# RISK BASED SUPERVISORY FRAMEWORK (ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM SUPERVISION)

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## List of Abbreviations

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| **AML/CFT** | Anti-Money Laundering/Countering the Financing of Terrorism |
| **DNFBP** | Designated Non- Financial Businesses and Professions |
| **FATF** | Financial Action Task Force |
| **FI** | Financial Institution |
| **FSRB** | FATF Style Regional Bodies |
| **ML** | Money Laundering |
| **NRA** | National Risk Assessment |
| **PF** | Proliferation Financing |
| **TF** | Terrorist Financing |
| **VASP** | Virtual Assets Service Provider |

# Foreword

The purpose of implementing anti-money laundering and counter-terrorist financing (AML/CFT) measures is to prevent criminal and terrorist actors from abusing the financial system. Through effective implementation of these measures, countries can help trace and stop the financial flows linked to serious crime and terrorism[1].

As a financial centre, Anguilla has established its regulatory framework based on relevant international standards of supervision and co-operation with both local and overseas regulatory authorities. In developing sound laws and regulations and implementing and enforcing them, Anguilla has focused on building an effective AML/CFT regime. Apart from having a comprehensive and flexible AML/CFT legislative environment, having a robust yet flexible AML/CFT supervisory framework is the underpinning of an efficient AML/CFT regime whereby financial systems and the broader economy are protected from the threats of money laundering and the financing of terrorism and proliferation, thereby strengthening financial sector integrity and contributing to safety and security.

As outlined in Anguilla's National Anti-Money Laundering and countering the financing of terrorism policy and strategic plan, which was developed in line with the key gaps and deficiencies that were identified as a result of the NRA process, five (5) objectives were identified to mitigate the ML, TF and PF risk for Anguilla. Strengthening the supervisory framework surrounding FIs, DNFBPs and VASPs was highlighted as objective 5 of Anguilla's National AML/CFT policy and strategic plan.

The Anguilla Financial Services Commission (the "AFSC") is designated as the AML/CFT Supervisor of regulated service providers and externally regulated service providers pursuant to section 154(1) of the Proceeds of Crime Act (the "POCA") and of non-regulated service providers pursuant to section 27 of the Anti-Money Laundering and Terrorist Financing Regulations (the "AML/CFT Regulations").

As Anguilla's sole AML/CFT Supervisor, the AFSC plays a critical role in the overall AML/CFT regime in Anguilla. In this vein, effective 12 June 2023 the Commission's Board of Directors approved the AML/CFT risk based supervisory framework in keeping with the FATF Recommendations 1, 26 to 28 and Immediate Outcomes 1, 3 and 4 of the FATF Methodology.

[1] An effective system to combat money laundering and terrorist financing, FATF, https://www.fatf-gafi.org/en/publications/Fatfgeneral/Effectiveness.html

# Introduction

## Functions of the Anguilla Financial Services AFSC

The AFSC was established by the enactment of the Financial Services Commission Act, R.S.A. c. F28 ("FSC Act") on 26 November 2003 and it commenced operations on 2 February 2004. The creation of the AFSC allows Anguilla to meet international standards in the structure and administration of its financial services regulatory body.

Pursuant to section 3 of the Financial Services Commission Act, R.S.A c. F28, the AFSC's functions are to:

1. supervise financial services licensees in accordance with legislation, regulations and codes;
2. consider and determine applications for licenses and registrations;
3. monitor compliance by regulated persons with the Anti-Money Laundering Regulations, Guidelines or Codes;
4. monitor financial services business carried on in or from within Anguilla and to take action against persons carrying on unlicensed activities;
5. administer the financial services enactments;
6. supervise the administration of the Registry Acts by the Registrar of Companies;
7. monitor the effectiveness of the financial services enactments to ensure they meet internationally accepted standards;
8. advise the Governor and Government of Anguilla on matters relating to financial services;
9. encourage the development of high professional standards within the financial services industry, and to promote industry codes of conduct;
10. maintain contact with foreign regulatory authorities and international associations of regulatory authorities relevant to the AFSC's functions and to provide regulatory assistance to foreign regulatory authorities in accordance with the Act;
11. provide information and advice to licensees and the public concerning financial services as appropriate;
12. take measures to develop and protect the financial services industry in Anguilla.

## The AFSC's AML/CFT Supervisory Remit

**Service Providers**

Anguilla's financial services industry comprises of three (3) broad categories of service providers: FIs, DNFBPs and VASPs – the relevant service providers are outlined in Schedules 1, 2 and 3 of the AML/CFT Regulations. Relevant service providers are required to comply with the AML/CFT provisions outlined in the AML/CFT Regulations, the Anti-Money Laundering and Terrorist Financing Code ("AML/CFT Code") and the POCA.

**Non-Profit Organisations**

The AFSC is the sole supervisor of Non-Profit Organisations ("NPOs"), referred to as the NPO Supervisor, concerning Terrorist Financing, pursuant to section 2 of the Non-Profit Organisations Regulations ("NPO Regulations").

Below gives an overview of the sectors that are supervised by the AFSC and the remit of the AFSC's supervisory powers.

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| **Regulated Service Providers**<br>(Schedule 1 of the AML/CFT Regulations) – **Supervised for Prudential and AML/CFT** |
| **Non-Regulated Service Providers**<br>(Schedule 2 of the AML/CFT Regulations) – **Supervised for AML/CFT Purposes** |
| **Externally Regulated Service Providers**<br>(Schedule 3 of the AML/CFT Regulations) – **Supervised for AML/CFT Purposes** |
| **Non-Profit Organisations – Supervised for TF purposes** |

## Purpose of the AML/CFT Risk Based Supervisory Framework

The purpose of this AML/CFT supervisory framework is to outline the risk-based structured methodology designed to facilitate proactive and dynamic assessment of supervised institutions. It is outcome-focused with sufficient flexibility to enable supervisors to identify and respond to new and emerging risks through anintegration of macro-economic and industry perspectives in the assessment of individual institutions.

The framework provides a structured approach and processes for understanding and assessing key risks inherent in an institution's or sectors activities and determining whether its risk management processes (i.e. identification, assessment, measurement, monitoring, controlling, mitigating and reporting of risks) are adequate in the context of the key risks.

This AML/CFT Risk Based Supervisory Framework outlines the methodology in determining the overall risk of each financial sector listed above, the risk for each institution within each sector and the risk of each NPO; and the supervisory strategy and approach flowing from those ratings.

The AML/CFT supervisory framework elaborates upon and should be read in conjunction with legislative requirements; issued guidance specific to the regulated institutions; the most current version of the NRA of Anguilla; and the internal AML/CFT Manual used by the AFSC. This AML/CFT supervisory framework is a dynamic document which will be updated by the Commission on a regular basis.

## Risk Based Approach

Risk is defined as a measure of the extent to which an entity is threatened by a potential circumstance or event. An ML/TF risk is therefore defined as the risk that supervised financial sectors and or institutions are being used for the purpose of ML and TF.

As a starting point, the AFSC's AML/CFT Risk Based Supervisory framework flows from the results of the NRA of Anguilla[2] and the ML, TF and threats, vulnerabilities and risks identified within in. The AFSC, in assessing the risk of its service providers, uses the information outlined in the NRA. As the NRA is updated, the AFSC's risk assessment of its service providers will be revised accordingly.

The key benefits of using a risk based approach are:

- Better evaluation of risk through separate assessments of inherent risks and risk management processes resulting in a deeper understanding of an institution's operations, its risk appetite and the key drivers of its risk profile;
- Cost effective utilisation of resources through prioritisation of supervision based on risks;
- Reporting risk-focused assessments to institutions for desired outcomes;
- Reducing regulatory burden on well managed institutions;
- Encouraging a strong risk management culture in institutions; and
- Providing flexibility for supervisors to use professional judgment within a structured approach.

The AFSC's AML/CFT risk based approach framework is used to:

- risk rate each financial sector and service provider;
- inform the AFSC's 's annual AML/CFT work plan especially concerning the frequency and intensity of the inspection/compliance visit schedule and ongoing monitoring of its service providers;
- determine what mechanisms would need to be developed by the AFSC  to counteract the risk;
- determine whether more resources are needed in the supervision of a sector or entity that has been identified as high risk;

[2] Published February 2023 and amended May 2023.

- determine whether amendments are required to the AFSC policies and procedures as it relates to its supervision of its service provider e.g., wider sampling during onsite inspections of higher risk entities;
- determine whether training is required for the AFSC's staff and the AFSC's service providers concerning areas identified as high risk; and
- determine what outreach strategies should be used, i.e. guidance or training.

As a starting point, the AFSC's AML/CFT Risk Based Supervisory framework flows from the results of the NRA of Anguilla[3] and the ML, TF and threats, vulnerabilities and risks identified within in. The AFSC, in assessing the risk of its service providers, uses the information outlined in the NRA. As the NRA is updated, the AFSC's risk assessment of its service providers will be revised accordingly.

# Methodology for assessing the risk of each financial sector and service provider

## Collection of information

[3] Published February 2023 and amended May 2023.

The AFSC uses multiple sources to assess the ML and TF risks of the sectors and institutions under its AML/CFT supervision. These include:

1. Anguilla's National Risk Assessment of ML/TF risks;
2. Information collected from using supervisory tools such as reporting forms, AML/CFT Annual Returns and AML/CFT Questionnaires/surveys that are submitted to the AFSC
3. observations from AML/CFT onsite and offsite inspections and compliance visits including the adequacy of AML/CFT policies and procedures and internal controls,
4. information gathered from prudential supervision, where applicable
5. information obtained from the Financial Intelligence Unit, Anguilla (such as trends and areas of concerns)
6. reports from international and regional standard setters organisations (e.g. FATF, CFATF, IMF, World Bank)
7. Open Sources (internet and media)
8. information derived from incidents and complaints reported to the AFSC.

## Risk Assessment Analysis

The AFSC uses a risk assessment template to conduct its risk assessment analysis. This is used at the time of registration and during the AFSC's reassessment exercises. Within the template, the following criterion are analysed:

1. Inherent Characteristics
2. Nature of Products and Services
3. Nature of the Business Relationships
4. Geographic Reach
5. Nature of the Delivery Channels
6. Any other additional information that the Commission deems relevant

Each criterion factor will be discussed in turn below.

**Inherent Characteristics**

This relates to the importance of the sector/institution in the domestic economy and whether its structure and locations of operations support moving funds rapidly. The following should be considered overall:

- Size of the sector (i.e., large volume of transactions and/or assets)
- Complexity of sector's business structure
- Integration with other reporting sectors
- Location of operations of the sector

## Nature of Products and Services

Products and services by their nature carry varying levels of inherent vulnerabilities (prior to mitigating controls). Therefore, the following should be considered:

- Nature and scope of products and services offered
- The extent to which they have generally been assessed as vulnerable products for money laundering and terrorist financing (e.g., cash payment, private banking, trade finance services, cross-border movements, high $ value commodities such as gold, precious stones, arts, or other products and services found in investigations such as use of professionals, real estate, etc.)

## Nature of the Business Relationships

This outlines the inherent vulnerabilities associated with the sector's/institutions clientele profile. The following should be considered:

- Business relationships: identify if most of the clientele involves ongoing vs. transactional relationships, direct vs. indirect relationships.
- Customer status e.g., the importance of foreign or domestic or international politically exposed persons (PEP) among the sector's client profile, or the proportion of high net worth individuals.
- Client's occupation or business e.g., cash intensive businesses; the facility to identify the beneficial owner for most the customers (i.e. complex business structure vs. individual)

## Geographic Reach

In considering the level of vulnerabilities attached to this criterion, one should consider the extent to which a sector's activities involve the following:

- High risk jurisdictions: Jurisdiction identified by the FATF or an FSRB.

- Countries of concern for ML/TF not identified by the FATF as high risk jurisdictions but where there is evidence of the presence of an important informal banking sector, corruption (ref. World Bank Indicators, Transparency International); high level of social, economic and institutional instability; bank secrecy or which have been recognised as a tax haven or fragile states.
- Jurisdictions of strategic concern according to the country's security interests including economic security

**Nature of the Delivery Channels**

In appreciating the level of vulnerabilities associated with this factor, one should consider the following:

- Anonymity conferred by the delivery channel used (e.g., face-to-face, face-to-face with agent/third party, non-face-to-face, and non- face-to-face with agent or third party).
- Their complexity (e.g., multiple intermediaries with few immediate controls, and little or no accountability in identifying the originator of the transaction).

**Other information**

Within the risk assessment template, additional information regarding the service provider or the sector can be inputted here. This can include information such as but is not limited to:

- The quality of AML/CFT controls in which an institution may have. This information is only included if determined by an offsite/onsite inspection/compliance visit.
- Known cases of past AML/CFT failings
- Findings from the AML/CFT inspection which may be of some concern.

## Assigning a risk rating for each criterion

Each criterion above is assigned one of the four rating categories: Very High, High, Medium or Low. The rating categories are colour coded as illustrated below.

| Very High | High | Medium | Low |
|---|---|---|---|

The definitions of the risk rating categories for each criterion are elaborated in the AFSC's internal AML/CFT Manual.

**Overall Risk Rating**

An overall risk rating is then assigned considering the weighting of each criterion and rating assigned. The overall rating also follows the colour scheme above. A rationale for the overall risk rating is determined and documented within the service provider's individual risk rating register which is placed on the file of each service provider. The risk ratings for each service provider are also documented in an EXCEL spreadsheet. Additionally, an EXCEL spreadsheet is kept with a summary of the number of entities within each rating category per sector.

**Examples of factors that would warrant a service provider being rated as high risk**

- Clients that are present in high risk jurisdictions
- Cash intensive businesses
- Business includes non-face to face transactions
- The presence of PEPs and high net worth individuals
- Severe deficiencies found in the AML/CFT framework of the service provider during an AFSC inspection

## Updating of Risk Assessments of service providers and sectors

**Service Providers**

The AFSC reviews the risk rating of its service providers annually prior to the drafting of its annual work plan. There may be trigger events that can lead to the change in risk rating of a service provider. Such trigger events include:

a. Updates in the NRA for Anguilla
b. Intelligence provided by the FIU;
c. Trends identified in the media;
d. Typologies and trends identified by the FIU or through meetings and seminars/trainings;
e. Publications by FATF and other international bodies identifying potential risks;
f. Sanction listings/ geographical risks;
g. Information received from AML/CFT Surveys and Questionnaires
h. Certain material changes or events;
i. Findings during onsite and offsite inspections/monitoring (desk-based reviews); and

j. Complaints from the industry and the general public.

**Sector**

In relation to the risk assessments per sector, the AFSC's ratings are informed by the NRA of Anguilla, however, where the NRA has not been scheduled to be updated and certain trigger events have occurred that have elevated the risk within the sector as outlined above, the AFSC with conduct a preliminary sectoral risk assessment for that sector. This will be used to feed into the NRA process. Until the NRA has been officially updated, the AFSC in this case will conduct enhanced monitoring procedures to the entities within this sector.

# Methodology for assessing the TF risk of Non-Profit Organisations

Fundamental to the AFSC's CFT risk-based supervisory and monitoring programme for NPOs is the risk identification and assessment process. The risk level identified for the respective NPO determines the level of supervisory engagement and tools utilised.

The risk factors are used in assessing the TF risk are outlined in the Risk Assessment Table as shown in Table 1 below.

## Initial Risk Assessment

All NPOs are subject to an initial risk assessment, which is conducted during the NPO application stage using information collected from the NPO application and other credible sources.

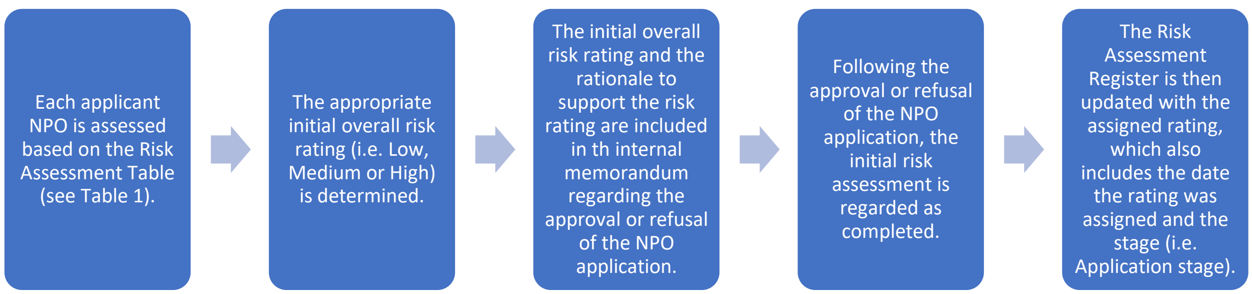

**Table 1: Factors used to assess the TF risk of NPOs**

| **NPO Name:** | |
|---|---|
| **Factors** | **Areas Assessed** |
| **Inherent Vulnerabilities** | |
| **Purpose, Objectives and Activities of the NPO** | - Whether the activities (services and programmes) proposed or conducted align with the NPO's purpose and objectives<br>- The nature of activities and services provided by the NPO (e.g. supporting and encouraging unconventional behaviour or ideologies, as well as feeding and housing to individuals involved unorthodox practices). |
| **Partners** | - Whether the NPO works with partners to carry out its objectives and the location of such partners<br>- Whether the NPO has a longstanding relationship with their partners<br>- Whether the partner relationship is well-documented<br>- Whether any partners may have undue influence on the NPO's activities<br>- Whether there are any public concerns about the NPO's partners or their activities which may make the NPO more vulnerable to TF abuse |
| **Affiliate Organisations and Subgroups of the NPO** | - The activities conducted by the NPO's affiliate organisations and subgroups<br>- Whether there is a complex structure/unclear connection with affiliate organisations and subgroups of the NPO<br>- The location(s) of the NPO's affiliate organisations and subgroups of the NPO |
| **Donor Base** | - The size and distribution (location) of the NPO's donor base<br>- Whether there are any public concerns about the NPO's donors or their activities which may make the NPO more vulnerable to TF abuse |
| **Beneficiaries** | - The location and distribution of the NPO's beneficiaries<br>- Whether the NPO's beneficiaries are sanctioned entities or individuals, politically exposed persons or any other high risk person |
| **Geographic Scope** | - The extent of the NPO's geographic risk e.g. the level of (direct or indirect) global presence the NPO has or potentially has<br>- Whether the NPO operates in multiple countries<br>- Activities and services carried out in or offered to high risk jurisdictions by the NPO<br>- Countries the NPO is associated with through its beneficial owners, senior officers, partners, donors, beneficial owners and other stakeholders |
| **Fundraising and Disbursement of Funds** | - Level of fundraising conducted by the NPO in Anguilla (amount in EC$)<br>- Level of fundraising conducted by the NPO outside of Anguilla (amount in EC$)<br>- Country of origin of funds raised (i.e. a high risk or sanctioned jurisdiction)<br>- Destination country for funds raised (i.e. a high risk or sanctioned jurisdiction)<br>- Use of cash and other high risk payment methods and channels |

| | |
|---|---|
| | - Use of foreign currency including currencies from high risk jurisdictions<br>- Whether the NPO has complex financial operations<br>- The volume of transactions the NPO receives<br>- Whether the NPO has irregular income and expenditure streams |
| **Other Factors** | - Value of Assets including types of assets held by the NPO<br>- Whether the NPO's senior officers, directors, board members and/or trustees are high risk individuals such as individuals connected to/live in High Risk Jurisdictions or entities, who are or are closely affiliated with high net worth individuals and sanctioned individuals and entities |
| **Mitigating Factors** | |
| **Organisational Integrity** | - Existence of a Governing Document for the NPO<br>- Confirmation that the NPO's operation is/will be in accordance with a Governing Document<br>- NPO's purposes, objectives, activities, structure, reporting practices and guidelines for complying with local law clearly outlined in the Governing Document<br>- The NPO has identified and/or established a Governing Board<br>- The NPO has identified and verified the identity of its senior officers, directors, board members and trustees<br>- The NPO has a formalised manner in which elections, and removal of, directors or senior officers are conducted<br>- The NPO keeps records of its meetings and the items discussed during such meetings |
| **Internal and Financial Controls** | - The NPO uses regulated financial services for payment collection and remittance<br>- The NPO has measures in place to set and follow an annual budget<br>- The NPO has measures in place to keep adequate and complete financial records<br>- The NPO has a criterion to determine which donations should be accepted or refused<br>- The NPO has designated a person with primary responsibility for managing the NPO's funds<br>- The NPO applies scrutiny to anonymous donations<br>- The NPO requires dual signatories for its bank accounts<br>- The NPO has a reasonable threshold in place for its bank accounts |

## Updating the Risk Rating

Information for updating the registered NPO's risk profile is collected from various sources on a periodic and ongoing basis in the course of the AFSC's risk-based post-registration supervision and monitoring. Below are the points where and when the risk rating is reviewed and where appropriate, updated.

**Periodic**

- Upon submission of the CFT Annual Return by the registered NPO
- Upon submission of periodic reports as required by conditions imposed at the time of registration of the NPO

**Ongoing/As required**

- Upon notification of material changes
- Upon review of information gathered or discovered during desk-based reviews
- Upon review of information gathered (findings) during onsite inspections
- Upon review of information submitted by the registered NPO regarding events concerning its operation
- Upon notification of relevant changes to Anguilla's NRA
- Upon review of intelligence provided by the FIU
- Based on trigger events such as trends identified in the media
- Trends identified in the media
- Typologies and trends identified by the FIU or through meetings and seminars/trainings
- Publications by FATF and other international bodies identifying potential risks
- Sanction listings/geographical risks identified
- Complaints received from the industry and the general public

The previously assigned risk rating is adjusted to reflect the information received and/or gathered in the above noted circumstances. The adjusted risk rating is then recorded in the Risk Assessment Register for that specific period.

## Risk Based Supervisory Strategy for Financial Sectors and Service Providers

The AFSC applies a risk based approach with respect to its AML/CFT supervision strategies. This supervisory strategy is sufficiently flexible to consider and respond to new and emerging risks. The AFSC's risk based supervisory strategy is primarily informed by the NRA and the risk rating exercise conducted by the AFSC.

**The AFSC's Work Plan**

The risk ratings assigned for each sector and service provider are used to inform the AFSC's Annual Work Plan, specifically the AML/CFT section, for the upcoming year. The work plan is approved by the AFSC's Board at the final Board Meeting of the year.

In order to populate the annual work plan, the management team meets to determine the supervisory tools that are appropriate for the upcoming year in accordance with the noted risk assessments. In the AML/CFT section of the work plan, the AFSC focuses on its higher-risk service providers and outlines the supervisory tools that will be applied to them. The work plan also highlights any AML/CFT related projects which the AFSC intends to conduct. Such AML/CFT related projects are geared towards high risk themes and trends which the AFSC intends to focus on for that year.

The AFSC's work plan also includes comparing allocation of supervisory resources across institutions. In addition to their risk profile, reviews of institutions are prioritized taking into account their systemic importance, their volatility, material changes in strategies, any significant changes in management or corporate governance, etc. This is to ensure that available supervisory resources are allocated effectively across institutions based on risk.

The AFSC's work plan is very flexible. Where the need arises, the AFSC can shift resources and timelines towards a service provider which has an elevated risk due to a trigger event. Other reasons where the AFSC's AML/CFT schedule/work plan may change includes:

a. Growth patterns of entity identified

b. Reporting form has identified geographic risks due to where the beneficial owners or customers are located or where the service is being carried out

c. Merger or acquisition

d. New service provider

e. Nature of business of the entity – e.g. cash intensive

The AFSC will allocate more resources and conduct more intensive scrutiny on sectors and or institutions that are rated very high and high risk. Sectors and institutions that have a low to medium risk rating are still monitored with lower levels of resources being assigned to them. Medium risk rated sectors and institutions are especially monitored for any emerging trends that may shift the rating from medium to high risk.

The AFSC's AML/CFT Supervisory strategy consists of the following tools. The tools used are based on a risk based approach. The observations and results of all the monitoring tools are used to update the risk profile of the service provider or sector and provide the AFSC's upcoming work plan.

a. Imposing conditions upon licensing/registration for certain sectors
b. Periodic reporting (monthly, quarterly and annual)
c. Requests to provide information and produce documentation
d. Themed inspections
e. Desk-based reviews
f. Inspections/compliance visits

The frequency and scope of monitoring depends on the size, complexity and risk profile of the institution; but, each institution should be monitored in some way at least annually. Higher risk institutions will require to be monitored more frequently. Where there are shifts in the risk assessment of the institution, supervisory strategy and planning are adjusted in the context of the changes. These adjustments are dynamic and help ensure effective utilization of resources across institutions as well as for an institution.

Each supervisory tool will be discussed below:

**Imposing conditions upon licensing/registration**

The AFSC has imposed conditions on certain service providers within sectors that are rated very high, high and in some circumstances medium risk given the propensity of the sector to be used for ML and TF. Such conditions include but is not limited to the reporting of transactions monthly over a specific threshold; a list of all the customer due diligence information and documentation collected for each transactions over a specific threshold; and the number of transactions conducted by jurisdiction both regionally and internationally.

**Periodic reporting (monthly, quarterly and annual)**

Some Very High and High-risk rated entities operating within high risk sectors have conditions on their licence or registration in which they are required to provide the AFSC with information monthly, quarterly or annually as noted above. Reporting may also be required where the AFSC is monitoring the service providers' level of compliance with its AML/CFT obligations due to past

AML/CFT failings. This is in the form of monthly or quarterly progress reports or the updating of a tracker provider by the AFSC. The AFSC focuses its resources on ensuring that enhanced monitoring is prioritised and conducted on a timely basis and that any areas of non-compliance or concern are identified immediately.

**Requests for information and documentation**

The AFSC has the power to request information and documentation to be provided (section 21 of the FSC for Licensees and section 3 of schedule 4 of the POCA). The AFSC can request information at any time. In relation to its risk based supervisory approach, the AFSC uses requests for information and documentation to receive information in relation to high-risk areas within in a sector or to receive information from high risk entities.

**Themed Inspections**

Within the AFSC's work plan, certain themes or topics are identified as areas that may expose the AFSC's service providers to ML and TF risks. The topics in some cases may not be high risk for a particular service provider but it may be a high risk for the sector as a whole. Utilizing the AFSC's powers to request information and documentation, the AFSC conducts themed inspections.

Themed inspections capture not only high risk but low to medium risk entities as well. However, the focus of the themed inspections are on high-risk areas and topics. Themed inspections give the AFSC a gauge on the level of compliance in an identified area and whether some service providers require closer attention in relation a specified area or if the risk is elevated. This informs the AFSC risk assessment analysis as well as the AFSC's outreach initiatives on whether further training and guidance are needed in specific areas.

**Desk-based reviews**

Desk Based reviews are generally done where the AFSC reviews submissions that are required to be submitted by the service provider to the AFSC as per legislation. This also includes the review of information provided during requests for information by service providers. A desk-based review may be done before the AFSC decides to undertake an inspection or compliance visit. This is used to supervise medium and low risk entities.

**Inspections/Compliance Visits**

Onsite inspections/compliance visits and offsite inspections are conducted in accordance with the AFSC's internal AML/CFT Manual and the AFSC's Procedures Manual. The results of inspections/compliance visits will influence the intensity and frequency of off-site monitoring. Service providers that are operating in a satisfactory manner will require monitoring on a less frequent basis than supervised institutions with weaknesses and gross deficiencies.

***Onsite Inspection/Compliance Visit***

An onsite inspection/compliance visit is generally conducted where the service provider is rated very high to high risk or the sector in which the service provider operates is rated very high to high, located within Anguilla and the AFSC can physically go to their premises.

***Offsite Inspection/Compliance Visit***

An offsite inspection is usually for service providers that are rated as very high to high risk or the sector in which the service provider operates is rated very high to high, they are not within Anguilla and the AFSC is unable to attend their premises. During offsite inspections, Zoom, Webex, Teams or teleconference mechanisms are used. The AFSC requests the same information and documentation and interviews are conducted with key personnel. The only difference between the onsite and offsite is the location of the inspection.

The key benefits of both onsite and offsite inspections and compliance visits have been further outlined in the Risk Based Supervisory Framework for Prudential Supervision.

**Scope of Inspections and or compliance visits**

There are three categories of AML/CFT inspections/compliance visits that the AFSC undertakes, namely:

a. A Full Scope Inspection;
b. Limited Scope/Themed Inspection; and
c. Follow-up Inspection.

The scope depends on the size, complexity and risk profile of the institution and the nature of AML/CFT concerns, if any. These reviews and interactions with the institution's management and oversight functions are critical to effective supervision of an institution and deepen the supervisor's understanding of the institution and its risk profile.

***Full Scope Inspection***

A full scope AML/CFT inspections and compliance visits covers but is not limited to the following areas:

1. an assessment of the service provider's policies and procedures to ensure compliance with relevant legislation and guidelines;

2. a review of the service provider’s organizational structure;
3. an assessment of the service provider s compliance with conditions as outlined in its letter of registration/licencing;
4. a review of the structure and compliance program in place to be able to identify and measure, monitor and manage risk;
5. a review of the service provider’s training programme to determine frequency and scope of AML/CFT training provided; and
6. an analysis of a sample of the service provider’s customer transactions.

***Limited Scope/Themed Inspection***

A limited scope/themed inspection or compliance visit focuses on a particular segment(s) of a supervised institution’s business operations, a particular theme that might be of interest to the AFSC, such as specific AML/CFT obligations or internal controls While the reasons for carrying out a limited scope inspection or compliance visit can vary, ordinarily they will be desirable in the following circumstances:

a. Unusual results are found following a desk based review, or request for information;

b. Follow-up on findings of a prior inspection report;

c. Concerns expressed by stakeholders; and

d. Material changes or events reported by the supervised institution e.g. change in a key/management.

***Follow-up Inspection***

Follow-up inspections are effectively limited scope inspections that are based on specific issues and are typically shorter in duration than a limited scope inspection. The purpose is to determine if the supervised institution is in compliance with recommendations issued in previous inspection reports. Once the supervised institution has been provided with the report following an inspection or compliance visit, the supervised institution may be required to submit progress reports periodically to ensure that they are satisfying the prescribed recommendations within a specific timeframe. The inspection team will then conduct a follow-up visit to review the progress the supervised institution has made towards achieving the recommendations. The follow-up visit is scheduled based on the gravity of the findings from the previous report.

Following each type of inspection or compliance visit, the AFSC:

a. Makes recommendations for the supervised institutions to develop written policies and procedures in all areas;

b. Provide recommendations to correct deficiencies and to avoid potentially adverse situations; and

c. Promote the importance of robust internal systems and controls by encouraging supervised institutions to follow 'best practices' in all aspects of their operations.

**Obligations of service providers**

The AFSC expects that all service providers implement the relevant AML/CFT policies, procedures, systems and controls into their AML/CFT Compliance program in order to be in compliance with relevant AML/CFT legislation. This includes but is not limited to the following:

- Risk Assessments (Business and Customer)
- Customer due diligence
- Monitoring
- Enhanced due diligence and monitoring for high risk customers and jurisdictions
- Screening for sanctions
- Record Keeping
- Training of staff

## Risk Based Supervisory Strategy for Non-Profit Organisations

The NPO Regulations provides the AFSC, as the NPO Supervisor, with a supervisory toolkit to ensure the effective and appropriate supervision and monitoring of NPOs including the collection of information to assess the TF risk of NPOs (applicant, registered and, in some cases, deregistered) which is complemented by the enforcement toolkit for the application of effective, appropriate and dissuasive sanctions. The supervisory tools available to the NPO Supervisor at key points of supervision are listed below.

**Application and Registration Stages**

- Collection of Information via the prescribed Application Form, supporting documents and other credible sources
- Imposition of conditions on registration, where appropriate
  - e.g. Periodic reporting by the registered NPO
- Collection of Information via the Notice of Material Change Requirement
- Collection of information via the Application for Voluntary De-registration Form

**Post-Registration Supervision**

- Collection of Information via the Notice of Material Change Requirement
- Collection of Information via the Annual CFT Return Requirement

**Monitoring**

- Desk-based reviews
- Onsite (full scope or themed) inspections
- Requests to produce records
  - Records regarding the NPO's purposes, objectives and activities and the identity of the persons who control or direct its activities, including, as appropriate, senior officers, directors and trustees
  - Financial records regarding transactions (within and outside Anguilla) received and dispersed by the NPO, the NPO's financial position and source of its gross annual income.
- Requiring an audit of NPO accounts on the suspicion of the NPO being used, or may in the future be used, for or to assist in TF

### Applying the Risk-based Approach to Supervisory Engagement

The essence of a risk-based approach is using the risk rating assigned to the NPO in question to inform the allocation of supervisory resources, engagement levels and tools to ensure that they are proportionate with the level of TF risk the NPO faces. See Table 2 below.

**Table 2: Levels of Supervisory Engagement and Supervisory Tools used based on TF risk**

| | **TF RISK LEVELS** | | |
|---|---|---|---|
| | **HIGH RISK** | **MEDIUM RISK** | **LOW RISK** |
| **Use of Powers** | | | |
| **Conditions imposed on the NPO's registration** | Yes *(e.g.as required as per the conditions set out on the registration document )* | As needed *(i.e. for specific factors that are high inherent vulnerability to TF) (i.e. as required as per the conditions set out on the registration document)* | N/A |
| **Requiring an audit of NPO's accounts and/or the provision of audited financial statements** | Yes | As needed *(i.e. on the suspicion of the non-NPO being used, or may in the future be used, for or to assist in TF)* | As needed *(i.e. on the suspicion of the non-NPO being used, or may in the future be used, for or to assist in TF)* |
| **Requirement to Produce Records** | As needed | As needed | As needed |
| **Supervisory Tools** | | | |
| **Onsite Inspection** | Every 1.5-3 years | Every 3-5 years (Targeted reviews at least every 5 years) | As needed (depending on the circumstances or where there is a trigger event). |
| **Desk-based Reviews** | Yes | Yes | Yes |
| **Annual CFT Return** | Yes | Yes | Yes |
| **Request to Produce Records** | As needed | As needed | As needed |