



AML SUPERVISION DEPARTMENT E-NEWSLETTER

From Policy to Practice: Beyond the Framework Demonstrating Effective AML/CFT/CPF Controls



Introduction

From framework to evidence
In the previous edition, we reviewed the key elements of an effective AML/CFT framework and emphasized that compliance requires more than written policies and procedures. To be effective, the framework must be understood, implemented and applied consistently in practice.

Why evidence matters:

This edition continues the discussion by focusing on the records and evidence that show AML/CFT/CPF measures are working as intended. Effective record keeping should enable an entity to demonstrate what was done, when it was done, who did it, why the decision was made, and what action followed. Maintaining appropriate evidence is not only about preparing for a supervisory examination. It also strengthens accountability, promotes consistency and helps the entity assess whether its AML/CFT/CPF controls remain effective.

For further guidance, please visit www.tcifsc.tc or email us at aml_supervision@tcifsc.tc

Applying the principle across AML/CFT/CPF pillars

The same principle applies across each core AML/CFT/CPF pillar. Whether an entity is assessing money laundering, terrorist financing or proliferation financing risk, applying customer due diligence, conducting sanctions screening, overseeing compliance, reporting suspicious activity, training staff or testing controls, the issue is not only whether the requirement exists on paper, but whether there is sufficient evidence to show that it operates effectively in practice.



HELPFUL LINKS FOR CTF & PF

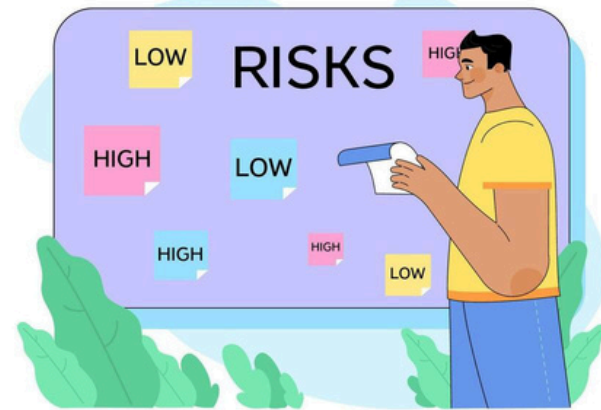
- UK Sanctions List:
<https://search-uk-sanctions-list.service.gov.uk/>
- Hate Symbols Database:
<https://www.adl.org/resources/hate-symbols/search>
- TCI Financial Intelligence Agency: <https://www.fia.tc/>

BUSINESS RISK ASSESSMENT: DOES YOUR BRA DRIVE YOUR CONTROLS?

✓ The foundation of the AML/CFT programme

The Business Risk Assessment (BRA) provides the foundation for a risk-based AML/CFT/CPF programme. It helps an entity identify and understand the money laundering, terrorist financing and proliferation financing risks linked to its customers, products and services, delivery channels, geographic exposure and overall business activities. The BRA should also consider the entity's exposure to proliferation financing risks, including risks arising from customers, jurisdictions, products, services and transactions that may be connected to sanctioned persons,

Risk Assessment



✓ Tailored controls and clear rationale

A BRA should be tailored to the nature, size and complexity of the business. It should also provide a clear rationale for the controls selected to manage the risks identified.

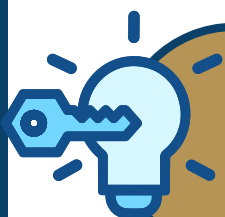
✓ The evidence should show

A BRA is most effective when there is evidence that it is being used in practice. Entities should be able to show when the assessment was completed, who prepared and approved it, what information and risk factors were considered, how risk ratings were determined and when it was last reviewed.

Evidence may include:

- meeting minutes and management approvals;
- version histories and review records;
- risk assessment worksheets;
- documented methodologies; and
- records showing updates following material changes to the business.

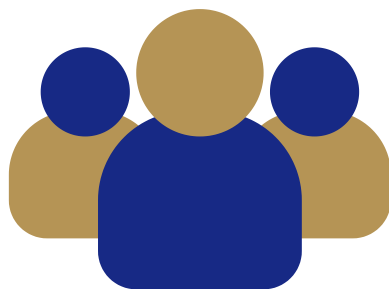
A well-maintained audit trail helps demonstrate that the BRA is an active risk management tool, rather than a document prepared only for compliance purposes



Consider:

If your BRA identifies a higher-risk area, can you show what enhanced measures were implemented in response?

CUSTOMER DUE DILIGENCE: WHAT STORY DO YOUR FILES TELL?



From procedure to practice

Written CDD procedures explain what an entity is expected to do. Customer files should show whether those procedures are being applied in practice.

What the file should demonstrate

Records should show that identification and verification steps were completed, beneficial ownership was established where required, customer risk was assessed, and enhanced measures were applied when necessary. Records should also demonstrate that customer risk ratings are reviewed and reassessed periodically, or when trigger events occur, to ensure that the customer continues to be classified appropriately. CDD should continue throughout the relationship through ongoing monitoring and periodic or trigger-based reviews. Customer files should also contain sufficient information to support sanctions and proliferation financing

Evidence may include:

-  Customer identification and verification records
-  Beneficial ownership information
-  Customer risk assessments
-  Source of funds or source of wealth information, where applicable
-  Enhanced due diligence records
-  Periodic review records
-  Ongoing monitoring documentation
-  Records of changes to customer risk ratings and supporting rationale.



Consider: When reviewing a customer file, a supervisor should be able to understand the customer's risk, how that risk has been reassessed over time, the measures taken to manage it, and how the relationship has been monitored.

SANCTIONS/TFS AND PF SCREENING

CAN YOU SHOW THAT SCREENING TOOK PLACE?

MORE THAN ACCESS TO A SCREENING TOOL

Access to a sanctions screening tool or sanctions list is a useful starting point. However, entities should also be able to show that screening is being carried out effectively.



Screening controls play an important role in identifying potential proliferation financing risks, including transactions or relationships involving designated persons, entities or jurisdictions subject to targeted financial sanctions.

Evidence May Include:

When and how screening is performed

Entities should retain records showing that screening was conducted at the appropriate stages of the relationship and that possible matches were properly reviewed and escalated. This includes screening at onboarding and on an ongoing basis, use of current and reliable sanctions lists, and a documented trail showing how screening results were handled.



Screening results
and dates



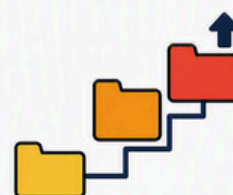
Re-screening
records



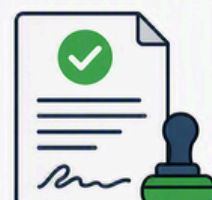
Generated
alerts



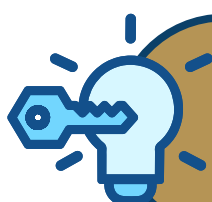
Reviews of
possible matches



Escalation
records



Documented decisions
or outcomes



Consider:

If screening was completed but no evidence was retained, how can the entity demonstrate that the control operated?

GOVERNANCE AND OVERSIGHT: IS MANAGEMENT INVOLVEMENT VISIBLE?

Visible senior management oversight

Effective AML/CFT/CPF governance requires more than appointing a Compliance Officer or MLRO. Senior management should provide meaningful oversight. Evidence of this oversight may include management's review of compliance monitoring reports, internal audit findings, independent testing results and actions taken in response to identified deficiencies. Additionally, this oversight should extend to money laundering, terrorist financing and proliferation financing risks and controls, and ensure that AML/CFT/CPF responsibilities are clearly assigned, adequately resourced and carried out in practice.

Escalation and action

Records should show that AML/CFT/CPF matters are brought to the attention of those responsible for the business and that appropriate action is taken when issues are identified.

Evidence may include:

- Compliance Officer or MLRO appointment records;
- records demonstrating management's consideration of internal audit, compliance monitoring and independent testing findings, including resulting decisions and actions;
- documented roles and reporting lines;
- compliance reports submitted to management;
- meeting minutes and escalation records; and
- documented actions taken in response to significant matters.

Consider: If asked how senior management oversees AML/CFT compliance, could your records clearly demonstrate that oversight?

SUSPICIOUS ACTIVITY: DOCUMENTING THE DECISION-MAKING PROCESS



Identifying and escalating concerns

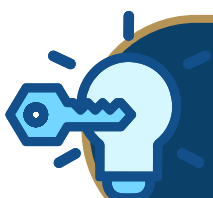
An effective framework should help relevant employees recognize potentially suspicious activity and understand how concerns should be escalated.

Documenting the decision-making process

Documentation is important because not every concern will result in a suspicious activity report. Records should show that concerns were reviewed appropriately and that decisions were made on a reasonable, documented basis.

Evidence may include:

- internal referrals;
- escalation records to the MLRO or appropriate person;
- documented reviews, decisions and rationale; and
- external reporting records, where applicable.



Consider: The key question is not simply “How many reports have you filed?” but whether the entity can show that it has an effective process for identifying, escalating and assessing potentially suspicious activity.

TRAINING: CAN STAFF APPLY WHAT THEY HAVE LEARNED?

BEYOND ATTENDANCE

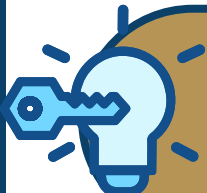
Training records confirm that training was delivered; however, attendance alone does not demonstrate that employees understand their AML/CFT/CPF responsibilities or can apply them effectively in their day-to-day work. Entities should also be able to demonstrate how understanding and application of the training were assessed, for example through case studies, scenario testing, knowledge examinations or practical exercises.

ROLE-BASED AND RISK-FOCUSED TRAINING

Training should be tailored to employees' roles and exposure to risk. As noted in the previous edition, employees involved in customer onboarding, transaction monitoring, sanctions compliance and suspicious activity reporting may require more specialised training. Training programmes should also address sanctions obligations and proliferation financing risks relevant to the entity's business activities.

Evidence may include:

- Training plans and materials;
- Attendance or completion records;
- Induction and role-specific training records; and
- Assessments, knowledge checks, scenario testing results or practical exercises demonstrating employee understanding.



Consider:

Do your records show only who attended training, or do they also show that the training was relevant to employees' risks and responsibilities?

TESTING, MONITORING AND REMEDIATION: WHAT HAPPENS WHEN A WEAKNESS IS IDENTIFIED?

REMEDIATION AND FOLLOW-UP

When deficiencies are identified, entities should record the issue, determine the corrective action required, assign responsibility and track remediation through to completion. As highlighted in the previous edition, remediation plans should be documented, corrective actions should be monitored, and follow-up should confirm whether the actions taken were effective.

ONGOING ASSESSMENT CONTROLS

An effective AML/CFT/CPF framework should be assessed periodically to confirm that controls continue to operate as intended. Monitoring and testing help identify weaknesses, emerging risks and areas requiring corrective action.

Evidence may include:

1



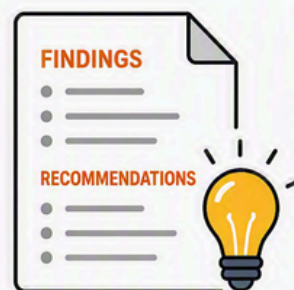
Compliance monitoring records

2



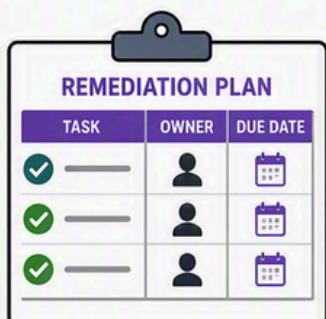
Independent testing or review reports

3



Findings and recommendations

4



Remediation plans with assigned responsibilities and deadlines

5



Evidence of completed corrective action

6



Follow-up testing or review records

Consider:

Identifying a weakness is only the first step. The records should show what action was taken and whether it resolved the issue.

WHAT DOES YOUR EVIDENCE SAY ABOUT YOUR FRAMEWORK?

CONNECTING THE EVIDENCE TRAIL

Registrants and licensees should consider whether their documentation presents a clear and consistent picture of how their AML/CFT/CPF framework operates in practice.

RISK → CONTROLS → IMPLEMENTATION → OVERSIGHT → TESTING → IMPROVEMENT

An effective AML/CFT/CPF framework should leave a clear evidence trail showing how money laundering, terrorist financing and proliferation financing risks were assessed, how controls were selected and implemented, and how those controls were monitored and improved



Policies describe the framework; evidence shows whether the framework is working in practice.

Governance Checkpoint

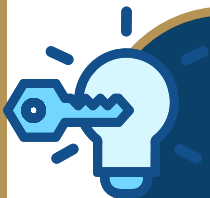
Questions Management Should Be Asking



Remediation and Follow up

To reinforce governance accountability and support organisational effectiveness, management should regularly challenge itself with questions such as:

- Can we evidence our highest-risk controls?
- How do we know staff actually understand their obligations?
- What AML/CFT/CPF issues have been escalated this quarter?
- Can we demonstrate that remediation actions were completed?



Strong AML/CFT /CPF programmes are not measured solely by the existence of policies and procedures, but by an institution's ability to demonstrate effective implementation, oversight, escalation of issues, and timely remediation of identified deficiencies