Administrative Measure Publication Notice

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DATE OF IMPOSITION OF THE ADMINISTRATIVE MEASURE:

13 November 2024

SUBJECT PERSON:

Integritas Consulting Ltd

RELEVANT ACTIVITY CARRIED OUT:

Corporate Services Provider

SUPERVISORY ACTION:

Off-site compliance examination carried out in October 2022

DETAILS OF THE ADMINISTRATIVE MEASURES IMPOSED:

Administrative penalty of €66,504

LEGAL PROVISIONS BREACHED:

- Regulations 7(2)(a), 7(2)(b) and 11(9) of the PMLFTR and Sections 4.5.1(a), 4.5.1(b), 4.5.2 and 4.5.3 of the IPs
- Regulation 15(3) of the PMLFTR and Section 5.5 of the IPs

REASONS LEADING TO THE IMPOSITION OF THE ADMINISTRATIVE MEASURE:

<u>Ongoing Monitoring – Breach of Regulations 7(2)(a), 7(2)(b) and 11(9) of the PMLFTR and Sections 4.5.1(a), 4.5.1(b), 4.5.2 and 4.5.3 of the IPs</u>

a.) Information on the customer's business operations or activities not always kept up-to-date

The compliance examination report revealed that, for one customer file, the Company failed to obtain an understanding of any changes in the customer entity's operations or activities following a number of trigger events which took place.

The customer entity in question was originally established as a holding company; however, following a series of share transfers (two in total), the entity transitioned to operating as a trading company within the information technology (IT) and security sectors.

From the review of the customer entity's financial statements, it was noted that, after lying dormant for almost seven years with no income being generated, the customer was involved in three substantial transactions. These consisted of an incoming transaction exceeding €4 million, which originated from an entity located in a non-EU but reputable country (hereinafter referred to as X Ltd), followed by two outgoing transactions amounting to roughly the same amount, which funds were remitted to the customer entity's shareholder (hereinafter referred to as Y Ltd).

Based on relevant documentation provided during the compliance examination, the FIAU Officials arrived at the conclusion that the customer had subcontracted to X Ltd services to be provided to Y Ltd. Further clarifications on this matter were also provided within the Company's representations, wherein it was indicated that the basis of the transaction was between X and Y Ltd. However, X Ltd was unable to satisfy its economic obligations towards Y Ltd due to constraints within the banking system. Therefore, to facilitate the transaction between X Ltd and Y Ltd, the customer entity was interposed as a middle company. This arrangement enabled X Ltd to remit the funds to the customer, which were then transferred to Y Ltd.

Once the above transactions were successfully completed, no further transactions were carried out, and no new projects materialised for the customer entity. At a later stage, the BO had expressed his intention to liquidate the customer; however, no official instructions confirming this course of action were ever received by the Company.

In its deliberations, the Committee acknowledged that, out of the two transfers of shares that occurred, only the first resulted in a change in the customer entity's ownership structure, as the second transfer did not alter the beneficial ownership. Nevertheless, in line with Section 4.5.3 of the IPs, the second transfer should have still constituted a trigger event, prompting the Company to assess whether there were any changes in the business operations or activities of the customer. Based on such an assessment, the Company would have been in a better position to determine whether the information maintained is actually reflective of the business relationship and the customer entity's specific circumstances, or whether this information needed to be updated.

The Committee further emphasised that while the adequacy or otherwise of the level of scrutiny applied to the three transactions in question falls outside the scope of the obligation under which this sub-finding has been reported, the sudden presence of these substantial transactions should have nonetheless served as an additional trigger event, prompting the Company to conduct the necessary ongoing monitoring checks to re-evaluate its understanding of the customer entity's activities, as well as scrutinise the origin of the funds behind such transactions.

b.) Lack of scrutiny of certain large/complex/unusual transactions

During the compliance examination, it was noted that, in the case of two customer files, the Company failed to adequately scrutinise the transactions executed, in particular, those that were large, complex and/or unusual. Further details regarding the specific failures identified for each respective customer file are included below.

Customer file A

The customer, a holding company, was onboarded by the Company in 2016 and risk rated as high during the course of the business relationship. In terms of services offered by the Company, these predominately encompassed directorship, company secretarial, and registered office services.

A review of the customer entity's audited financial statements revealed two substantial balances involving loans: (a.) loans receivable from third parties (non-current assets); and (b.) loans due to related and third parties (non-current liabilities), with each balance nearing the €20 million mark. Upon requesting supporting documentation to substantiate these balances, the FIAU Officials were provided with various loan agreements and other agreements involving the assignments of loans. Scrutiny of such agreements uncovered a discrepancy in the millions of euro between the total receivables and borrowings figures as calculated from the said agreements and the amounts reported in the financial statements. Moreover, in certain cases, although the repayment date of the loan agreements had expired, the loans under consideration continued to be reflected in the financial statements. Independent searches conducted by the FIAU Officials, along with additional documentation furnished by the Company, further indicated that most counterparties to the loan agreements and assignments were, in one way or another, related to the customer entity. Examples of these counterparties include the subsidiaries of the customer and other companies owned by individuals affiliated with the BO.

The Committee, during its deliberations, highlighted that the agreements collected by the Company in support of the loans involved merely outlined the terms and conditions of the same and confirmed the amounts involved, without detailing the purpose or underlying rationale behind such loans. Thus, in this case, gathering a copy of these agreements was not sufficient, and the Company was obligated to:

- Verify the legitimacy of the transactions involved and determine whether they make business and economic sense.
- Assess whether reported loans are in line with the customer's activities, and whether any future payments received or made by the customer in connection to the same are justified.
- Ensure comprehensive visibility into the source of funds for all the customer's transactions.

Expanding on the above, while cognisant of the fact that the majority of the loan agreements and assignments were entered into before the Company started servicing the customer entity, the Committee pointed out that most of these loans continued to be recorded in the latest set of financial statements available at the time of the compliance examination, mainly due to the continuous extensions of the loans' repayments dates. In view of this, there was still a responsibility for the Company to diligently monitor the loan receivable and payable balances on an ongoing basis, as well as ascertain that any incoming or outgoing payments associated with them were scrutinised in a timely manner. Such checks were especially important when taking into account the large amounts involved and the fact that directorship services were being offered to the customer.

In its further discussions, the Committee also commented on the prevalent trend that most of the loans and their subsequent assignments pertain to entities related to the customer. In this regard, the Committee stressed that the issuance of loans and subsequent assignment of receivables from one company to another may represent a money laundering (ML) risk, even if there are related entities involved. This is because these transactions may be used to obfuscate the origin of funds, layering them through multiple entities to conceal their potentially illicit source. Such transactions may also lack economic rationale or involve inflated assets or liabilities to appear more legitimate, further raising suspicions of possible ML activities.

Customer File B

This customer entity, a Maltese registered company, was onboarded in 2013 and maintained a high risk rating throughout the business relationship. The services provided by the Company to the said client included directorship, company secretarial, and registered office services.

Despite the customer's best efforts, the primary business for which it was established never picked up, leading to it having to rely on an alternative activity as the main source of its income, namely, client introductions. As per the Company's explanations, the target market of the customer comprised of high net worth individuals (HNWIs), and hence, interested leads in in citizenship or residency programmes were introduced to one of the Company's formerly related entities, in respect of which a commission was paid to such client.

During the compliance examination, the FIAU Officials were provided with an assignment of rights and obligations agreement, within which there was stipulated that the customer entity's shareholder (hereinafter referred to X Ltd) assigned rights to its daughter company (i.e. the customer) so that the latter receives an amount of circa €200,000 from the Company's related entity. This outstanding balance was owed by the Company to X Ltd for client introductions made over a three-year period on the basis of a previously established verbal agreement. Such funds were invoiced by X Ltd, but payable into the account of the customer (since X Ltd did not have a bank account at the time).

Although the Company asserted that the sole source of income of the customer was derived from the client introductions, the figures presented in the client's financial statements for the aforementioned three-year period indicated that the total commission income during these years exceeded €1.5 million. Consequently, while the Committee acknowledged that the source of funds (SOF) of the €200,000 payment received by the customer stemmed from the Company's Group, this represented a minor proportion of the income generated from client introductions over the years. Accordingly, the Company was expected to delve deeper into the transactions involved, ensuring a complete and well-documented understanding of the same, which understanding should have been corroborated with the relevant supporting evidence, if necessary. The Company also seems to have overlooked investigating why the customer's main business failed to gain traction, leaving it dependent on a secondary income stream that was completely unrelated to its original activities, with incoming amounts showing no correlation to the information available about this secondary income stream.

<u>External Reporting Obligations – Breach of Regulation 15(3) of the PMLFTR and Section 5.5 of the IPs</u>

The Committee was informed that there were three customer files in respect of which the Company failed to submit an external report to the FIAU despite the presence of numerous red flags that warranted such action. For each respective customer, the case will be presented on a red-flag-by-red-flag basis, with a focus on the most prominent red flags that should have prompted the Company to consider filing a suspicious transaction report (STR) or another relevant report.

Note: Regarding the service offerings, with respect to all three customers, the Company provided directorship, company secretarial, and registered office services.

Customer file A

- The customer entity's activity and the purpose behind establishing the company: The main assets held by this customer, a holding company, consisted of amounts due from shareholders, which exceeded €1 million. Based on documentation collected, it transpired that this balance represented two separate loans granted to the customer entity by another company (hereinafter referred to as A Ltd), which funds were then utilised to cover the amounts owed in terms of the Malta Individual Investor Programme (MIIP) on behalf of the client's BO, namely, Mr A. As a result, this means that the customer became a debtor to A Ltd, and in turn, Mr A became a debtor of the customer.

  Over the years, no repayments were recorded for these two loans, and their terms were extended by virtue of additional agreements. Eventually, the rights and obligations related to such loans were assigned to another company (hereinafter referred to as B Ltd) due to the customer entity entering the liquidation process.

  During its deliberations, the Committee pointed out that the establishment of a holding company, solely to receive a loan from a third party in order to settle the BO's financial obligations vis-à-vis the MIIP application and then assign this loan to yet another third party brings into question the economic rationale behind the setting-up of such an entity.

- The rationale for the loan assignments: As explained by the Company during the compliance examination, the three entities involved in the transaction at hand, i.e., the customer entity, A Ltd, and B Ltd, were all unrelated parties. When questioned about the rationale for B Ltd accepting the assignment of the loan, the Company initially indicated that it was unaware of the exact reason why this occurred, but later, it clarified that this assignment was motivated by past dealings and business matters between the BO of the customer, A Ltd and B Ltd, which was evidenced through an online article detailing a business transaction involving A Ltd and B Ltd which had taken place 10 years prior.

  While deliberating on this red flag, the Committee stressed that the Company did not adequately assess the relationship between the customer and two other entities involved in this arrangement. Indeed, by failing to acquire all the required documentary evidence, the Company may have potentially overlooked a link between A Ltd and B Ltd, which could extend to the customer entity as well. In this scenario, the Company should have sought to understand why: (a.) A Ltd was willing to extend a loan to the customer (at very low interest rate of 1%), with the repayment dates being repeatedly extended, and the loan remaining unpaid for a considerable period of time; and (b.) B Ltd accepted the assignment of a high value loan to which it had no apparent connection and without any clear economic rationale for the same.

- The BO's financial means: The Company clarified that A Ltd had granted a loan to the customer entity because its BO (i.e. Mr A) was not in possession of the funds needed to fulfil the financial requirements of the MIIP application, despite having previously declared an estimated annual income of €2 million and a total net wealth of €20 million. It is questionable why an individual with such substantial financial resources would need to establish a company for the sole purpose of securing a loan from a seemingly unrelated third party in order to settle his financial liabilities, especially considering that this loan was ultimately never repaid by Mr A.

Customer File B

Prior to delving into this case, it is important to note that the customer file in question has already featured under the Transaction Monitoring heading above as the first finding. This context should be kept in mind when reviewing the information presented below.

Red flags identified:

- <u>Adverse media on the BO</u> – During the compliance examination, the Company furnished a copy of an internally prepared memo which detailed and discussed several adverse media publications found on the customer entity's BO, namely, Mr A. This adverse media focused on Mr A's past political positions in an EU jurisdiction, including his tenure as a State Secretary and Minister. Following an analysis of these adverse media articles, the Committee noted that Mr A had been implicated in a series of serious allegations, which worryingly encompass corruption, bribery, and the misappropriation of public funds. In addition, Mr A was directly linked to a number of scandals in the EU jurisdiction where he previously held such political roles. A specific adverse media article (which was also the most recent one) also questioned the SOF used by Mr A to purchase/build properties through various entities, including the customer entity itself, which was described as a shell company. The same article went on to mention other entities related to the customer mentioned in the loan agreements and assignments discussed earlier under the first finding of the Transaction Monitoring heading above.

  In taking its decision for this finding, the Committee reiterated that subject persons are not expected to automatically file an STR or another relevant report with the FIAU solely due to there being adverse media related to the customer entity or its BO(s). However, the factor must be considered in a holistic manner alongside other potential red flags and given appropriate weight in the decision-making process regarding whether an external report is merited. In this instance, even though the Committee recognised the fact that the adverse media findings concerning Mr A may have not always originated from sources regarded as the benchmark for reliability, and that there was a lack of information indicating that legal action was actually taken against him; nevertheless, the consistency of the adverse media coverage over the years and the seriousness of the allegations should have been given more consideration.

- <u>The customer entity's financial operations, and the complex set-up of loans and assignments</u> – As already articulated in the first finding under the Transaction Monitoring heading above, several inconsistencies were identified in the loan agreements and assignments involving the customer entity, with loans totalling almost €20 million which remain recorded as unsettled in the customer's financial statements, despite some of them having been contracted many years prior to the commencement of the business relationship. Moreover, while most of the entities subject to these loan agreements and assignments were related to the customer entity, there was a lack of information on file regarding the purpose of the underlying loans, and the Company failed to gather additional information and documentation to clarify the matter. A further point delineated within the compliance examination report is the fact that the set-up of the loans and their assignments appeared to be complex in the context of a holding company, which set-up was also questioned in light of the previously mentioned adverse information found on the customer's BO.

According to the Committee, the Company did not seem to have a thorough understanding of the underlying rationale behind the voluminous loans granted/received by the customer entity and any subsequent assignments (if applicable). The Committee expressed particular concern that, although most of the loans were initiated prior to onboarding, the continued presence of the same in the financial statements should have led the Company to seek reassurances concerning their purpose and legitimacy, either at the start of the business relationship or within a reasonable timeframe thereafter. Nonetheless, in view of the fact that such reassurances were not acquired, each additional loan granted or received, coupled with the extensions and assignments of existing loans, further amplified concerns about whether the loans were justified and made sound business and economic sense. Therefore, while as part of its transaction monitoring process, the Company should have ensured that the loans were being scrutinised, both at the onboarding stage and throughout the business relationship, with each new loan introduced, and previous loans remaining unpaid, being extended or assigned, such loans increasingly became red flags in themselves, signalling potential layering activity and therefore warranting consideration for external reporting.

Customer File C

- Context of the customer entity: The customer, a holding company, had its shares held by a foundation set-up in an EEA jurisdiction. On the basis of documentation made available during the compliance examination, it transpired that this foundation had different classes of beneficiaries, most notably, Mr A and Mr B. Importantly, it was stipulated that Mr B would not remain entitled as a beneficiary if certain obligations outlined in an agreement between the same individual and Mr A, involving the partial or full purchase of the shares in seven entities, were not met. These seven entities were situated in a variety of jurisdictions, with some in the EU or EEA and others in higher risk countries such as the British Virgin Islands (the BVI), Seychelles and Belize. It is important to note that a considerable portion of the acquired investments, specifically, the shares of four out of the seven entities, had been transferred to the customer's ownership, effectively making them its subsidiaries.

- High value of the original transaction, a significant portion of which was subsequently waived: Under the previously mentioned agreement, Mr B was required to pay the purchase price of nearly €200 million for the seven acquired entities over a pre-determined number of years. Mr B had anticipated that this debt would be settled using the profits generated from these entities; however, this was not the case. Consequently, Mr A and Mr B entering into a settlement agreement, by virtue of which, the purchase price was reduced to just over €50 million, which means that a staggering 70% of the initial amount was waived. The rationale for this reduction was predominately attributed to collapse of the Russian currency (Ruble), which led a decline in the investments and exchange rate losses associated with the same. In support of this claim, the Company referenced an online article which failed to provide concrete evidence explaining the significant loss in the value of the entities acquired by Mr B, including the extent of that loss. As part of its representations, the Company also referred to another online article indicating that the underlying entities pertaining to one of the customer entity's subsidiaries were struggling due to an economic crisis present at the time. This additional documentary evidence did shed more light on the matter but was still considered insufficient because it only addressed one out of the seven entities.

Mr B continued to face difficulties in settling his dues, prompting him to enter into a second settlement agreement with Mr A. This agreement confirmed that Mr B had already repaid Mr A approximately €30 million, leaving him with an outstanding balance of around €20 million. As specified in the said agreement, the two parties agreed to settle this remaining amount through the transfer of Mr B's shares in two out of seven acquired entities, as well as the customer entity (which had four underlying subsidiaries). This arrangement resulted in Mr B only retaining one of the original seven entities that he had purchased from Mr A.

During its discussions, Committee remarked that, at the time of the waiver of the purchase price, the Company should have questioned the substantial decline in the value of the investments and made enquiries into the basis on which the initial valuation of €200 million and revaluation of €50 million were established. In pursuit of this, the Company was expected to seek additional documentary evidence, such as formal valuations, to substantiate the value of the seven entities, this to ensure that both the initial purchase price and its subsequent reduction were justified and made business and economic sense.

- <u>Lack of rationale for Ms C's purchase</u>: Mr A transferred the shares of the entities that had been returned to him by Mr B to his niece, Ms C, for a consideration of €15 million. These shares were then donated by Ms C to another foundation based in an EEA jurisdiction, of which she was the founder and sole beneficiary. As was the case for Mr B, the acquisition of investments by Ms C was also intended to be financed through future dividends generated by the customer entity's underlying subsidiaries. Once again, in this scenario, the Company should have raised questions concerning the low purchase price of €15 million and obtained the necessary supporting documentation to validate the same. This was of particular importance given that the shares of the six entities acquired by Ms C, along with the shares of the singular entity retained by Mr B, had previously been revalued at roughly €50 million in earlier transactions between Mr A and Mr B. Collecting independent documentary evidence, such as a formal valuation, would have enabled the Company to ascertain that the sale was made a justifiable price to Ms C.

- <u>The individuals involved with the customer and their relationships</u>: The financial means of the two individuals who purchased the entities at different points in time, i.e., Mr B and Ms C, was also subject to scrutiny during the compliance examination. Specifically, Mr B's annual income was reported to be circa $150,000, while his total net worth was estimated to be in the region of $5 million. Meanwhile, Ms C, who was involved in the art business, had a declared annual income of roughly $30,000 and a total net wealth of close to $2.5 million. In view of this, it was unclear how Mr B was able to engage in a transaction of €200 million and Ms C in a transaction of €15 million, especially since, as detailed in the next red flag, the acquired entities had generally not been performing well financially, even before the time of purchase. The Committee also found it perplexing how Mr B managed to pay €30 million out of the originally owed €200 million to Mr A, and why Ms C, with her background in art, chose to proceed with such an investment even though her previous knowledge and experience was not in line with the activities carried out by the customer entity.

- <u>Obscure financial situation of the customer entity's subsidiaries</u>: Upon reviewing the financial statements and/or management accounts pertaining to the four underlying subsidiaries of the customer entity, it was observed that these companies had been experiencing substantial financial difficulties, particularly around the time of their acquisition by Mr B. For instance, during the year when the transaction between Mr A and Mr B took place, one subsidiary recorded accumulated losses exceeding €50 million, while another disclosed accumulated losses of around €2 million. In light of the poor financial performance exhibited by the four subsidiaries, it seemed high unlikely from the onset that Mr B would have been able to repay the purchase price of €200 million within the stipulated timeframe, this since the income streams generated by such entities could not be feasible relied on. This further calls into question the veracity of the €200 million valuation.

- Closure of the customer entity's bank account: As stated in the compliance examination report, the customer currently did not have a bank account. According to the Company, no transactions had been executed since 2017, which led to the client's bank account being closed due to there being a lack of funds in the said account and no intention to deposit any in the future. However, this decision appeared illogical because dividend distributions were expected to be received. In fact, the Company remarked that, although one of the subsidiaries, which had previously reported considerable accumulated losses, declared dividend distributions amounting to millions of pounds, these funds were never paid to the customer by virtue of the fact that it did not have a bank account. In light of the above, the Committee determined that there were certain red flags which could not be explained, particularly: (a.) why an entity that had performed poorly financially would go on to declare such high dividends; and (b.) how, without an active bank, any dividends declared by the subsidiaries could have been disbursed to the customer over the years.

- Non-submission of the customer's entity's financial statements: The customer has failed to submit its audited financial statements from 2016 onwards as a result of accounting discrepancies between the dividend figures calculated internally and those computed by the accountants of one of the customer's subsidiaries. At the time of the Company's representations, efforts were underway to remedy this issue, with rectification expected imminently. Nevertheless, to date, these critical documents have remained unsubmitted for the past eight years.

ADMINISTRATIVE MEASURES TAKEN BY THE FIAU'S COMPLIANCE MONITORING COMMITTEE:

After taking into consideration the above-mentioned findings, the Committee decided to impose an administrative penalty of €66,504 for the breaches identified in relation to:

- Regulations 7(2)(a), 7(2)(b) and 11(9) of the PMLFTR and Sections 4.5.1(a), 4.5.1(b), 4.5.2 and 4.5.3 of the IPs
- Regulation 15(3) of the PMLFTR and Section 5.5 of the IPs

In arriving at the final amount of the administrative penalty to impose, the Committee considered a range of aggravating and mitigating factors. The Committee could not but stress the importance of the AML/CFT obligations that the Company breached, together with the overall seriousness of the findings identified and their material impact, as extensively explained above. Specifically, the Committee noted that the inadequate transaction monitoring measures carried out by the Company could have led to the unintentional facilitation of ML/FT. Moreover, the Company's reckless disregard for the numerous red flags present in certain business relationships, at times involving exposures to higher risk jurisdictions, further underscored its lax approach to its most onerous obligations, which not only adversely impacted its own operations but also exposed the Maltese jurisdiction to unmanaged ML/FT risks. However, the Committee is cognisant of the fact that the Company has effectively surrendered its company services provider (CSP) licence with the Malta Financial Services Authority (MFSA), which alleviated concerns regarding future risk exposures for the Company. Further to the above, the Committee also took into consideration the nature, size, and operations of the Company, noting that it was not deemed large when compared to other entities operating within the same sector. Additionally, the Committee factored in the level of cooperation exhibited by the Company throughout the entire process, highlighting that the Company and its officials were cooperative, both during the compliance review and the in-person meeting held with the Committee members. Lastly, the Committee ensured that the administrative penalty imposed is effective, dissuasive, and proportionate to the failures identified and the ML/FT risks perceived.

Under normal circumstances, certain identified shortcomings would have merited the imposition of a directive to ensure that remedial actions are undertaken. However, given that the Company has surrendered its licence and is in the process of dissolution, such remediation is no longer possible.

The administrative penalty hereby imposed is not yet final and may be appealed before the Court of Appeal (Inferior Jurisdiction) within the period prescribed by the applicable law. It shall become final upon the lapse of the appeal period or upon final determination by the Court.

Key Take-aways

- As stipulated in Section 4.5.3 of the IPs, subject persons are obligated, in fulfilment of their ongoing monitoring obligations, to assess whether the presence of certain trigger events necessitate an update of the customer's documents, information and data. By way of example, an unusual transaction or patterns of transactions, such as a previously dormant company suddenly engaging in large incoming and/or outgoing transactions, may indicate a change in the business relationship or the customer's relevant circumstances, including a shift in the business operations or activities of the same. To this end, it may be necessary to adjust the customer's business and risk profile to ensure that all relevant factors are reflected, which could entail obtaining new information or documentation.

- When a customer engages in loans, whether receivable or payable, it is not sufficient for the subject person to merely understand the terms and conditions of loans. Rather, it is of utmost importance that the documentary evidence obtained in support of the loans involved, including loan agreements or other agreements involving the assignments of loans receivable, shed light into such loans' purpose, as well as their funding streams. For instance, in the context of a customer acting as a holding company that grants and receives loans to/from related and third parties, to corroborate the underlying loans, subject persons need to gather additional information, and on a risk sensitive basis, supporting documents, covering details such as the nature of the business and activities conducted by the entities involved, underlying assets held, and any projects undertaken. Attention should be given to loans where repayment terms are repeatedly extended without justification, as well as loans provided at minimal or no interest rates without documented rationale.

- Whenever there are transactions involving the customer entity and other parties, the subject person should ensure that the relationships between all individuals/entities involved are properly understood and well established. This is particularly important in cases where these parties are undertaking significant actions on behalf of the customer, such as extending loans at relatively low interest rates or being assigned loans that originally had to be repaid by the said client.

- In assessing adverse media related to a customer entity or any of its BOs, the subject person should carefully consider the content, reliability, and frequency of the available information, together with the seriousness of the allegations or potential crimes committed, and the extent to which the same is relevant to the activities undertaken by the customer. Indeed, adverse media should be considered in the broader context of the customer's activities and other red flags present within the same.

- While the lack of legal actions taken, such as prosecutions or convictions, may serve as a mitigating factor, it is essential that this is analysed within the context of each case, and should not be the sole criterion for discounting adverse media. For instance, simply knowing that the BO of a particular customer, who has been the subject of consistent adverse media coverage over the years, was never convicted, is not always enough, and the Company may need to delve deeper into the underlying reasons for the non-prosecution or conviction – was it because there was an absence of evidence, or were there other factors at play, such as legal or procedural complications, that influenced the outcome?

- Where assets or investments, for instance, shares in other entities, are acquired by the customer or any of its BOs, these transactions should be backed up with the necessary supporting evidence, which may include formal valuations or, at a minimum, pertinent financial documents such as audited financial statements dated prior to the acquisition. Moreover, any waivers in the purchase price or further revaluations must be appropriately corroborated. Consideration should also be given to the source of wealth (SOW) and source of funds (SOF) of the individuals or entities acquiring the assets or investments. Any concerns about such individuals/entities' financial means need to be questioned, and the requisite supporting documentation collected, if deemed necessary.

13 November 2024