

Money Laundering in the Trinidad & Tobago Securities Sector



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MARKET SESSION- AML-CFT - THE MONEY, THE LAW AND YOU

TRINIDAD HILTON HOTEL AND CONFERENCE CENTRE

BY: TREVOR MENDEZ, ADVISOR, ENFORCEMENT

Changing Expectations



- Very brief history of securities industry in T & T
- Nationalisation of banks
- Securities Industry Acts of 1981 and 1995
- Securities Act, 2012
- Enacting of the existing body of legislation which focuses on Anti Money Laundering (AML) and Countering the Financing of Terrorism (CFT)
- Where we are now

Overview of Trinidad & Tobago's Securities Sector



Registrant	Description	Total
Reporting Issuers	An entity whose securities are listed on a registered securities market and is required to submit regular reports to the TTSEC on its performance and financial standing.	97
Broker-Dealers	An entity or individual that effects transactions in securities for the account of others.	45
Registered Representatives	An individual who is a senior officer, agent or employee of an entity or person required to be registered with the TTSEC.	64
Investment Advisers	A person engaging in the business of providing advice with respect to the investment in or the purchase, sale or holding of a security.	18
Underwriter	A person who agrees to purchase a security for the purpose of distribution or offers / sells a security in connection with a distribution.	1
Self-Regulatory Organisations	A clearing agency, securities exchange, association of market actors or any entity that sets standards for or monitors the conduct of its members.	2
		227

Market Size



Type of security	Description	Value \$TT	% of Total Value
Equities	Equities are stock or other instruments such as share option plans which signify ownership of a corporation. It also entitles the holder to a proportionate share in the corporation's assets and profits.	111,094,329,441.00	37.2
Debt securities	Debt securities are any debt instrument issued by a government or corporation that may be traded. Debt securities include bonds, commercial paper, and notes.	85,384,630,033.47	28.6
Securitized Instruments	Securitized instruments are formed by combining illiquid assets with common features into one interest bearing security.	56,733,763,352.00	19
Mutual Funds	A mutual fund is an investment instrument which pools money from investors and purchases various types of securities such as shares, bonds or money market securities based on stated investment objectives. Mutual funds are also called collective investment schemes.	45,401,285,809.66	15.2
Total		298.6 Billion	

What is Money Laundering



- Money laundering is the process whereby criminal proceeds are disguised from their illegal origin in order that the perpetrators may enjoy them without interference from legal authorities.
- Typically, money-laundering involves the **placement** of the illegal proceeds in the financial system, such as banks, where they are then **layered** by a series of transactions aimed at obscuring their source. The last stage of the process involves the **integration** of the funds into the financial system where they now appear as the proceeds of legitimate business activity and can be enjoyed by the criminals who generated them.
- As outlined above, the process is described in three stages, placement, layering and integration.

Money Laundering (ML) and Terrorist Financing (TF) Concerns/Risks in the Securities Sector



Some of characteristics of the securities industry that give rise to ML/FT vulnerabilities:

- The ability to move funds quickly beyond borders;
- The ability to quickly move funds from one asset type to another, (e.g. cash to security, bond, mutual fund etc.);
- The potentially high proportion of accounts held by politically exposed persons (PEPs);
- The use of legal persons, and trusts to obscure asset ownership;
- The ability to hide ownership through specialized investment instruments (bearer securities);
- Off-shore accounts, with their accompanying KYC difficulties;
- Potential for beneficial ownership of security issuing entities by criminals;
- Off-market transactions, especially where no price transparency exists;
- Potential for corrupt employees.

Measures used by TTSEC in its role as AML/CFT Supervisory Authority



- Education;
- Development and Publication of Guidelines;
- Market Entry Surveillance;
- Sector Risk Assessment;
- Inspections (on-site & off-site).

Suspicious Activity/Transaction Reporting in the Securities Sector



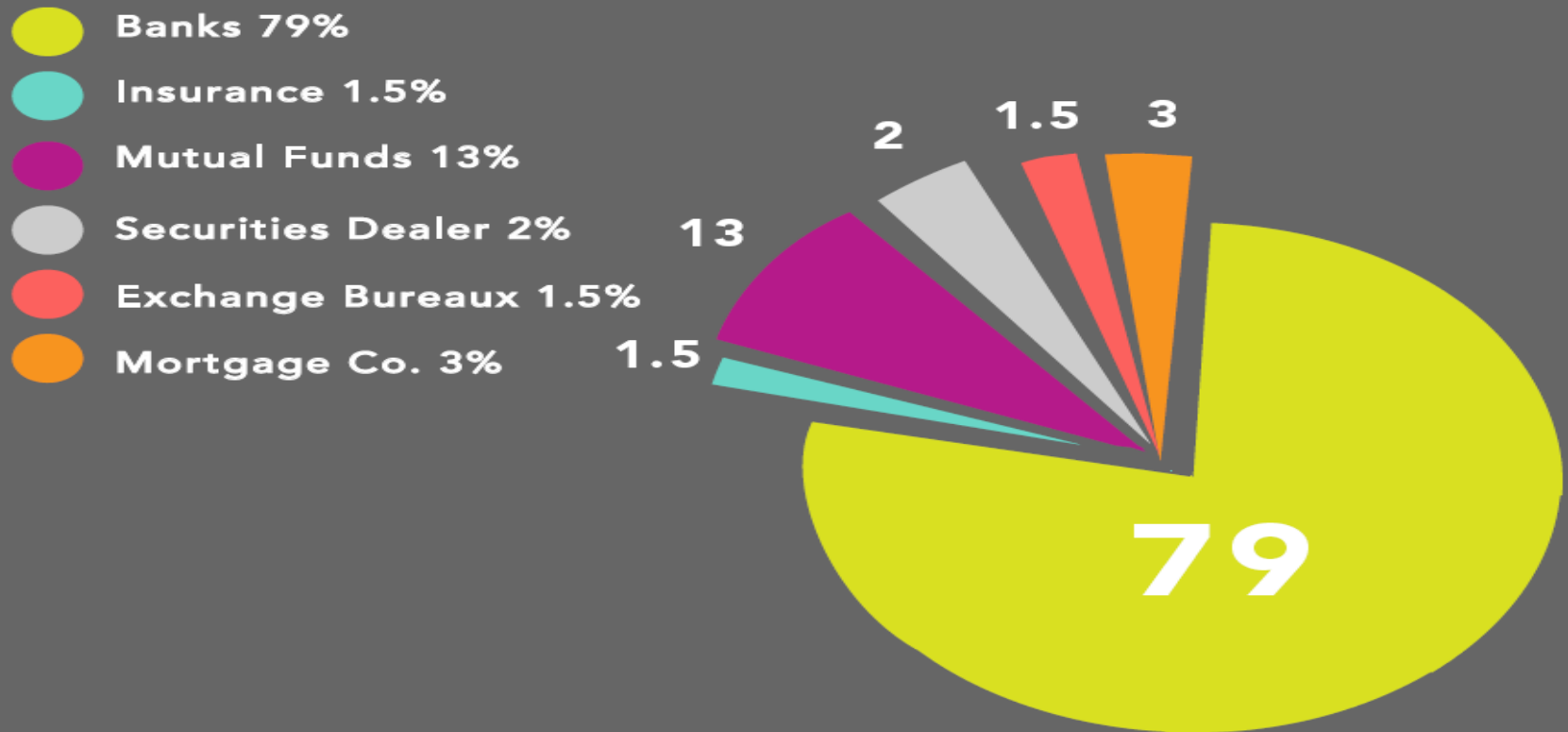
COMPARATIVE VIEW OF STR/SAR SUBMISSIONS

Reporting Entities	2010	2011	2012	2013
Financial Institutions				
Banking	58	151	154	152
Exchange Bureaux	0	0	0	3
Insurance Co.	1	9	10	3
Mutual Funds	19	28	22	26
Mortgage Co.	5	14	7	5
Security Dealers	1	0	5	4
Supervised Entities				
Attorneys-at-Law	0	2	1	6
Co-operative Societies	2	5	16	20
Jewellers	0	0	1	2
Money/Value Transfers	25	90	38	314
Motor Vehicles Sales	0	1	3	9
Postal Services	0	0	1	0
Real Estate	0	3	0	3
Private Members Club	0	0	0	7
Supervised Entities	111	303	258	554

Source: FIUTT

Upon examination of all the FIs, the banking sector continues to file the largest number of STRs/SARs. This sector accounted for 79% of STRs/SARs submitted by FIs as shown in Diagram 10.

DIAGRAM 10
FINANCIAL INSTITUTIONS STRs/SARs SUBMISSIONS 2013



International Examples



Money Laundering Examples from other jurisdictions:

- Use of Physical Share Certificates
- Early redemption of certificates
- Transfer of funds between accounts
- Use of bank drafts under reporting level (structuring)
- Case example of laundering of funds from corrupt PEP

Concerns identified in our Sector Survey



Table 5: Securities Sector Vulnerability

VARIABLE	RATING	ASSESSMENT
Comprehensiveness of policies and procedures	0.62	Medium High
Securities management commitment and leadership	0.56	Medium
Quality of general AML controls	0.50	Medium
Quality of securities firms operations	0.50	Medium
Securities staff compliance	0.50	Medium
Customer Due Diligence (CDD) framework	0.40	Medium Low

Table 5: Product/Service Vulnerability

PRODUCT/SERVICE	VULNERABILITY	INHERENT VULNERABILITY
Portfolios/Investment Of Individuals (On Their Own Behalf)	0.49	0.55
Portfolios/Investment Of Legal Persons (On Their Own Behalf)	0.38	0.36
Portfolios/Investment Of Individuals (On Behalf Of Others)	0.34	0.30
Portfolios/Investment Of Legal Persons (On Behalf Of Others)	0.34	0.30
Correspondent Accounts/Services	0.34	0.30

The results of the survey are further explored in the following sections.

Quality of AML/CFT General Controls

Table five (5) below outlines the ratings generated for the quality of AML/CFT control.

Table 1: Quality of General Controls

A. GENERAL INPUT VARIABLES	RATING
Commitment to Good Corporate Governance	0.7
Securities Staff Integrity	0.7
Securities Staff Knowledge	0.7
Compliance Function	0.7
AML Laws and Regulations (preventive measures and supervision)	0.6
Market Pressure to Meet AML/CFT Standards	0.6

Mitigation Measures



- Risk-Based Approach (FATF Recommendation #1)
- A comprehensive Compliance Programme;
- Know Your Client (KYC), Due Diligence, etc.
- Re-evaluate your risk assessment. Look for potential exposures and update your controls and procedures accordingly. For example, are you able to identify the source of any deposit to any given accounts?
- Is the list of indicators that you use in your staff training up to date?
- Have you been learning about new cases when they are published so that you are aware of the latest methods used by money-launderers, new threats posed by new transaction types and products?

Questions



Thank you for your attention

TrevorM@ttsec.org.tt

**Address: 57-59 Dundonald Street,
Port of Spain, Trinidad, W.I.**