



Combating Money Laundering and Terrorist Financing within the Securities Industry

Governments worldwide continue to intensify their efforts to mitigate the global spread of COVID-19, whilst, criminals and fraudsters have been quick to seize opportunities to exploit the financial system impacted by the crisis. In response, supervisory authorities in several countries have already alerted financial institutions to the potential increase in money laundering risks, linked to this current pandemic.

Money Laundering (“ML”)

The Financial Action Task Force (“FATF”) describes Money Laundering (ML) as the process by which criminal proceeds are disguised from their illegal origin so that the perpetrators may enjoy them without interference from legal authorities. **Figure 1** displays the typical stages involved in the ML process. This process involves the placement of the illegal proceeds into the legitimate financial system, such as banks; where they are then layered by a series of transactions aimed at obscuring their source. The last stage of the process involves the integration of these funds back into the financial system, where they now appear as the proceeds of legitimate business activities, to the benefit of the criminals who generated them. Some of the enablers that give rise to ML/Terrorism Financing (TF) vulnerabilities are:

1. The ability to move funds quickly beyond borders via electronic transfers;
2. The ability to quickly move funds from one security type to another (e.g. from equities to mutual funds to bonds etc.);
3. The use of corporate structures, offshore accounts and trust accounts to obscure beneficial ownership of the securities;
4. The ability to hide ownership through specialised investment instruments (e.g. bearer securities); and
5. Off-market transactions, especially where no price transparency exists.

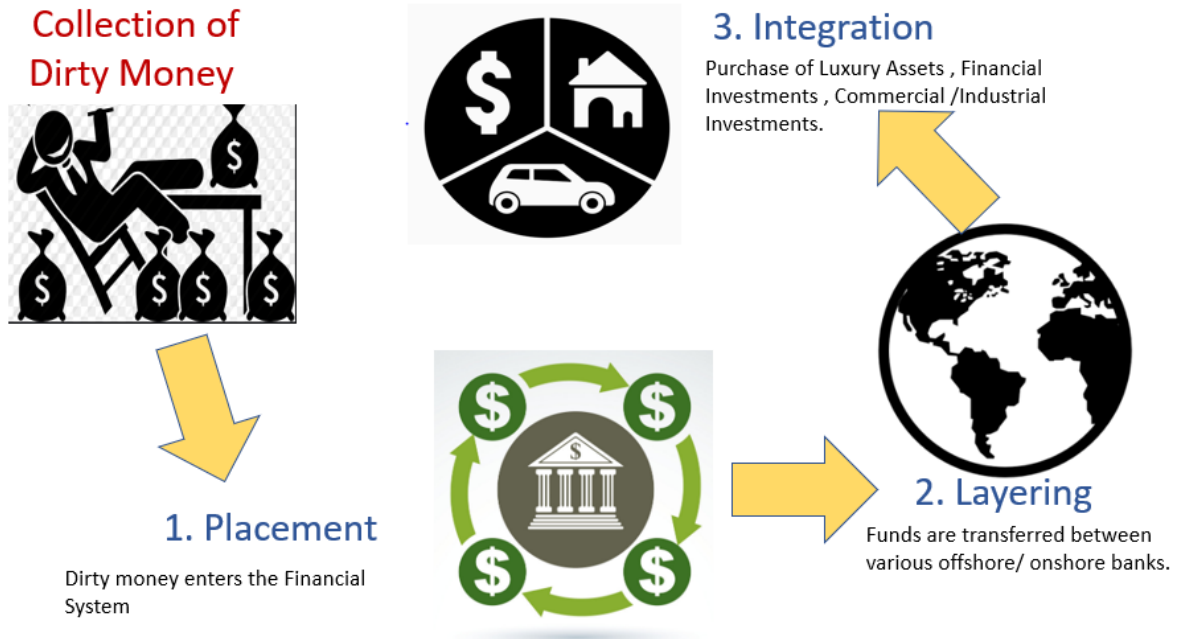


Figure 1: The Three Stages of Money Laundering

Terrorist and Proliferation Financing

Terrorist Financing (TF) is a financial crime whereby funds can be channelled through a legitimate source such as charitable donations, or through illegal activities for instance the drug trade or fraud, to support the agenda of a terrorist organisation. The proceeds are used to fund criminal activities designed to cause harm to individuals, organisations and groups or disruption to public safety.

Proliferation Financing (PF), on the other hand, refers to the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations.

TTSEC'S Role

In accordance with **Section 6 of the Securities Act, 2012 (SA 2012)**, one of the core functions of the Trinidad and Tobago Securities and Exchange Commission (TTSEC) is to ensure compliance with the Proceeds of Crime Act, 2010 (POCA). POCA provides for the consolidation of the confiscation of the proceeds of drug trafficking and other crimes and the criminalising of money laundering. Under POCA and the Financial Obligations Regulations 2010 ("the FORs"), TTSEC is identified as the Supervisory Authority for the securities industry.

A significant part of TTSEC's remit focuses on ensuring that Registrants, registered under Section 51(1) of the SA 2012, are in compliance with the laws, policies and guidelines that relate to Anti-Money Laundering/Combating the Financing of Terrorism/Combating Proliferation Financing ("AML/CFT/PF"). The TTSEC is also responsible for determining any

vulnerabilities and risks which may exist within the local securities industry and taking steps to mitigate the risk of exposure to AML/CFT related financial crimes.

Given the onerous nature of this responsibility, in 2013 the TTSEC convened an internal Anti-Money Laundering and Combating the Financing of Terrorism Working Group (“the AMLWG”), as a means of creating a centralised team of specialists that would lead the TTSEC’s AML/CFT mandate. In November 2018, the AMLWG reviewed and amended the TTSEC’s AML/CFT Guidelines for the Securities Sector to ensure the alignment of the regulation and supervision policies and practices of the Commission with national legislation and international best practice.

AML Bodies

The Financial Action Task Force (“FATF”) is the global standard-setting body on AML/CFT compliance. Its membership comprises the world’s largest national economies. The effectiveness of this organisation in addressing the AML/CFT agenda spawned the creation of several FATF Styled Regional Bodies (“FSRBs”). One such FSRB is the Caribbean Financial Action Task Force (“CFATF”) of which Trinidad and Tobago is a member.

The TTSEC also holds a seat on the National Anti-Money Laundering and Combating the Financing of Terrorism Committee (“NAMLC”), through which we contribute to and participate in activities geared toward the development and implementation of national policy for the combating of Money Laundering (ML) and the Financing of Terrorism (FT) in Trinidad and Tobago.

In our next article, we will focus on the roles of the Compliance Officer (“CO”) in the securities industry.

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