obtained from AML risk assessment also flows back into the overall risk assessment of the financial institution.

7.1. Understanding the Institution – Building the Institutional Profile *(Continued)*

iv. Where the financial institution is part of a financial group, the group structure must be fully understood in building the risk profile, including whether the group is foreign or locally owned and controlled. The number and location of subsidiaries and branches in other jurisdictions as well as the ownership structure of the parent and subsidiaries must be known. It is important to understand which entities in the group are regulated and by which regulator.

v. There should be adequate knowledge, awareness and understanding of the ML risks where the institution has significant links with other countries, especially where these countries have strategic deficiencies in their AML regimes, or where the institution is part of a financial group.

7.2. Assessing the Institution's ML Risks – Preparing the AML Risk Matrix

i. The second step in the AML risk-based supervisory framework involves assessing the materiality and inherent risks in the significant activities. It should be noted that information gathered in understanding the institution (Step 1) helps inform the assessment of the institution's ML risk.

ii. Consequently, examiners must conduct an assessment of the institution's overall risk environment, the ML risks associated with each of its significant business activities, the reliability of its risk management framework, the quality of the internal governance arrangements, the effectiveness of the policies and procedures, and the adequacy of its information technology systems and internal controls.

iii. Source information which will assist the examiner with this risk assessment includes external and internal audit reports, on-site examination reports, reports from other regulators assessments/feedback where applicable, regulatory returns, self-assessment questionnaires, the institution's own ML Risk Assessment, any ML-related board reports and papers, statistics on accounts closed, statistics on SARs filed or other regulatory concerns from the FIU, and any other reliable, public-source information.

iv. The AML Risk Matrix (Appendix I) is a tool to assist with completion of the risk assessment, which identifies, records and assesses the level of ML risks inherent in an institution's activities, utilizing the institutional profile and the information collected in (iii) above. The matrix also allows for an assessment of the adequacy/ effectiveness of the AML risk management function in controlling or mitigating identified ML risks. It facilitates an assessment of the direction of those risks after taking into account both internal and external factors which may affect the institution's ML risk profile. It should be noted that the effectiveness of the ML controls/ risk management function can generally only be determined by an on-site examination.

7.2. Assessing the Institution's ML Risks – Preparing the AML Risk Matrix *(Continued)*

v. The ML risk rating derived from completing the Risk Matrix will feed into the overall CRA risk rating for the institution. In addition, the ML risk rating will inform the level of supervisory oversight – that is, monitoring and enforcement actions- to be applied to the institution (see Table 1 below).

7.3. Monitoring the Institution

i. The risk assessment conducted in Step 7.2 and the overall AML risk rating of the institution will form the basis for determining the level of supervisory engagement necessary for each individual institution.

ii. Supervisory engagement refers to the processes and tools used by the Central Bank to monitor adherence to AML regulatory requirements. This includes desk-based reviews, on-site examinations, self-assessment questionnaires, review of board minutes and papers, assessment of internal and external audit reports and meetings with the institution.

iii. The recommended level of supervisory engagement, as it relates to the overall AML risk rating of the institution, is shown in Table 1. The supervisory engagement approach places more intense supervisory measures, for example, more frequent on-site examinations for those institutions that pose a greater ML risk and utilization of other supervisory tools, such as self-assessment questionnaires and desk-based reviews, for those institutions that are deemed to be of lower ML risk and impact.

iv. It should be noted that the supervisory engagement levels set out below are the minimum standard applicable to institutions in the different risk categories. The Central Bank may apply additional supervisory measures if it determines that there is emerging or elevated risk of institutions being exploited for ML purposes.

Table 1: Supervisory Engagement Based on AML Risk Rating[3]

	High/Above Average ML/TF/PF Risks	Moderate ML/TF/PF Risks	Low / Negligible ML/TF/PF Risks
RATINGS	**4 - 5**	**3**	**1 - 2**
AML Desk Based Reviews	NA	As needed	2-3 years
AML On-site Examination	18-24 months	3-5 years	Targeted reviews at least every 5 years
AML Self-Assessment Questionnaires	Annually	Every 2 years	Every 2 years
Board Minutes/Papers Review	Quarterly	Semi-Annually	Annually
External Audit Reports	Annually	Annually	Annually
Institutional Meetings e.g. Chair of Audit Committee/ External Auditor	18-24 months	As needed	As needed
Institutional Relationship Meetings	As scheduled	As scheduled	As scheduled

NOTE: *Notwithstanding, the Central Bank reserves the right to vary the level of supervisory engagement for any financial institution, which can be triggered by issues or concerns that have not yet given rise to an actual problem or situation.*

3 This rating is derived from the completion of the AML Risk Matrix (Appendix I). Explanations for the ratings are also provided in Appendix I.

7.3. Monitoring the Institution *(Continued)*

v. An AML risk focused on-site examination can take any one of the following forms:

1. Full Scope Examination (most resource intensive)
   - This involves a comprehensive assessment of the ML risk of the institution, including the nature and complexity of products and services, size, business model, customer profiles, geographic location etc., and quality of the risk management structures implemented to mitigate those risks.

2. Limited Scope Examination
   - In limited scope examinations, focus is placed on one or more but no more than three (3) key areas.

3. Follow-up Examination
   - As the name implies, follow up examinations are scheduled to verify whether the regulator's recommendations from the last on-site examination have been adequately addressed. A financial institution's or group's AML rating can be upgraded based on the results of the follow-up examination.

4. Consolidated Examination
   - Consolidated on-site examinations focus on the group and may include conducting cross-border on-site examinations of overseas subsidiaries and branches. Consolidated onsite examinations focus on the adequacy and effectiveness of enterprise wide policies and controls to mitigate group risks, including ML risks and how these are integrated within the entities in the group in order to arrive at an assessment of the overall strength of the group.

5. Thematic Examination
   - Thematic examinations are designed to gather information on how several financial institutions treat with common issues facing a sector and may include assessment of the risks associated with features such as the type of products and services, types of customers and delivery channels.

   - Thematic examinations may focus on a particular sector (e.g. banks only), particular issue (e.g. screening of customers, source of funds process), particular product (e.g. annuities) or a combination of the aforementioned (e.g. product and sector).

7.3. Monitoring the Institution (Continued)

5. Thematic Examination (Continued)

- While the reasons for carrying out a thematic examination can vary, generally a thematic review may be prompted from the following circumstances:

  - Unusual results are found following off-site analysis of annual / quarterly financial statements or statutory returns;
  - Unusual complaint volume either in respect of one line of business or business activity;
  - Concerns expressed by stakeholders; and
  - Recent developments in the licensee e.g. change in a key / management position, significant merger or acquisition.

7.4. Compliance and Enforcement

i. The Central Bank takes firm and appropriate enforcement actions when necessary, in the supervision and regulation of financial institutions, in order to promote financial stability and soundness, protect depositors and policyholders, assist with the prevention of financial crime and monitor compliance with AML requirements.

ii. Enforcement powers are generally set out in the enabling legislation and include inter alia, criminal and administrative sanctions, powers to remove directors, issuance of compliance directions and restriction/ revocation of licenses. Other interventions and enforcement measures include actions taken by the regulator to influence through moral suasion (e.g. stakeholder outreach, institutional meetings, guidance on industry best practices); written warnings and directing the institution to provide remedial action plans with timelines to address compliance deficiencies.

iii. Where there are identified areas of concern, the degree of intervention will be commensurate with the materiality of the deficiencies and in accordance with the Central Bank's Supervisory Ladder of Enforcement.

iv. The Central Bank will communicate clearly with financial institutions when issues arise to ensure that the financial institutions understand the materiality of the deficiencies noted, supervisory expectations, including the remedial action required and the timeframe within which remedial work/actions must be completed.

7.4. Compliance and Enforcement (Continued)

v. The Central Bank will consider whether the finding impacts one financial institution or whether there is a systemic issue and communicate its views accordingly.

APPENDIX I – THE AML RISK MATRIX

NAME OF INSTITUTION																			
		Inherent Risks					ML/TF/PF Risk Mitigants												
C1	C2	C3	C4	C5	C6	C7	C8	C9	C10	C11	C12	C13	C14	C15	C16	C17	C18	C19	C20
Significant Activities	Materiality	Customer Base	Products/Services	Distribution / Delivery Channels	Geography / Country	Net Inherent ML/TF/PF risks	Board / Management Oversight	Policies and Procedures	CDD/EDD Measures	Independent Testing	Record Keeping and Retention	Management Information / Reporting	Transaction Monitoring	Screening	Compliance	Training	Net Risk Mitigants	Direction of Risk	Net ML/TF/PF Risk
• Retail Lending																			
• Deposit taking																			
• Project Financing																			
• Merchant Banking																			
• Payment services																			
• Correspondent Banking																			
• Private Banking																			
• Annuities																			
• Wire transfers																			
• Letters of credit																			
• Investment-related insurance																			
• Trade Financing																			
• Remittance Services																			
• Bureau Services																			
• Life Insurance																			
• Debit/Credit Cards																			
• Online / Electronic Banking																			
• Mobile and Phone Banking																			
AML/CFT/CPF RISK RATING																			

EXPLANATION OF THE AML RISK RATING

RATING	DESCRIPTION OF RISK	DEFINITION OF RISK
1	**Low**	The institution has a low ML risk profile. Any inherent ML risks are well mitigated and there are little or no vulnerabilities to structural ML risks.
2	**Medium-Low**	The institution has low to moderate ML risks. Minor improvements may be necessary but these can be readily remedied by management and the board.
3	**Medium**	The institution has a moderate ML risk profile. AML risk management function and internal controls need improvement.
4	**Medium-High**	The institution has an above average ML risk profile. Evidence that certain key AML risk management functions are nonexistent or inadequate and this is coupled with weaknesses in key functions such as compliance or internal audit and/or the board. Structural risks increase ML exposures.
5	**High**	The institution has a high ML risk profile. The institution has not been unable to address critical deficiencies in the AML risk management function. The structural risks of the institution make it highly susceptible to ML vulnerabilities.

621-CBTT (2288) or 235-CBTT (2288)
www.central-bank.org.tt
info@central-bank.org.tt