

A world map is shown in the background, rendered in a light blue color. Overlaid on the map are several vertical bars of varying heights and shades of blue, extending from the bottom of the map towards the top. The bars are positioned across different continents, including North America, South America, Europe, Africa, Asia, and Australia.

SEACEN/World Bank Regional Advanced Workshop for Banking Supervisors on AML/CFT

Off and On-Site Inspection Techniques
France's Experience

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Laurent Etori

Off and On-Site Supervision Techniques

France's Experience

- 1 • Off-site supervision is mainly exercised through the review of an annual AML questionnaire
- 2 • Review of internal documentation and interviews with bank managers are an additional source of information
- 3 • On-site inspections remain the most effective tool to ensure compliance with AML requirements
- 4 • The articulation between on and off-site supervision is achieved through follow-up action to on-site inspections

1 • Off-site supervision is mainly exercised through the review of an AML questionnaire

1.1. The AML questionnaire, known as the QLB, was introduced by Instruction No. 2000-09 issued by the Commission Bancaire

- It is a reporting document signed by executive management
- It is filed annually by all credit institutions and investment firms
- It includes four parts:

QLB1 provides the identity of the FIU correspondents

QLB2 reports on the diligence performed with regard to entities located in jurisdictions in which local provisions prevent proper implementation of the head office AML recommendations

QLB3 describes the procedures adopted by the institution in order to implement its vigilance obligations and provides quantitative data on the last financial year.

QLB4 identifies entities located in non-cooperative jurisdictions.

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1.2. The QLB 3 includes approximately one hundred questions whose systematic review enables the General Secretariat of the Commission Bancaire to assess:

- The internal procedures adopted by the institution to implement legal and regulatory requirements
- The existence of detection tools, particularly computerized detection systems
- The consistency of internal control systems
- The audits carried out in order to ensure an effective implementation of the procedures

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1.3. The QLB 3 raises questions regarding internal procedures and requests data on the last financial year

- Questions on internal procedures :
 - Appointment of FIU reporting officers (I)
 - Systems to detect STRs and complex transactions (II)
 - Customer identification (III)
 - Identification of occasional customer (IV)
 - Other vigilance requirements (V) (Customer profile/ existence of a computerized detection system / Vigilance requirements with regard to foreign entities (i) checks (ii) and electronic money (iii))
 - Staff awareness and training (VI)
 - Ensuring proper implementation of AML/CFT systems (VII)
 - Existence of written internal rules compliant with regulation (VIII)
 - Disseminating written internal rules (IX)
- Data requested on the last financial year :
 - STRs filed with the FIU
 - Files on complex transactions without apparent economic justification
 - Training
 - Last audit on AML systems
 - Last update of AML/CFT procedures

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1.4. The QLB also provides guidance

- The QLB provides guidance on the interpretation of legal and regulatory requirements.
- Questions do not only relate to regulatory requirements, but also provide useful information on best practice.
- The questionnaire, introduced in 2000, is regularly amended to incorporate new legislation as well as international recommendations adopted between two financial years in order to prompt institutions to adapt their procedures as soon as possible.

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1.5. Responses to the AML questionnaire determines follow-up actions:

- Questions in the QLB are associated with three levels of importance to determine the materiality of shortcomings
- The level of satisfactory answers steadily increases over years
- Accuracy of the responses to the QLB often increases after an on-site examination
- “Non applicable” answers should be documented
- Depending of the seriousness of shortcomings, or the inconsistencies of the responses (especially within a financial group), explanations will be requested
- Answers should be provided in a letter or during a meeting

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2 • Review of internal documentation and interviews with bank managers are additional sources of information

2.1. Review of financial institutions' internal documentation

- Systematic collection and Analysis of AML policies and procedures can reveal counter-productive :
 - It is not the role of the CB to approve policies and procedures
 - Requested documentation requires to be analyzed
- Internal Control documentation is useful to identify shortcomings :
 - Internal control reports are systematically analyzed
 - Guidance is provided on the way financial institutions should draft internal control reports
 - Where appropriate, Internal Control procedures are reviewed
- Compliance Reports can be an additional source of information

2 • Review of internal documentation and interviews with bank managers are additional sources of information

2.2. Interviews with bank managers :

- Regular meetings are organized on compliance and AML frameworks
 - Concrete questions on processes improve knowledge on shortcomings and actual practices
 - Follow-up on issues previously identified or implementation of internal or external audit recommendation
- Information may be requested on individual cases
 - When revealed by the Press
 - Or other authorities
- On-site Information missions can be organized by off-site supervision services to follow up on recommendations issued in inspection reports
 - Discussions with staff in charge of operations
 - As well as with internal audit

3 • On-site inspections remain the most effective tool to ensure compliance with AML requirements

3.1. The Banking Commission may conduct several types of on-site inspections :

- General inspections aimed at checking institutions' compliance with all legislative and regulatory provisions applicable to them, including anti-laundering requirements.
- Specific inspections restrict their scope to a specific focus : credit risks, internal control, fight against money-laundering, etc.
- Thematic inspections are meant to review a specific subject in a transverse manner in various institutions. For example, after the terrorist attacks of 11 September 2001, the Banking Commission launched inspections in 66 institutions on controls with regard to the fight against financing of terrorism.
- The General Secretariat of the Commission Bancaire also conducts on-site inspections of bureaux de change

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3.2. Inspectors provide an independent assessment in which they verify that:

1. Institutions have an internal organization in place with internal procedures that enable them to maintain constant vigilance in the fight against money laundering. In this regard, the undertakings' internal control systems are a key element in preventing money laundering
2. The undertakings' accounting systems are reliable and make it possible to trace transactions
3. The financial undertakings' customer identification procedures enable them to know their customers
4. Large and complex transactions are actually investigated to establish the relevant facts about the origin and destination of the funds, the economic justification for the transactions and the identity of the real beneficiaries
5. Maintenance of records is satisfactory
6. Suspicious Activity Reports are actually filed with *Tracfin* whenever transactions require such reports
7. Employees are trained to comply with anti-money laundering rules and procedures

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3.3. On-site inspections focuses primarily on :

- Identifying the activities and transactions that are most at risk with respect to money laundering, with reference to the typologies drawn up by *Tracfin*, judicial authorities and the FATF
- Investigating these transactions according to the amounts involved and the identities of the originators and beneficiaries.
- The vast numbers of transactions handled by an institution each day mean that investigations take a very long time and cannot cover every single transaction.
- A few figures help to give an idea of the scale of the problem: In 2001, there were some 67 million bank current accounts held in France and customer deposits in the French banking system totaled 1,043 billion euros in 2001. The interbank systems handle 10.5 billion transactions each year. In December 2001 alone, the SIT interbank teleclearing system on its own handled 683.8 million transactions worth a combined 248 billion euros.
- Therefore, the inspections concentrate on the presence and quality of the procedures in place in order to be effective.

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3.4. File sampling provides key information on the level of compliance on customer identification and KYC requirements

- File sampling provides data on the completeness of customer files
- As well as more qualitative information: For example, it allows verification of proper implementation of exemptions to identify beneficial owners :
 - Financial institution (FI) of the EU or an equivalent country
 - When the contracting party is a subsidiary of a FI located in one of these countries, if the mother company ensures that its subsidiary identifies the beneficial owner and has access to these documents
 - When the French FI ensures that the foreign FI applies equivalent procedures and has access to the identification documents
- In the same manner, inspectors verify that institutions retain identification documents (5 years from the end of relationship) as well as documents supporting transactions (5 years from completion) and the form in which the information is kept (paper or electronic files)

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3.4. Transaction testing is the only way to determine whether reporting obligations are properly implemented :

- Potential omissions of suspicious transactions reports (STRs)
- Assessment of the quality and timing of STRs
- Information compiled on complex transactions :
 - Any transactions, whether carried out or not, that do not fall within the scope of a STR
 - In excess of €150,000
 - For unusually complex transaction
 - That do not seem to have any economic rationale or lawful purpose
- Identification of transactions involving trusts or fiducies

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3.5. Inspectors verify the adequacy of internal control systems :

- Systems should be compliant with applicable provisions :
 - Aggregation of transactions conducted by occasional customers
 - Screening of terrorist homonyms
 - Adequacy of checks control program
 - Adequacy of electronic money control program
- Areas of verification
 - Independence between operations and controls
 - Independence between on-going controls and audit
 - Frequency of internal audits
 - Consistency of controls at group level

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3.6. Verification of the adequacy of checks control program

Regulation No 2002-01 applies to the control of checks vigilance obligations based on the knowledge of the customer and assessment of the risk level. The objective consists in identifying transaction's irregular or unusual features for checks payable in France and Monaco.

Inspection will verify:

1) The adequacy of resources :

- Preparation of an annual program for the verification of checks
- Selection of criteria by the institution
- Implementation of minimum controls defined by Articles 7, 9 and 11 of the Regulation

2) For Checks received from foreign countries :

- Preparation of an annual program for the verification of checks
- Verification obligations depending on the geographic origin of the check:
 - FATF black list: verification of the entire sample
 - Neither black list not FATF member: verification of 25% of the sample
 - Member of FATF: sample

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3.6. Verification of the adequacy of checks control program (II)

3) For Checks received for collection or discounting (not including checks received from a foreign country) :

- KYC verifications (account's operations and operating profile)
- Verification of checks selected according to the laundering typologies

4) For Checks received by the drawn institution :

- KYC verifications and,
- In the event of suspicion or unusual transactions without any apparent justification
 - verification of checks selected according to the laundering typologies
 - systematic verification of checks that are not barred
 - verification of the checks transmitted by another FI (in case of manifest anomaly or checks exchanged in non-FATF countries)

4 • The articulation between on and off-site supervision is achieved through follow-up action to on-site inspections

4.1. Follow-up action to on-site inspections

- A contradictory process follows the issuance of the draft report
 - Informal discussions are engaged between the inspector and the financial institution on a draft report in order to rectify possible inaccuracies or misunderstandings.
 - Then the report is officially transmitted to the executive management and the institution is invited to provide comments on the main findings of the report.
 - The Inspector responds to the institutions' comments by assessing the relevance of each comment provided by the institution
- Services in charge of off-site supervision instructs the report to determine appropriate action
 - When findings show serious shortcomings, the file is presented to the board of the Commission Bancaire for disciplinary action.
 - If a disciplinary proceeding is engaged by the board of the Commission bancaire, the institution is invited to provide comments on the grieves (facts and qualifications)
 - When the findings are not deemed too serious, a follow-up letter is issued by the General Secretaire of the Commission bancaire.

4 • The articulation between on and off-site supervision is achieved through follow-up action to on-site inspections

4.2. Follow-up letters to on-site inspections

- A follow-up letter is send to the executive management and external auditors of the institution
 - The follow-up letter requires action to be engaged within a time-frame
 - The executive management is requested to inform the board of directors and provide their feed-back and commitment to engage appropriate remedial actions.
- Requested actions may consist of:
 - A program to complete identification of existing customers
 - A program to determine customer profiles and assess transactions in relation with risk exposure
 - An assessment of the main areas of risk
 - Completion of AML policies and procedures
 - Further instructions of transactions identified by the inspector as potential omissions of STR
 - Appointment of FIU correspondents
 - Additional training programs

Secrétariat général de la Commission bancaire

