



Administrative Measure Publication Notice

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The Notice provides select information from the FIAU's decision imposing the respective administrative measures and is not a reproduction of the actual decision.

DATE OF IMPOSITION OF THE ADMINISTRATIVE MEASURE:

29 August 2025

RELEVANT ACTIVITY CARRIED OUT:

Collective Investment Scheme

SUPERVISORY ACTION:

Off-site compliance examination carried out in May 2022

DETAILS OF THE ADMINISTRATIVE MEASURES IMPOSED:

Remediation Directive in terms of Regulation 21 of the Prevention of Money Laundering and Funding of Terrorism Regulations (the PMLFTR)

LEGAL PROVISIONS BREACHED:

- Regulation 5(5)(a)(ii) of the PMLFTR and Sections 3.4 and 3.5 of the IPs
- Regulations 7(1)(d), 7(2)(a) and 11(9) of the PMLFTR and Sections 4.5.1(a) and 4.5.2.2 of the IPs

REASONS LEADING TO THE IMPOSITION OF THE ADMINISTRATIVE MEASURE:

Customer Risk Assessment (CRA) – breach of Regulation 5(5)(a)(ii) of the PMLFTR and Sections 3.4 and 3.5 of the IPs

The compliance examination identified certain shortcomings surrounding the Company's CRA framework. In particular, it was noted the overall risk ratings assigned to customers were not supported by sufficient explanations or evidence. As a matter of fact, the CRA documentation on file only outlined the final rating, without demonstrating how individual risk pillars were assessed or how they contributed to the overall outcome. This limited the Company's ability to ensure that risks associated with their clients were being assessed in a consistent and transparent manner.

It was also observed that oversight of the risk assessment process, outsourced to the Fund Administrator, was not fully effective. The MLRO relied on high-level CRA reports that provided limited details regarding the risk factors evaluated, as well as the underlying scoring logic and risk inputs, rather than having the ability to independently review or validate the detailed risk assessment process used to determine

customer risk scores. Consequently, this created gaps in verifying whether the risk assessment framework was being applied as intended and in line with the Company's own internal policies and procedures.

Lastly, the compliance examination report revealed that for 28% of the customer files reviewed, adverse media screening was conducted late, i.e., after the business relationship had already been established, with the longest delay just exceeding one year.

Notwithstanding the above, the Committee positively acknowledged that, following the compliance examination, the Company implemented measures to enhance its risk assessment procedures, including improvements to its CRA methodology and the introduction of a risk matrix, which now provide greater clarity on how the individual risk pillars contribute to the final risk rating.

Transaction Monitoring – breach of Regulations 7(1)(d), 7(2)(a) and 11(9) of the PMLFTR and Sections 4.5.1(a) and 4.5.2.2 of the IPs

During the compliance examination, it transpired that there was one customer file in respect of which the Company failed to perform adequate transaction scrutiny, this by not collecting sufficient evidence to substantiate the source of funds. In this specific case, the customer, a natural person with a declared annual income of between €250,000 and €500,000, made a subscription of approximately €1 million, claiming to have inherited substantial wealth through an art collection valued at millions. However, at the time when the transaction took place, there no evidence to demonstrate that the Company had properly scrutinised the high-value subscription involved. This is because formal documentation, such as an inheritance certificate, was not gathered to verify the claimed inheritance, nor was there any other supporting documentation to corroborate the investor's financial profile. Instead, the Company relied on unverified documents and online sources, which did not provide the necessary assurances.

Despite this failing, the Committee recognised the fact that the Company has since implemented certain remedial actions to strengthen its transaction monitoring framework and has demonstrated a commitment to further enhancing its practices going forward.

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

In view of the breaches identified, the Committee proceeded to serve the Company with a Remediation Directive in terms of Regulation 21(4)(c) of the PMLFTR. The aim of this administrative measure is to direct the Company to take the required remedial actions to ensure that it has a sound understanding of the risks surrounding its operations and has implemented sufficient controls to mitigate such identified risks.

In reaching its decision regarding the administrative measures to impose, the Committee took into consideration all the information made available by the Company, both during the compliance examination, as well as through its representations. The Committee also considered the importance of the AML/CFT obligations that the Company has breached, together with the seriousness of the findings and their material impact. Furthermore, the Committee took into account the nature, size and operations of the Company, and how the services it rendered and the AML/CFT controls in place may have impacted the local jurisdiction as a whole. In addition, the Committee factored in the level of cooperation exhibited by the Company throughout the whole process, and the overall regard that the Company has towards its obligations. The Committee also took note of the Company's commitment towards updating and enhancing specific AML/CFT processes, as well as the remedial actions that it has indicated are either underway or

already implemented. Lastly, the Committee ensured that the administrative measure imposed is effective, dissuasive, and proportionate to the identified failures and the perceived ML/FT risks.

The main purpose of the aforementioned Directive is for the FIAU to ascertain that the Company enhances its AML/CFT safeguards and undertakes the requisite remedial actions to attain full compliance with its AML/CFT legal obligations emanating from the PMLFTR and the IPs issued thereunder. The Company is being directed to remediate the identified breaches by implementing a number of remedial actions, including but not limited to the following:

- Enhancing the CRA framework to ensure that risk assessments are comprehensive, traceable, and applied consistently. The methodology used to assess each risk pillar must also be clearly documented, with a clear explanation of how the final customer risk rating is derived.
- Conducting a retrospective review of customer files onboarded prior to the improvements made to the CRA process, ensuring that appropriate information substantiating the risk ratings is in place. Any gaps identified must be addressed through supplementary documentation or re-assessment where necessary.
- Updating internal policies, procedures, and systems to ensure that customer screening, including adverse media checks, is carried out prior to onboarding and on an ongoing basis, with all outcomes properly dated, recorded, and retained.
- Implementing measures to ensure adequate transaction monitoring, which includes consistently obtaining and retaining the necessary supporting documentation to verify customers' source of wealth and source of funds, particularly where deviations from expected activity levels are identified and in cases involving high-value transactions or higher-risk asset classes.

The Directive served on the Company shall ascertain that sufficient and tangible progress is achieved on the adoption and implementation of all the procedures and measures referred to above. In the event that the requested information and/or supporting documentation are not made available within the stipulated timeframes, or the Company falls short of its obligations in terms of this Directive, the Company's default will be communicated to the Committee for its eventual actions, including the possibility of the imposition of an administrative penalty in terms of the FIAU's powers under Regulation 21(1) of the PMLFTR.

Key Takeaways

- The CRA and its outcome must be fully documented, demonstrating how each risk pillar, namely customer risk, geographical risk, product/service/transaction risk, and interface/delivery channel risk, has been assessed and ultimately contributes to the overall risk score and corresponding risk rating assigned. Underpinning the risk assessment process should be an objective CRA methodology that takes into consideration that requirements emanating from Regulation 5(5)(a)(ii) PMLFTR and Sections 3.4 and 3.5 of the IPs.
- Oversight functions, including the MLRO, must be supported by sufficient information to understand, validate, and challenge the CRA outcomes, especially where such process is outsourced. Internal governance must ensure that the risk assessment process can be independently reviewed and that deviations or anomalies are identified and addressed promptly.

- It is important that the CRA framework is regularly reviewed and updated to address emerging risks, incorporate new customer types and products/services offered, as well as reflect enhancements made to the underlying methodology. Where changes are introduced to the CRA methodology, it may be necessary for the subject person to conduct retrospective reviews of existing customer files to ensure alignment with the updated approach.
- Certain transactions, particularly those that are not in line with the customer's business and risk profile, involve large amounts, or are otherwise unusual or suspicious, are to be subject to timely and appropriate scrutiny. Supporting documentation verifying the source of wealth and source of funds must be collected whenever deviations, inconsistencies, or anomalies are identified.
- Records of transaction monitoring activities must be complete, accurate, and retained in a manner that allows for independent review. In this regard, subject persons should ensure that the rationale for discounting or escalating an alerted transactions is properly documented, and that any necessary follow-ups are performed.

29 August 2025

