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EXTRAORDINARY

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**PART II**

Statutory Notifications containing Rules and Orders issued by all Ministries and Divisions of the Government of Pakistan and their Attached and Subordinate Offices and the Supreme Court of Pakistan

GOVERNMENT OF PAKISTAN

MINISTRY OF FINANCE, REVENUE, ECONOMIC AFFAIRS, STATISTICS AND PRIVATIZATION

(Finance Division)

[FINANCIAL MONITORING UNIT]

NOTIFICATION

*Karachi, the 13th April, 2015*

**S.R.O. 57(KE)/2015 :**

In exercise of the powers conferred by section 44 of the Anti Money Laundering Act, 2010 (ACT No. VII of 2010) read with clause (h) of sub-section (4) of section 6 thereof, the Financial Monitoring Unit, in consultation with the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan, with the approval of the National Executive Committee (NEC) hereby makes the following regulations, namely :-

**THE ANTI MONEY LAUNDERING REGULATIONS, 2015**

**1. Short title and Commencement.-** (1) These regulations may be called the Anti Money Laundering Regulations, 2015.

(2) They shall come into force at once.

(393)

Price : Rs. 30.50

**2. Definition.**-(1) In these regulations unless the context otherwise requires,-

- (a) "Act" means the Anti-Money Laundering Act, 2010 (Act No. VII of 2010)
  - (b) "account" means a formal banking or business relationship established to provide regular services, dealings, and other financial or business transactions; and includes all kinds of deposit, saving or other transactions or asset accounts, all types of credit or loan accounts or other extension of credit by whatever name called; and
  - (c) "NFBP" means non-financial businesses and professions as defined in the Act.
- (2) All other words and expressions shall have the same meanings as are assigned to them in the Act.

**3. Jurisdiction for reporting of suspicious transactions and currency transactions.** - (1) FMU is the only designated agency in Pakistan to which suspicious transaction reports (STRs) and currency transaction reports (CTRs) shall be made.

- (2) The FMU shall, after analyzing the transactions, refer any report of a suspicious or currency transaction including analysis to any appropriate investigating or prosecuting agency for use in the conduct of inquiry, investigation, prosecution, intelligence or counterintelligence activities, including in respect of potential cases of money laundering or terrorist financing.

Provided that the report disseminated by FMU under this clause shall be treated confidential.

- (3) Nothing in clause (1) shall be construed as precluding supervisory agency for a financial institution from requiring the financial institution to submit any information or report in the normal course of business under other applicable laws.

**4. Reporting of suspicious transactions.** - (1) In addition to financial institutions, Director General may, under the Act, require any NFBP to report suspicious transaction to FMU in the manner as he may, from time to time, prescribe.

- (2) Every financial institution and such NFBP as required under clause (1) shall file with FMU on the prescribed format as annexed (appendix-I), STR effected or attempted by, at or through that financial institution or NFBP if the financial institution or NFBP knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is a part) involves funds derived from illegal activities or is, intended or effected in order to hide or disguise proceeds of crimes or is designed to evade any requirements of section 7 of the Act or has no

apparent lawful purpose after examining the available facts, including the background and possible purpose of the transaction or concerns financing of terrorism. A guide containing examples of possible suspicious transactions and characteristics of financial transaction that may be a cause for increased scrutiny is given in Appendices - III to VIII.

- (3) The STR shall be filed by financial institutions and designated NFBPs immediately but not later than seven working days after forming that suspicion in respect of a particular transaction, irrespective of the fact that the transaction was followed through or not.

**5. Reports on currency transactions.** - (1) When a financial institution or a NFBP undertakes a cash based transaction involving payment, receipt, or transfer of an amount exceeding the minimum threshold as specified by the National Executive Committee (NEC), hereinafter referred to as the NEC, the financial institution or NFBP shall file a report of such transaction on prescribed format as annexed (appendix-II) immediately but not later than seven working days, after the respective currency transaction.

- (2) Currency transactions amongst the financial institutions and between financial institutions and the following categories of entities, are exempted from the reporting requirements of clause (1):-

- (a) a department or agency of the Federal Government or a Provincial Government; or
- (b) a Local Government; or
- (c) a statutory body.

**6. Discretionary exemptions from reporting requirements.** - (1) The Director General with the approval of NEC may exempt a financial institution from the reporting requirements of clause (1) of regulation 5 with respect to transactions between the financial institution and a qualified business customer of the institution on the basis of information submitted to him by the institution in accordance with procedures which the Director General shall establish.

**Explanation.** For the purposes of this clause, the expression "qualified business customer" means a business which-

- (a) maintains a transaction account at the financial institution;
- (b) frequently engages in transactions with the financial institution which are subject to the reporting requirements of clause (1) of Regulation (5);
- (c) entails little or no risk concerning money laundering or terrorist financing; and
- (d) meets criteria which the Director General determines is sufficient to ensure that the purposes of these regulations are carried out without requiring a report with respect to such transactions.

- (2) The Director General may grant exemption under clause (1) to a qualified business customer for a specified period on a case to case basis upon being approached by a financial institution with reasonable justification for grant of such exemption.
- (3) The financial institutions shall, on expiry of the specified period of exemption, review the qualified business customers with respect to whom an exemption has been granted and, upon the completion of such review, resubmit the request for exemption, if so required, to the Director General.
- (4) Any financial institution which-
  - (a) knowingly furnishes false or incomplete information to the Director General for seeking exemption under clause (1) with respect to the transaction or the customer, engaging in the transaction, or
  - (b) has reason to believe at the time the exemption is granted or the transaction is entered into that the customer or the transaction does not meet the criteria established for granting such exemption; shall be subject to proceeding under the Act and any other applicable law.
- (5) The Director General FMU shall maintain a list of all the entities whose transactions with a financial institution have been given exemption under this regulation.

**7. Freezing of property.** - (1) Where a financial institution or NFBP knows, suspects or has reasons to suspect that any property or account is involved in money laundering or terrorist financing and needs immediate attention or action on the part of FMU as to the freezing of such property or account, the concerned financial institution or NFBP as the case may be, shall immediately inform the Director General of such property or account along with the grounds that warrant immediate action.

- (2) The Director General may, if there appear to be reasonable grounds to believe that any property or account is involved in money laundering or terrorist financing, order freezing of such property or account for a maximum period of fifteen days, in any manner that he may deem fit in the circumstances.

**8. Disclosure and provision of information.** - (1) If financial institutions, NFBPs or their officers pursuant to the Act furnish information required under the Act-

- (a) the financial institutions, NFBPs, and their officers are prohibited from directly or indirectly notifying any person involved in the transaction that the transaction has been reported; and

- (b) no officer or employee of the FMU, the investigating agency or the Government who has any knowledge that such report was made shall directly or indirectly disclose to any person involved in the transaction that the transaction has been reported, other than as necessary to fulfill the official duties of such officer or employee.
- (2) Any financial institution, NFBP, or officer which makes a disclosure pursuant to the Act and these regulations shall not be subject to any civil, criminal or disciplinary proceedings under any law or regulation or under any contract or other legally enforceable agreement (including any arbitration agreement), for such disclosure or for any failure to provide notice of such disclosure to the person who is the subject of such disclosure or any other person identified in the disclosure.
- (3) Clause (1) shall not be construed as creating-
  - (a) any inference that the expression "person", may be construed more broadly than its ordinary usage so as to include any government or agency of government; or
  - (b) any immunity against, or otherwise affecting, any civil or criminal action brought by any government or agency of government to enforce law, rules or regulations of such government or -agency.
- (4) The financial institutions and NFBPs must provide all documentation supporting the filing of a STR or any related information upon demand by FMU. When asked to provide supporting documentation or any information, financial institutions and NFBPs should take special care to verify that the person asking for information is, in fact, an authorized representative of FMU.

**9. Repeal.-** The Anti Money Laundering Regulations, 2008 issued *vide* Gazette Notification S.R.O.02(KE)/2009 dated January 6, 2009 are hereby repealed. Notwithstanding the repeal hereunder, nothing contained herein shall affect the previous operation of the Regulations so repealed or anything duly done or suffered thereunder, or affect any right, privilege, obligation or liability acquired, accrued or incurred under the Regulations so repealed, or affect any penalty, forfeiture or punishment incurred in respect of any offence committed against the Regulations so repealed, or affect any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture or punishment as aforesaid.

Appendix-I Suspicious Transaction Report Template
Appendix –II Currency Transaction Report Template
Appendix-III Examples of Suspicious Transactions
Appendix –IV Characteristics of Financial Transactions that may be a cause for Increased Scrutiny
Appendix –V Red Flag Indicators for Securities Sector
Appendix –VI Red Flag Indicators for Exchange Companies
Appendix –VII Red Flag Indicators for Private Pension Schemes / Voluntary Pension Schemes
Appendix -VIII Red Flag Indicators for Insurance Sector

**Suspicious Transaction Report**

[See regulation 4(2)]

(Check appropriate box)

1) Date      /      /       
dd/mm/yyyy2) ☐ Initial Report ☐ Corrected Report ☐ Supplemental Report**Part I****Reporting Financial Institution Information**3) Name of Institution 4) NIFT Code 5) Address of Financial Institution : 6) Name of Branch where transaction / activity occurred : 7) Branch Code 8) Address of Branch: 9) **Primary Regulator**☐ SBP ☐ SECP ☐ Other (Please Specify) **Reporting Officer**10) Name 11) Designation 12)   
Phone Number(s) (Include area code)13)   
Fax Number(s) (Include area code)

14)

Email Address

15)

Cell  
Number(s)**Contact for Assistance (If different from Reporting Officer)**

16) Name

17)

Designation

18)

Phone Number(s) (Include area code)

19)

Fax Number(s) (Include area  
code)

20)

Email Address

21)

Cell  
Number(s)**Part II****Suspect Information**

22) Name

23) Father / Husband's name

24)

Address (permanent)

25)

Address (present)

26)

Other Known Address

27)

Phone Number(s) - Residence  
(Include area code)

28)

Phone Number(s) - Office (Include  
area code)

29)

Fax Number(s)

30)

Cell Number(s)



31) CNIC Number

32) NIC Number (in case CNIC number is not available)

33) Any other Identification Number

34) National Tax Number (NTN), if available

35) Date of Birth: \_\_\_\_/\_\_\_\_/\_\_\_\_ (dd/mm/yyyy)

36) Nationality

37) Occupation/Type of Business

38) Relationship with Financial Institution

☐ Accountholder ☐ Employee ☐ Agent ☐ Walk in Customer  
☐ Other (Please specify) ☐

39) Business Relation with Suspect (if any)

40) Is Relationship Still Maintained With the Person? ☐ YES ☐ NO

41) In Case No, Mention Date of Termination of \_\_\_\_/\_\_\_\_/\_\_\_\_ (dd/mm/yyyy) relationship

42) Capacity in which the person is performing the transactions / acts

☐ Individual ☐ Company ☐ Agent ☐ Broker  
☐ Other (Please specify) ☐

43) Identities of other persons known to be involved in reported activity

### Part III

#### Suspicious Transaction Information

44) Date of Suspicious Transaction \_\_\_\_/\_\_\_\_/\_\_\_\_ (dd/mm/yyyy)

45) Amount involved (Please Specify Currency)

## 46) Suspicious Transactions :

Date	Amount	Description of Transaction

47) **Brief Narrative (Reasons for Suspicion)**

(Include suspicious activity information, explanation / description and background details)

--

## 48) Characterization of Suspicious Transaction (i.e. nature of suspected predicate schedule offence)

## 49) Has the transaction already been reported to any Law Enforcement Agency? If so, list the agency

a	
b	
c	
d	

## Part IV

**Account Information**

## 50) Account number (s) effected, if any

a)	b)	c)	d)
----	----	----	----

## 51) Account (s) opened on (dd/mm/yyyy)

a)	b)	c)	d)
----	----	----	----

## 52) Current Status of the Account(s)

a)	b)	c)	d)
----	----	----	----

53) Purpose of account (s)

a)	b)	c)	d)
----	----	----	----

54) Average Monthly Turnover of account (s)

a)	b)	c)	d)
----	----	----	----

55) Aggregate Credits / Debits for last 3 Years

a)	b)	c)	d)
----	----	----	----

56) Peak Balance(s) of last 3 Years

a)	b)	c)	d)
----	----	----	----

57) Nature of Account (s):

☐ Individual ☐ Partnership ☐ Company ☐ Trust☐ other (please specify) \_\_\_\_\_

58) Transaction Mean / Method

☐ Cash ☐ Cheque ☐ Remittance ☐ Pay Order  
☐ Credit Card ☐ Debit Card ☐ Deposits ☐ Fixed Deposit  
☐ Draft ☐ Transfer ☐ LC ☐ Online Transfer  
☐ Other (Please specify) \_\_\_\_\_

59) Copies of Following Documents are attached :

- ☐ Customer Identification documents / Account Opening Form  
☐ KYC / CDD of Customer or Suspect  
☐ Other Documents obtained at the time of opening of account / relationship.  
☐ Relevant documents supporting the STR

60) **Other Relevant Information** (information linked to STR or action taken by the reporting entity)

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( Seal & Signature of Reporting Officer )
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**Currency Transaction Report**

[See Regulation 5]

(Check appropriate box)

1) Date \_\_\_\_ / \_\_\_\_ / \_\_\_\_ dd/mm/yyyy

2) ☐ Initial Report ☐ Corrected Report ☐ Supplemental Report**Part I****Person(s) Involved in Transaction(s)****Section A --Person(s) on Whose Behalf Transaction(s) Is Conducted**

3) Name \_\_\_\_\_

4) Father / Husband's name \_\_\_\_\_

5) Address (permanent) \_\_\_\_\_  
\_\_\_\_\_6) Address (present) \_\_\_\_\_  
\_\_\_\_\_7) Other Known Address \_\_\_\_\_  
\_\_\_\_\_

8) Phone Number - Residence (Include area code) \_\_\_\_\_

9) Phone Number - Office (Include area code) \_\_\_\_\_

10) Fax Number \_\_\_\_\_

11) Cell Number \_\_\_\_\_

12) CNIC Number \_\_\_\_\_

13) NIC Number (in case CNIC number is not available) \_\_\_\_\_

14) Any other Identification Number \_\_\_\_\_

15) National Tax Number (NTN), if available \_\_\_\_\_

16) Date of Birth: \_\_\_\_ / \_\_\_\_ / \_\_\_\_ (dd/mm/yyyy)

17) Nationality 

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--

18) Occupation/Type of Business 

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--

19) Relationship with Financial Institution

- ☐ Customer    ☐ Employee    ☐ Agent    ☐ Walk in Customer  
☐ Other (Please specify) \_\_\_\_\_ ☐

20) Business Relation with Customer (if any)

--

Section B --Individuals Conducting Transaction(s) (if other than above).

21) Name \_\_\_\_\_

22) Father / Husband's name \_\_\_\_\_

23) Address (permanent) 


24) Address (present) 


25) Contact Numbers (Include area code) 

--

--

26) CNIC Number 

--

--

27) Any other Identification Number 

--

--

28) Date of Birth: \_\_\_\_ / \_\_\_\_ / \_\_\_\_ (dd/mm/yyyy)

29) Nationality 

--

--

30) Occupation/Type of Business 

--

--

31) Relationship with Financial Institution

- ☐ Customer      ☒ Employee      ☐ Agent      ☐ Walk in Customer  
☐ Other (Please specify) \_\_\_\_\_

**Part II.****Amount and Type of Transaction(s) Check all boxes that apply.**

- 32) Date of Transaction  
 \_\_\_\_/\_\_\_\_/\_\_\_\_  
 (dd/mm/yyyy)

**(In Case of Local Currency)**

- 33) Total Cash in      34) Total Cash out
- 

**(In Case of Foreign Currency)**

- 35) Foreign Cash in      36) Foreign Cash out      37) Name of Foreign Currency
- 

**Type of Transaction**

- 38) ☐ Purchased      39) ☐ Negotiable Instrument(s) Cashed  
 40) ☐ Currency Exchange(s)      41) ☐ Deposit / Withdrawal  
 42) ☐ Account Number(s) Affected (if any)      43) ☐ Wire Transfer(s)  
 44) ☐ Others (specify) \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

## Part III

**Financial Institution Where Transaction(s) Takes Place**

- 45) Name of Institution \_\_\_\_\_
- 46) NIFT Code
- 47) Branch Code
- 48) Address of Financial Institution : \_\_\_\_\_  
\_\_\_\_\_
- 49) Name of Branch where transaction / activity occurred : \_\_\_\_\_
- 50) Address of Branch: \_\_\_\_\_  
\_\_\_\_\_

**Reporting Officer**

- |  |  |
|--|--|
| 51) <input type="text"/><br><input type="text"/> | 52) <input type="text"/><br><input type="text"/> |
| 53) <input type="text"/><br><input type="text"/> | 53) <input type="text"/><br><input type="text"/> |
| 54) <input type="text"/><br><input type="text"/> | 55) <input type="text"/><br><input type="text"/> |

**Contact Person**

- |  |  |
|--|--|
| 56) <input type="text"/><br><input type="text"/> | 57) <input type="text"/><br><input type="text"/> |
|--|--|

( Seal & Signature of Reporting Officer )

### Examples Of Suspicious Transactions

#### **1. General Comments**

- 1) The following are examples of potential suspicious transactions for both money laundering and terrorist financing. The lists of situations given below are intended mainly as a means of highlighting the basic ways in which money may be laundered. Although these lists are not all-inclusive, they may help financial institutions and NFBPs recognize possible money laundering and terrorist financing schemes.
- 2) While each individual situation may not be sufficient to suggest that money laundering or a criminal activity is taking place, a combination of such situations may be indicative of such a transaction. A customer's declarations regarding the background of such transactions should be checked for plausibility. Not every explanation offered by the customer can be accepted without additional scrutiny. Closer scrutiny should help to determine whether the activity is suspicious or one for which there does not appear to be a reasonable business or legal purpose.
- 3) It is justifiable to suspect any customer who is reluctant to provide normal information and documents required routinely by the financial institutions in the course of the business relationship. Financial Institutions should pay attention to customers who provide minimal, false or misleading information or, when applying to open an account, provide information that is difficult or expensive to verify.

#### **2. Transactions Which Do Not Make Economic Sense**

- (1) A customer-relationship that does not appear to make economic sense, for example, a customer having a large number of accounts with the same financial institution, frequent transfers between different accounts or exaggeratedly high liquidity;
- (2) Transactions in which assets are withdrawn immediately after being deposited, unless the customer's business activities furnish a plausible reason for immediate withdrawal;
- (3) Transactions that cannot be reconciled with the usual activities of the customer, for example, the use of Letters of Credit and other methods of trade finance to move money between countries where such trade is not consistent with the customer's usual business;



- (4) Transactions which, without plausible reason, result in the intensive use of what was previously a relatively inactive account, such as a customer's account which shows virtually no normal personal or business related activities but is used to receive or disburse unusually large sums which have no obvious purpose or relationship to the customer and/or his business;
- (5) Provision of bank guarantees or indemnities as collateral for loans between third parties that are not in conformity with market conditions;
- (6) Unexpected repayment of an overdue credit without any plausible explanation;
- (7) Back-to-back loans without any identifiable and legally admissible purpose.

### **3. Transactions Inconsistent with the Customer's Business**

- (1) The currency transaction patterns of a business show a sudden change inconsistent with normal activities;
- (2) A large volume of cashier's cheques, money orders, or funds transfers is deposited into, or purchased through, an account when the nature of the accountholder's business would not appear to justify such activity;
- (3) A retail business has dramatically different patterns of currency deposits from similar businesses in the same general location;
- (4) Unusual transfers of funds occur among related accounts or among accounts that involve the same or related principals;
- (6) Goods or services purchased by the business do not match the customer's stated line of business.

### **4. Transactions Involving Large Amounts of Cash**

- (1) Exchanging an unusually large amount of small-denominated notes for those of higher denomination;
- (2) Purchasing or selling of foreign currencies in substantial amounts by cash settlement despite the customer having an account with the financial institution;
- (3) Frequent withdrawal of large amounts in cash by means of cheques, including traveler's cheques;

- (4) Frequent withdrawal of large cash amounts that do not appear to be justified by the customer's business activity;
- (5) Large cash withdrawals from a previously dormant/inactive account, or from an account which has just received an expected large credit from abroad;
- (6) Company transactions, both deposits and withdrawals, that are denominated by unusually large amounts of cash, rather than by way of debits and credits normally associated with the normal commercial operations of the company, e.g. cheques, letters of credit, bills of exchange, etc;
- (7) Depositing cash by means of numerous credit slips by a customer such that the amount of each deposit is not substantial, but the total of which is substantial;
- (8) The deposit of unusually large amounts of cash by a customer to cover requests for bankers' cheques, money transfers or other negotiable instruments;
- (9) Customers whose deposits contain counterfeit notes or forged instruments;
- (10) Customers making large and frequent cash deposits but cheques drawn on the accounts are mostly to individuals and firms not normally associated with their business;
- (11) Customers who together, and simultaneously, use separate branches/booths to conduct large cash transactions or foreign exchange transactions;
- (12) The size and frequency of currency deposits increases rapidly with no corresponding increase in non-currency deposits.

**5. Transactions Involving Structuring to Avoid Reporting or Identification Requirement**

- (1) Structuring transactions are conducted to evade reporting and identification requirements. A person structures a transaction by breaking down a single currency sum exceeding the specified threshold into smaller amounts that may be conducted as a series of transactions at or less than specified amount. Money launderers and criminals have developed many ways to structure large amounts of currency to evade the reporting and identification requirements. Unless currency smuggled out of country or commingled with the deposits of an otherwise legitimate business, any money laundering scheme that

begins with a need to convert the currency proceeds of criminal activity into more legitimate-looking forms of financial instruments, accounts, or investments, will likely involve some form of structuring. Financial institutions' employees should be aware of and alert to the following structuring schemes.

- (a) A customer makes currency deposit or withdrawal transactions, so that each is less than the CTR filing threshold;
  - (b) A customer uses currency to purchase official bank cheques, money orders, or traveler's cheques with currency in amounts less than the specified amount to avoid having to produce identification in the process;
  - (c) Deposits are structured through multiple branches of the same financial institution or by groups of people who enter a single branch at the same time;
  - (d) A person customarily uses the automated teller machine to make several deposits below a specified threshold;
- (2) In addition, structuring may occur before a customer brings the funds to a financial institution. In these instances, a financial institution may be able to identify the aftermath of structuring. Deposits of money instruments that may have been purchased elsewhere might be structured to evade the reporting and recordkeeping requirements. These instruments are often numbered sequentially in groups totaling less than the specified amount; bear the same handwriting (for the most part) and often the same small mark, stamp, or initials; or appear to have been purchased at numerous places on the same or different days.

#### **6. Transactions Involving Accounts**

- (1) Matching of payments out with credits paid in by cash on the same or previous day;
- (2) Paying in large third party cheques endorsed in favour of the customer;
- (3) Substantial increases in deposits of cash or negotiable instruments by a professional firm or company, using client accounts or in-house company or trust accounts, especially if the deposits are promptly transferred between other client company and trust accounts;
- (4) High velocity of funds through an account, i.e., low beginning and ending daily balances, which do not reflect the large volume of funds flowing through an account;

- (5) Multiple depositors using a single account;
- (6) An account opened in the name of an exchange company that receives structured deposits;
- (7) An account operated in the name of an offshore company with structured movement of funds.

#### **7. Transactions Involving Transfers To and From Abroad**

- (1) Transfer of money abroad by an interim customer in the absence of any legitimate reason. An interim customer is one who is not a regular customer of the financial institution in question, or does not maintain an account, deposit account, safe deposit box, etc.;
- (2) A customer which appears to have accounts with several financial institutions in the same locality, especially when the financial institution is aware of a regular consolidated process from such accounts prior to a request for onward transmission of the funds elsewhere;
- (3) Repeated transfers of large amounts of money abroad accompanied by the instruction to pay the beneficiary in cash;
- (4) Large and regular payments that cannot be clearly identified as bona fide transactions, from and to countries associated with (i) the production, processing or marketing of narcotics or other illegal drugs or (ii) criminal conduct;
- (5) Substantial increase in cash deposits by a customer without apparent cause, especially if such deposits are subsequently transferred within a short period out of the account and/or to a destination not normally associated with the customer;
- (6) Building up large balances, not consistent with the known turnover of the customer's business, and subsequent transfer to account(s) held overseas;
- (7) Cash payments remitted to a single account by a large number of different persons without an adequate explanation;
- (8) Funds transfer activity occurs to or from a financial secrecy haven without an apparent business reason or when the activity is inconsistent with the customer's business or history;
- (9) Many small, incoming transfers of funds are received, or deposits are made using cheques and money orders. Almost immediately, all or most of the transfers or deposits are wired to another city or country in a manner inconsistent with the customer's business or history;

- (10) Incoming funds transfers with limited content and lack of remitter's information;
- (11) Unusually large number and variety of beneficiaries are receiving funds transfers from one company.

#### **8. Investment Related Transactions**

- (1) Purchasing of securities to be held by the financial institution in safe custody, where this does not appear appropriate given the customer's apparent standing;
- (2) Requests by a customer for investment management services where the source of funds is unclear or not consistent with the customer's apparent standing;
- (3) Larger or unusual settlements of securities transactions in cash form;
- (4) Buying and selling of a security with no discernible purpose or in circumstances which appear unusual.

#### **9. Transactions Involving Unidentified Parties**

- (1) Provision of collateral by way of pledge or guarantee without any discernible plausible reason by third parties unknown to the financial institution and who have no identifiable close relationship with the customer;
- (2) Transfer of money to another financial institution without indication of the beneficiary;
- (3) Payment orders with inaccurate information concerning the person placing the orders;
- (4) Use of pseudonyms or numbered accounts for effecting commercial transactions by enterprises active in trade and industry;
- (5) Holding in trust of shares in an unlisted company whose activities cannot be ascertained by the financial institution;
- (6) Customers who wish to maintain a number of trustee or clients' accounts that do not appear consistent with their type of business, including transactions that involve nominee names.

#### **10. Transactions Involving Embassy and Foreign Consulate Accounts**

- (1) Official embassy business is conducted through personal accounts;
- (2) Account activity is not consistent with the purpose of the account;

- (3) Accounts are funded through substantial currency transactions;
- (4) Accounts directly fund personal expenses of foreign nationals without appropriate controls.

#### **11. Miscellaneous Transactions**

- (1) Purchase of bank cheques on a large scale by an interim customer;
- (2) Extensive or increased use of locker facilities that do not appear to be justified by the customer's personal or business activities;
- (3) Lockers are used by individuals who do not reside or work in the institution's service area despite the availability of such services at an institution closer to them;
- (4) Unusual traffic patterns in the lockers area. For example, more individuals may enter, enter more frequently, or carry bags or other containers that could conceal large amounts of currency, monetary instruments, or small valuable items;
- (5) A customer rents multiple lockers to park large amounts of currency, monetary instruments, or high-value assets awaiting conversion to currency, for placement into the financial system.
- (6) Loans are made for, or are paid on behalf of, a third party with no reasonable explanation;
- (7) To secure a loan, the customer purchases a certificate of deposit using an unknown source of funds, particularly when funds are provided via currency or multiple monetary instruments;
- (8) A customer purchases a number of open-end stored value cards for large amounts. Purchases of stored value cards are not commensurate with normal business activities;
- (9) Suspicious movements of funds occur from one financial institution to another, and then funds are moved back to the first financial institution;
- (10) Purchase of real estate on price higher than the determinable value;
- (11) A series of purchases of real estate within relatively short span of time.

#### **12. Potential Indicators of Money Laundering/Terrorist Financing**

The following examples of potentially suspicious activity that may involve money laundering or terrorist financing threat, are primarily based on guidance note provided by the Financial Action Task Force (FATF) in the name of

"Guidance for Financial Institutions in Detecting Terrorist Financing": FATF is an intergovernmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing.

**a) Activity Inconsistent with the Customer's Business**

- i) Funds are generated by a business owned by persons of the same origin or by a business that involves persons of the same origin from high-risk countries (e.g., countries designated by national authorities and FATF as High-Risk countries and territories);
- ii) The stated occupation of the customer is not commensurate with the type or level of activity;
- iii) Persons involved in currency transactions share an address or phone number, particularly when the address is also a business location or does not seem to correspond to the stated occupation (e.g., student, unemployed, or self-employed);
- iv) Regarding nonprofit or charitable organizations, financial transactions occur for which there appears to be no logical economic purpose or in which there appears to be no link between the stated activity of the organization and the other parties in the transaction;
- v) A locker opened on behalf of a commercial entity when the business activity of the customer is unknown or such activity does not appear to justify the use of a safe deposit box;

**b) Funds Transfers**

- i) A large number of incoming or outgoing funds transfers take place through a business account, and there appears to be no logical business or other economic purpose for the transfers, particularly when this activity involves high-risk locations;
- ii) Funds transfers are ordered in small amounts in an apparent effort to avoid triggering reporting requirements;
- iii) Funds transfers do not include information on the originator, or the person on whose behalf the transaction is conducted, when the inclusion of such information would be expected;

- iv) Multiple personal and business accounts or the accounts of nonprofit organizations or charities are used to collect and funnel funds to a small number of foreign beneficiaries;
- v) Foreign exchange transactions are performed on behalf of a customer by a third party, followed by funds transfers to locations having no apparent business connection with the customer or to high-risk countries.

**c) Other Transactions That Appear Unusual or Suspicious**

- i) Transactions involving foreign currency exchanges are followed within a short time by funds transfers to high-risk locations;
- ii) Multiple accounts are used to collect and funnel funds to a small number of foreign beneficiaries, both persons and businesses, particularly in high-risk locations;
- iii) A customer obtains a credit instrument or engages in commercial financial transactions involving the movement of funds to or from high-risk locations when there appear to be no logical business reasons for dealing with those locations;
- iv) Financial institutions from high-risk locations open accounts;
- v) Funds are sent or received via international transfers from or to high-risk locations;
- vi) Insurance policy loans or policy surrender values that are subject to a substantial surrender charge.



**Characteristics of Financial Transactions That May  
Be a Cause for Increased Scrutiny**

**A. Accounts:**

- (1) Accounts that receive relevant periodical deposits and are dormant at other periods. These accounts are then used in creating a legitimate appearing financial background through which additional fraudulent activities may be carried out.
- (2) A dormant account containing a minimal sum suddenly receives deposit or series of deposits followed by daily cash withdrawals that continue until the sum so received has been removed.
- (3) When opening an account, the customer refuses to provide information required by the financial institution, attempts to reduce the level of information provided to the minimum or provides information that is misleading or difficult to verify.
- (4) An account for which several persons have signature authority, yet these persons appear to have no relation among each other (either family ties or business relationship).
- (5) An account opened by a legal entity or an organization that has the same address as other legal entities or organizations but for which the same person or persons have signature authority, when there is no apparent economic or legal reason for such an arrangement (for example, individuals serving as company directors for multiple companies headquartered at the same location, etc.).
- (6) An account opened in the name of a recently formed legal entity and in which a higher than expected level of deposits are made in comparison with the income of the promoter of the entity.
- (7) The opening by the same person of multiple accounts into which numerous small deposits are made that in aggregate are not commensurate with the expected income of the customer.
- (8) An account opened in the name of a legal entity that is involved in the activities of an association or foundation whose aims are related to the claims or demands of a terrorist organization.
- (9) An account opened in the name of a legal entity, a foundation or an association, which may be linked to a terrorist organization and that shows movements of funds above the expected level of income.

**B. Deposits and Withdrawals:**

- (1) Deposits for a business entity in combinations of monetary instruments that are a typical of the activity normally associated with such a business.
- (2) Large cash withdrawals made from a business account not normally associated with cash transactions.
- (3) Large cash deposits made to the account of an individual or legal entity when the apparent business activity of the individual or entity would normally be conducted in cheques or other payment instruments.
- (4) Mixing of cash deposits and monetary instruments in an account in which such transactions do not appear to have any relation to the normal use of the account.
- (5) Multiple transactions carried out on the same day at the same branch of a financial institution but with an apparent attempt to use different tellers.
- (6) The structuring of deposits through multiple branches of the same financial institution or by groups of individuals who enter a single branch at the same time.
- (7) The deposit or withdrawal of cash in amounts which fall consistently just below identification or reporting thresholds.
- (8) The presentation of uncounted funds for a transaction. Upon counting, the transaction is reduced to an amount just below that which would trigger reporting or identification requirements.
- (9) The deposit or withdrawal of multiple monetary instruments at amounts which fall consistently just below identification or reporting thresholds, if any, particularly if the instruments are sequentially numbered.

**C. Wire Transfers:**

- (1) Wire transfers ordered in small amounts in an apparent effort to avoid triggering identification or reporting requirements.
- (2) Wire transfers to or for an individual where information on the originator, or the person on whose behalf the transaction is conducted, is not provided with the wire transfer, when the inclusion of such information would be expected.

- (3) Use of multiple personal and business accounts or the accounts of non-profit organizations or charities to collect and then funnel funds immediately or after a short time to a small number of foreign beneficiaries.
- (4) Foreign exchange transactions that are performed on behalf of a customer by a third party followed by wire transfers of the funds to locations having no apparent business connection with the customer or to countries of specific concern.

**D. Characteristics of the Customer or His/Her Business Activity:**

- (1) Funds generated by a business owned by individuals of the same origin or involvement of multiple individuals of the same origin from countries of specific concern acting on behalf of similar business types.
- (2) Shared address for individuals involved in cash transactions, particularly when the address is also a business location and/or does not seem to correspond to the stated occupation (for example student, unemployed, self-employed, etc.).
- (3) Stated occupation of the transactor is not commensurate with the level or type of activity (for example, a student or an unemployed individual who receives or sends large numbers of wire transfers, or who makes daily maximum cash withdrawals at multiple locations over a wide geographic area).
- (4) Regarding non-profit or charitable organizations, financial transactions for which there appears to be no logical economic purpose or in which there appears to be no link between the stated activity of the organization and the other parties in the transaction.
- (5) A safe deposit box is opened on behalf of a commercial entity when the business activity of the customer is unknown or such activity does not appear to justify the use of a safe deposit box.
- (6) Unexplained inconsistencies arising from the process of identifying or verifying the customer (for example, regarding previous or current country of residence, country of issue of the passport, countries visited according to the passport, and documents furnished to confirm name, address and date of birth).

**E. Transactions Linked to Locations of Concern:**

- (1) Transactions involving foreign currency exchanges that are followed within a short time by wire transfers to locations of specific concern (for example, countries designated by national authorities, FATF High Risk countries and territories, etc.).

- (2) Deposits are followed within a short time by wire transfers of funds, particularly to or through a location of specific concern (for example, countries designated by national authorities, FATF High Risk and territories, etc.).
- (3) A business account through which a large number of incoming or outgoing wire transfers take place and for which there appears to be no logical business or other economic purpose, particularly when this activity is to, through or from locations of specific concern.
- (4) The use of multiple accounts to collect and then funnel funds to a small number of foreign beneficiaries, both individuals and businesses, particularly when these are in locations of specific concern.
- (5) A customer obtains a credit instrument or engages in commercial financial transactions involving movement of funds to or from locations of specific concern when there appears to be no logical business reasons for dealing with those locations.
- (6) The opening of accounts of financial institutions from locations of specific concern.
- (7) Sending or receiving funds by international transfers from and/or to locations of specific concern.

**MONEY LAUNDERING AND TERRORIST FINANCING RED FLAG/  
INDICATORS IN THE SECURITIES SECTOR<sup>1</sup>****Insider Trading**

- a) The customer makes a large purchase or sale of a security, or option on a security, shortly before news is issued that affects the price of the security.
- b) The customer is known to have friends or family who work for the securities issuer
- c) A customer's trading patterns suggest that he or she may have inside information.
- d) The customer's purchase does not correspond to his or her investment profile. For example, the customer may never have invested in equity securities, but does so at an opportune time.
- e) A customer trades in selective scrip just after opening the account and makes sizable profit in each trade.
- f) A customer trading in small amount of shares suddenly takes a sizable position in a specific scrip and makes a considerable profit on it.
- g) A Customer earns a sizable profit by generating a considerable portion of market volume in illiquid scrip.

**Market Manipulation**

- a) A customer engages in prearranged or other non-competitive securities trading, including wash or cross trades of illiquid or low priced securities.
- b) The customer deposits physical securities together with a request to journal the shares into multiple accounts that do not appear to be related, or to sell or otherwise transfer ownership of the shares.
- c) A customer's transactions include a pattern of receiving physical securities or receiving incoming shares transfers that are sold with the proceeds wire transferred out of the account.
- d) Securities or funds transfers between parties without an apparent relationship.
- e) Securities transactions occur across many jurisdictions, and in particular high risk jurisdictions.

- f) Two or more unrelated accounts at the brokerage house trade an illiquid or low priced security suddenly and simultaneously.
- g) Transactions between the same or related parties structured solely so that one side incurs a loss while the other incurs a gain.
- h) The customer deposits a large number of physical securities at the brokerage house.
- i) The physical securities are titled differently to the name on the account.
- j) The company at issue has no apparent business, revenues or products.
- k) The company at issue has experienced frequent or continuous changes in its business structure and/or undergoes frequent material changes in business strategy or its line of business.
- l) The officers or insiders of the company at issue are associated with other low priced, illiquid or low volume companies.
- m) The low priced, illiquid or low volume company at issue has failed to make required regulatory disclosures/ history of regulatory violations.

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<sup>1</sup>(Source: FATF ML/FT Report, October 2009)

Securities Offering Fraud

- a) The customer opens numerous accounts for different legal entities that the customer controls.
- b) The customer receives many incoming cheques or wire transfers from unrelated third parties.
- c) The customer allocates incoming third-party deposits among numerous accounts.
- d) The customer's profile does not suggest a legitimate business reason for receiving many third party deposits.
- e) The cheques or wire transfers note that the funds are for an investment.

Customer Due Diligence

- a) The customer provides the brokerage house with unusual or suspicious identification documents that cannot be readily verified or are inconsistent with other statements or documents that the customer has provided. This indicator may apply to account openings and to interaction subsequent to account opening, such as wire transfers.
- b) The customer, whether a person or entity, is reluctant to provide the brokerage house with complete information about the nature and purpose of the customer's business, prior financial relationships, anticipated account activity, the entity's officers and directors or business location.
- c) The customer, whether a person or entity, is located in a jurisdiction that is known as a bank secrecy haven, a tax shelter, or high-risk geographic locations (e.g. narcotics producing jurisdiction).
- d) The customer refuses to identify a legitimate source for funds or provides the brokerage house with information that is false, misleading, or substantially incorrect.
- e) The customer engages in frequent transactions with money services businesses.
- f) The customer does not provide his mailing address or gives broker's address as his mailing address or requests that all correspondence will be collected from the brokerage house.
- g) Accounts where authorization to operate the account and issue payment instructions are given to a third party and who has never/rarely visited or contacted the brokerage house.

- h) The customer is reluctant to meet personnel from the brokerage house in person, is very secretive and/or evasive or becomes defensive when asked to provide more information.
- i) During the account opening process, the customer refuses to provide information to complete CDD/KYC (e.g. identification documents, beneficial ownership, etc.)
- j) The customer exhibits unusual concern with the Brokerage House's compliance with regulatory reporting requirements and/or the firm's AML/CFT policies.
- k) The customer withdraws funds/profits from his account only in cash.
- l) A customer is a trust, Shell Company, or Private Investment Company that is reluctant to provide information on controlling parties and underlying beneficiaries. Beneficial owners may hire nominee incorporation services to establish shell companies and open bank accounts for those shell companies while shielding the owner's identity.
- m) A customer or group tries to persuade an employee not to file required reports or maintain required records.
- n) A business or customer asks to be exempted from reporting or recordkeeping requirements.
- o) The customer has commercial or other types of relationships with risky persons or institutions.
- p) The customer refuses to provide information regarding the beneficial owners of an account opened for an entity, or provides information that is false, misleading or substantially incorrect.
- q) The customer's address is associated with multiple other accounts that do not appear to be related.
- r) The customer has a history of changing financial advisors and/or using multiple firms or banks. This indicator is heightened when the customer uses firms located in numerous jurisdictions.
- s) The customer is, or is associated with, a PEP or senior political figure.
- t) The customer refuses to invest in more appropriate securities when those securities would require a more enhanced CDD/KYC procedure.
- u) The customer with a significant history with the brokerage house abruptly liquidates all of his or her assets in order to remove wealth from the jurisdiction.



- v) The customer appears to be acting as a fiduciary for someone else but is reluctant to provide more information regarding for whom he or she may be acting.
- w) The customer is publicly known to have criminal, civil or regulatory proceedings against him or her for crime, corruption or misuse of public funds or is known to associate with such persons. Sources for this information include news items or Internet searches.
- x) The customer inquires as to how quickly he or she can liquidate accounts or earnings without explaining why or provides suspicious reasons for doing so.
- y) The customer opens an account or purchases a product without any regard to loss, commissions or other costs associated with that account or product.
- z) The customer acts through intermediaries, such as money managers or advisers, in order not to have his or her identity registered.
- aa) The customer is interested in paying higher charges to the brokerage house in order to keep some of his or her information secret.
- bb) The customer funds deposits, withdraws or purchases financial or monetary instruments below a threshold amount in order to avoid any reporting or recordkeeping requirements imposed by the jurisdiction.

Fund Transfers and/or Deposits

- a) Wire transfers are sent to, or originate from, financial secrecy havens, tax shelters or high-risk geographic locations (e.g. jurisdictions known to produce narcotics/psychotropic drugs or to be related to terrorism) without an apparent business reason or connection to a securities transaction.
- b) Many small, incoming wire transfers or deposits are made, either by the customer or third parties, using cheques, money orders or cash that are almost immediately withdrawn or wired out in a manner inconsistent with customer's business or history.
- c) Incoming payments made by third-party cheques or cheques with multiple endorsements.
- d) Deposit of large amount of small-denomination currency to fund account or exchanges of small notes for bigger notes.
- e) Multiple personal and business accounts or the accounts of nonprofit organizations or charities are used to collect and funnel funds to a small number of foreign beneficiaries.

- f) Foreign exchange transactions are performed on behalf of a customer by a third party, followed by funds transfers to locations having no apparent business connection with the customer or to higher-risk countries.
- g) Wire transfers or payments to or from unrelated third parties (foreign or domestic) or where the name or account number of the beneficiary or remitter has not been supplied
- h) Wire transfer activity that is unexplained, repetitive, unusually large or shows unusual patterns or with no apparent business purpose.
- i) The securities account is used for payments or outgoing wire transfers with little or no securities activities (e.g. account appears to be used as a depository account or a conduit for transfers).
- j) The controlling owner or officer of a public company transfers funds into his personal account or into the account of a private company that he or she owns or that is listed as an authorized signatory.
- k) Transfer of funds to financial or banking institutions other than those from where the funds were initially directed, specifically when different countries are involved.
- l) Transfers/journals between different accounts owned by the customer with no apparent business purpose.
- m) Customer requests that certain payments be routed through nostro or correspondent accounts held by the financial intermediary or sundry accounts instead of its own account.

#### Lending Activity

- a) Loans secured by pledged assets held by third parties unrelated to the borrower.
- b) Loan secured by deposits or other readily marketable assets, such as securities, particularly when owned by apparently unrelated third parties.
- c) Borrower defaults on a cash-secured loan or any loan that is secured by assets which are readily convertible into currency.
- d) Loans are made for, or are paid on behalf of, a third party with no reasonable explanation.

**Bearer Securities**

- a) The customer deposits a large number of bearer securities at the brokerage house and quickly redeems the securities.
- b) The customer requests cashing bearer securities without first depositing them into an account or frequently deposits bearer securities into an account.
- c) The customer's explanation regarding the method of acquiring the bearer securities does not make sense or changes.

**Unusual Securities Transactions and Account Activity**

- a) Transaction where one party purchases securities at a high price and then sells them at a considerable loss to another party. This may be indicative of transferring value from one party to another.
- b) The purchase and sale of non-listed securities with a large price differential within a short period of time.  
This may be indicative of transferring value from one party to another.
- c) A customer's transactions have no apparent economic purpose.
- d) Use of shell companies to purchase public company shares, in particular if the public company is involved in a cash intensive business.
- e) A dormant account that suddenly becomes active without a plausible explanation (e.g. large cash deposits that are suddenly wired out).
- f) Transactions that show the customer is acting on behalf of third parties.
- g) The purchase of long term investments followed by a liquidation of the accounts shortly thereafter, regardless of fees or penalties.
- h) Large sum cash purchases of financial instruments and mutual funds holdings followed by instant redemption.

**Activity that is Inconsistent with the Customer's Business Objective or Profile**

- a) The customer's account is not used for its intended purpose (i.e. used as a depository account).
- b) The customer engaged in extremely complex transactions where his or her profile would indicate otherwise.

- c) The time zone in customer's location is not consistent with the times that the trades were executed, with no apparent business or other purpose, or there is a sudden change inconsistent with the customer's typical business activity.
- d) The customer exhibits a lack of concern about higher than normal transaction costs.
- e) There are unusual transfers of funds or journaling (i.e. book entries) among accounts without any apparent business purpose or among apparently unrelated accounts.
- f) The customer enters into a financial commitment that appears beyond his or her means.
- g) Customer's credit usage is in extreme amounts that do not correspond to his or her financial status or collateral, which is provided by an unrelated third-party.

#### Rogue Employees

- a) The employee appears to be enjoying a lavish lifestyle that inconsistent with his or her salary or position.
- b) The employee is reluctant to take vacation.
- c) The employee inputs a high level of activity into one customer account even though the customer's account is relatively unimportant to the organization.
- d) The employee's supporting documentation for customers' accounts or orders is incomplete or missing.
- e) The employee has the authority to arrange and process customer affairs without supervision or involvement of colleagues.
- f) The management/reporting structure of the financial institution allow an employee to have a large amount of autonomy without direct control over his activities.
- g) The employee is located in a different country to his direct line of management, and supervision is only carried out remotely.
- h) A management culture within the financial institution focuses on financial reward over compliance with regulatory requirements.
- i) Business is experiencing a period of high staff turnover or is going through significant structural changes.

**MONEY LAUNDERING AND TERRORIST FINANCING RED FLAG/  
INDICATORS FOR EXCHANGE COMPANIES**

Indicators of Foreign Exchange Remittances/FDDs/FTTs

- a) Remittances / wire transfers / Electronic Funds transfer (EFT) made against unusually large amount of cash in circumstances where payment could have been made by FDDs, cheque etc;
- b) Money transfers to high-risk jurisdictions without reasonable explanation, which are not consistent with the customer's usual foreign business dealings;
- c) High volume of transactions over a short period of time;
- d) The lack of apparent relationship between the sender and beneficiary, and/or personal remittances sent to jurisdictions that have no apparent family or business link to conductor, and/or the conductor has no relation to country where he/she sends/receives the money and cannot sufficiently explain why money is sent there/received from there;
- e) The customer only seems to know which amount is being transferred after the Exchange Company employee has counted the cash and/or the customer shows no interest in the transfer costs;
- f) Large amounts are transferred to companies abroad with a service provider address;
- g) Multiple senders transferring funds to a single individual; and
- h) Money is received by the same individual from different money remittance companies or Exchange Company agent locations.

Indicators for Exchange Companies regarding Exchange of Foreign Currency

- a) Exchange of large quantities of low denomination notes for higher denomination currency ones;
- b) Large or frequent currency exchanges that are not related to the customer's business;
- c) Fragmentation of large amounts and high frequency of currency exchange transactions over a short period of time;
- d) The same person uses multiple Exchange Companies;
- e) Repeated requests for foreign exchange purchasing/selling in amounts slightly less than the transaction limit for identification;

- f) The customer buys currency that does not fit with what is known about the customer's destination or the customer buys currency from an unusual location in comparison to his/her own location; and
- g) The customer apparently does not know the exact amount being exchanged, the customer does not watch the counting of money, and/or the customer is happy with a poor rate.

Indicators for Exchange Companies regarding Cash Transactions

- a) Unusually large cash payments in circumstances where payment would normally be made by cheque, banker's draft, etc;
- b) Cash is in "used notes" and/or small denominations ("used notes" may imply that notes are worn, dirty, stained, give off unusual smell e.g. drugs, etc.);
- c) Customer refuses to disclose the source of cash;
- d) Customer has made an unusual request for collection or delivery;
- e) Significant discrepancy between customer's declaration of cash total and counted total;
- f) Presence of counterfeit banknotes in the bankroll; and
- g) Cash transactions followed closely by transfer of funds on the same or next day.
- h) The Suspicious Transaction Report (STR) shall be filed with Financial Monitoring (FMU) within seven days of forming suspicion when:

- Customer conducts cash transactions just below relevant Currency Transaction Report (CTR) threshold requirement to avoiding reporting of CTR
- Two or more customers working together to break one cash transaction into two or more transactions in order to evade the CTR reporting requirement.
- Customer uses two or more locations or cashiers in the same day in order to break one cash transaction into smaller transactions and evade the CTR reporting requirement.

**MONEY LAUNDERING AND TERRORIST FINANCING RED FLAG/  
INDICATORS IN PRIVATE PENSION SCHEMES/ VOLUNTARY PENSION  
FUNDS<sup>1</sup>**

- a) Large cash sums deposited in Pension schemes by members of the scheme, particularly when followed by substantial withdrawals of funds.
- b) Deposit of securities or other assets whose possession is not justified by the contractor's or
- c) Policyholder's income-earning capacity and/or type of business payment into a capitalization scheme.
- d) Transfer of assets from an unrelated third party into a capitalization scheme.
- e) Insistence on depositing securities or other assets into a capitalization scheme that would not normally be allowed by the scheme rules.
- f) Unrelated third party paying contributions cash on behalf of a member of a pension scheme.
- g) Unemployed person paying contributions into an employee pension scheme.

<sup>1</sup>(Source: Report of Committee of Experts from Council of Europe, 30 September 2010)

**MONEY LAUNDERING AND TERRORIST FINANCING RED FLAG/  
INDICATORS IN THE INSURANCE SECTOR<sup>1</sup>**

- a) A customer borrows against the cash surrender value of permanent life insurance policies, particularly when payments are made to apparently unrelated third parties.
- b) The customer opens and closes accounts with an insurance company only to open a new account shortly thereafter with the same insurance company, but with new ownership information;
- c) A customer purchases insurance products using a single, large premium payment, particularly when payment is made through unusual methods such as currency or currency equivalents.
- d) Policies are purchased that allow for the transfer of beneficial ownership interests without the knowledge and consent of the insurance issuer. This would include secondhand endowment and bearer insurance policies.
- e) A customer uses multiple currency equivalents (e.g., cashier's checks and money orders) from different banks and money services businesses to make insurance policy or annuity payments.
- f) The customer purchases an insurance product with termination features by unknown or unverifiable sources of funds, such as cash, sequentially numbered money orders, traveler's cheques, and/or cashier's cheques;
- g) The customer purchases an insurance contract using a single large premium payment, particularly with an unusual payment method, such as cash or cash equivalent;
- h) The customer cancels an insurance contract and directs that the funds be sent to a third party;
- i) The customer purchases a single premium policy using cash, money orders, traveler's cheques, or cashier's cheques for an amount that is clearly out of proportion to the customer's income;
- j) The customer enters into a contract for a considerable sum subject to payment of the premiums from abroad, particularly from an offshore financial centre;
- k) The customer substitutes, during the life of the contract, the initial beneficiary for a person without any apparent link to the policyholder;



- l) The customer cancels the contract without concern for the considerable tax or other cancellation charges that he or she has to pay as a result; and
- m) The customer secures a policy loan against the cash value soon after the policy is issued and repays the loan with cash or various monetary instruments.

<sup>1</sup>(Source: FATF Report, 29 June 2007, FATF ML/TF Report, October 2009)

Natural persons

- a) Transactions involving persons residing in tax havens or risk territories<sup>2</sup>, when the characteristics of the transactions match any of those included in the list of indicators.
- b) Transactions carried out on behalf of minors, incapacitated persons or other persons who, although not included in these categories, appear to lack the economic capacity to make such purchases.
- c) Transactions involving persons who are being tried or have been sentenced for crimes or who are publicly known to be linked to criminal activities involving illegal enrichment, or there are suspicions of involvement in such activities and that these activities may be considered to underlie money laundering.
- d) Transactions involving an individual whose address is unknown or is merely a correspondence address (for example, a PO Box, shared office or shared business address, etc.), or where the details are believed or likely to be false.
- e) Individuals who unexpectedly repay problematic loans or mortgages or who repeatedly pay off large loans or mortgages early, particularly if they do so in cash.

Legal persons

- a) Transactions involving legal persons or legal arrangements domiciled in tax havens or risk territories.
- b) Transactions involving recently created legal persons, when the amount is large compared to their assets.
- c) Transactions involving foundations, cultural or leisure associations, or non-profit-making entities in general, when the characteristics of the transaction do not match the goals of the entity.
- d) Contribution of real estate to the share capital of a company which has no registered address or permanent establishment which is open to the public in the country.
- e) Transactions in which unusual or unnecessarily complex legal structures are used without any economic logic.

Natural and legal persons

- a) Transactions in which there are signs, or it is certain, that the parties are not acting on their own behalf and are trying to hide the identity of the real customer.

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<sup>2</sup>The definition of a risk territory could be either one that is determined by the financial institution or another entity applying the indicator directly or else one that has been defined by the national authorities of the country in which the institution or entity is located

- b) Transactions which are begun in one individual's name and finally completed in others' without a logical explanation for the name change.
- c) Transactions in which the parties:
  - $\frac{3}{4}$  Do not show particular interest in the characteristics of the property (e.g. quality of construction, location, date on which it will be handed over, etc.) which is the object of the transaction.
  - $\frac{3}{4}$  Do not seem particularly interested in obtaining a better price for the transaction or in improving the payment terms.
  - $\frac{3}{4}$  Show a strong interest in completing the transaction quickly, without there being good cause.
- d) Transactions in which the parties are foreign or non-resident for tax purposes.

#### Intermediaries.

- a) Transactions performed through intermediaries, when they act on behalf of groups of potentially associated individuals/ legal persons.
- b) Transactions taking place through intermediaries who are foreign nationals or individuals who are non- resident for tax purposes.

#### Means of payment

- a) Transactions involving payments in cash or in negotiable instruments which do not state the true payer (for example, bank drafts), where the accumulated amount is considered to be significant in relation to the total amount of the transaction.
- b) Transactions in which a loan granted or an attempt was made to obtain a loan, using cash collateral or where this collateral is deposited abroad.
- c) Transactions in which payment is made in cash, bank notes, bearer cheques or other anonymous instruments, or where payment is made by endorsing a third-party's cheque.
- d) Transactions in which the buyer takes on debt which is considered significant in relation to the value of the property.

Nature of the Transaction

- a) Transactions in the form of a private contract, where there is no intention to notarize the contract, or where this intention is expressed, it does not finally take place.
- b) Transactions which are not completed in seeming disregard of a contract clause penalizing the buyer with loss of the deposit if the sale does not go ahead.
- c) Transactions relating to the same property or rights that follow in rapid succession (for example, purchase and immediate sale of property) and which entail a significant increase or decrease in the price compared with the purchase price.
- d) Transactions entered into at a value significantly different (much higher or much lower) from the real value of the property or differing markedly from market values.

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