<u>**Risk Assessment Guide**</u>

<u>**Money Laundering and Terrorist Financing**</u>

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Vassilios Sparakis

Head of

Special Unit for the Prevention of Money Laundering

I. INTRODUCTION

Organized crime and terrorism are global problems, with serious social and economic repercussions for each country in the world, including Greece.

Money Laundering (ML) allows criminals to conceal the origin of their illicit funds and then use them without suspicion.

In our country the law providing for the prevention and suppression of money laundering and terrorist financing is 3691/2008. From time to time, all countries are assessed by international bodies on the basis of mutual evaluations of whether they are effectively dealing with Money Laundering and Terrorist Financing. As can be seen from the consultations made for the 4th ML/TF Directive, particular emphasis has been placed on the issue of risk assessment. For the next assessment of our country, it will be necessary that risk assessments be made at the level of the state, the competent authorities and the persons under the obligation of Law 3691/2008 of the ML/TF, the results of which should have been used to improve the prevention of ML/TF.

II. Which is the Guide and is it useful?

ML/TF risk assessment is a useful tool to enable a company to develop adequate and efficient anti-ML/TF procedures. It involves identifying and assessing risks that the business is reasonably expecting to face in relation to ML/TF. When the risk assessment is completed, the firm can then process its procedures so that its due diligence measures are proportionate to the degree of risk for ML/TF.

With this approach, provided by Article 13 (10) of Law 3691/2008, ML/TF risks can be minimized while saving human resources and time.

During the inspections carried out by the Special Unit over the last two years for the purpose of evaluating the procedures applied by the persons under the supervision of the Hellenic Capital Market Commission (L. 3691/2008) for dealing with ML/TF (hereinafter referred to as "the Companies"), the following were observed:

- Generally, companies showed increasing interest in the issue of dealing with ML/TF, which resulted in an improvement in the applied procedures.
- However, it was found that in the procedures of several Companies **the due diligence measures** foreseen **do not have an extent proportional to the degree of risk** involved in each business relationship and transaction. For example, some companies applied inadequate due diligence measures for high-risk ML/TF cases, while other companies applied excessive due diligence measures for very low-risk ML/TF cases.

This Guide is designed to help Companies perform the annual risk assessment provided for in paragraph 2(d) of article 8 of the Decision 1/506/8.4.2009 of the Hellenic Capital Market Commission. For this purpose, examples of risk assessment and proposals are made to improve the procedures applied by the companies for dealing with ML/TF.

The implementation of this Guide for conducting the foreseen risk assessment is not compulsory. Companies can apply alternative risk assessment methods.

III. Contents

The Guide contains the following sections:

A. Determination of risks.

B. Risk assessment and examples of how risk assessment is used to adjust procedures and address these risks effectively.

A. Determination of risks

Risk identification includes identifying the Company's factors that may be susceptible to ML/TF.

In order to identify the factors of the company that may be susceptible to ML/TF, the following can be considered:

- the nature, size and complexity of the Company's activities
- products and services it offers
- the way it offers its products and services
- the Company's customers
- geographic factors
- other risk factors.

Below is a more detailed explanation of these factors.

A 1. The nature, size and complexity of the Company's activities

The size and complexity of a business play a decisive role in how attractive or vulnerable a company is for ML/TF.

Because a large business is less likely to know all its customers well, it could possibly be easier to use for ML/TF compared to a small business.

Similarly, a company with presence in many regions (with branches and/or dealers) conducting complex transactions in domestic and foreign markets, could offer greater opportunities to those wishing to launder money than a simple domestic business.

This situation makes it difficult to identify affiliated customers and favors those who have the aim of making (virtual) profits by doing pre-arranged transactions with each other.

A 2. The products and services offered by the Company

Some products and services are appealing for ML/TF. In examining whether the products and services offered by the Company are susceptible or attractive for ML/TF, it is proposed to address issues such as:

- Does the product allow payments to third parties? The use of scarecrows to cover up the illicit origin of funds is a well-known ML/TF method. Example: Transactions through common investment shares or co-beneficiaries in mutual fund shares.
- Does the product allow for cash collection or payment?
- Does the product allow the transfer of profits between connected customers through pre-arranged transactions?

A 3. The way the Company offers its products and services

The way the Company offers its products and services affects its vulnerability or attractiveness for ML/TF.

Does the Company enter into contracts via mail or internet, executes orders for transactions or transfers of funds by telephone or internet etc? (Customers without physical presence).

In these cases, it is difficult to verify the identity of the beneficial owner of the account.

A 4. Company Customers

Some types of customers pose a higher risk of ML/TF, among them:

- Clients with occupations that are widely known to be related to criminal activity or tax evasion.
- Customers who use complex business structures that do not offer obvious economic benefits.
- Connected customers who conduct coordinated transactions.
- Customers who are politically exposed (PEPs).

- Customers involved in businesses with high levels of corruption.
- Clients whose source of funds cannot easily be verified.
- Clients transferring their portfolios from company to company.
- Customers who engage in business through third parties such as accountants, lawyers, or other professionals.
- Clients who are non-profit organizations.
- Clients involved in occasional or one-time transactions above a certain threshold.

Types of clients whose characteristics may indicate a lower risk of ML/TF may also be:

- Customers who have a fixed income from a known source (e.g. employees, retirees) and
- Clients with a long-term business relationship with the Company, who carry out very small value transactions and/or maintain a very small portfolio.
- Persons such as those described in article 17 of Law 3691/2008 (Credit institutions, financial institutions, listed companies, public authorities and organizations, etc.)

A 5. Geographical risk factors

Countries with a higher risk of ML/TF are:

  - countries subject to sanctions, trade exclusion or similar measures imposed, for example by the United Nations
  - countries identified by reliable sources, such as the FATF, as not having adequate procedures to prevent ML/TF
  - countries, identified by reliable sources, that support ML
  - countries, identified by reliable sources, that have significant levels of corruption
  - countries that are tax havens and

    - countries associated with drug production and/or trafficking

A 6. Other risk factors.

- Cooperation with other financial institutions or natural persons not subject to the supervision of a competent authority.
- Staff expertise in ML/TF issues.
- Adequacy of the Company's technical means (especially computerized programs) for dealing with ML/TF (only for Companies with a very large number of customers and a large volume of transactions).

B. Risk assessment and examples of how risk assessment is used to adjust procedures and address these risks effectively.

The ML/TF risk assessment results in a certain grade for each risk. For the purpose of calculating the degree of risk, account shall be taken of the **impact** that the risk may entail and the **likelihood** of that risk occurring.

This calculation is made for each group of risk factors with similar characteristics as follows:

B. Risk assessment and examples - Example A

Suppose that Company A has a large number of customers with normal/medium risk, who are inactive for a long time, have no portfolio or have a very low value portfolio (<€15,000). (These do not include those who previously had large funds for which certification of their origin is required). The Company, for the purpose of **assessing the risk of these clients** for ML/TF, considered as follows:

Even if it is **likely** that a client's funds come from criminal activity, their value is so small (<€15,000) that their circulation would have relatively minor effects (social, economic).

Thus, based on the table below, these customers have a **low degree of risk** (1). (Relative line and column meeting point)

Possibility of risk appearance	Very likely	Medium 2	High 3	Very High 5
	Likely	Low 1	Medium 2	High 3
	Unlikely	Low 1	Low 1	Medium 2
		Low	Medium	High
		Risk effects		

PROPOSAL A

As a result of this assessment, the Company decided for these customers to adjust the extent of due diligence measures provided for in its written internal procedures according to the degree of risk. In particular, it has decided to reduce the frequency of updating their identification documents (e.g. update every 12 years) and not to ask the Tax Authorities to certify the origin of this small capital (based on Article 13 (1) (f) that the origin of funds is ascertained **if required**). In order to adjust these due diligence measures, the Company has provided for its new procedures a new customer risk category, the Medium Risk category A, to which the above mentioned clients belong. The remaining Medium Risk category clients are included in a new Medium Risk category B. Thus, in its written internal procedures, it provided for different due diligence measures depending on the degree of risk for each category (Medium A - Risk Level 1, Medium B - Risk Level 2).

It is therefore proposed to categorize the customer group, which has the same characteristics, into a separate risk category, in which category specific due diligence measures correspond. All types of customers, which we expect to have the same due diligence measures, can be included in the same risk category. Cases where, for clients of the same risk category, some companies provide for reduced or increased due diligence measures, are not recommended, as they may lead to a violation of HCMC Decision 1/506/2009.

For example, if we believe about a customer, who has been included in the normal/medium risk class, that we need to apply increased due diligence measures, then we should move him to the high-risk category.

Below is a table with the assessment of the types of customers that Company A is reasonably expected to have.

B. Risk Assessment and Examples - Risk Rating Table of the Types of Customers Expected by the Company A.

Risk group	**CUSTOMERS**			
Danger	**Chance to appear**	**Impact**	**Degree of danger**	**Handling / due diligence measures**
Inactive ordinary (medium / normal) risk customers with portfolios of <15,000 €	Likely	Small	Low 1	Inclusion in a separate category. Updating documents every 12 years. Certification of source of capital is not required.
Customers at increased risk of tax evasion (eg freelancers)	Very likely	Moderate	High 3	Increased due diligence measures
Other customers (along with some freelancers)	Very likely	Small	Medium 2	Usual due diligence
Colombian high-earners (Not very high-risk resident)	Very likely	Great	Very high 5	Very high due diligence measures

Offshore companies	The parameter is not being considered	The parameter is not being considered	High 3	Increased due diligence measures
Non-residents	Not considered	Not considered	High 3	Increased due diligence measures
Politically exposed persons	Not considered	Not considered	High 3	Increased due diligence measures
Customers without physical presence	Not considered	Not considered	High 3	Increased due diligence measures
The other high risk customers (from 1/506/2009 Art. 2 para. 6 as it stands)	Not considered	Not considered	High 3	Increased due diligence measures

B. Risk assessment and examples - Example B

Company B offers, among the **products and services** it offers to its customers, the execution of orders for transactions on derivative products with very late expiration dates, on the Greek and foreign stock exchanges. The Company, for the risk assessment of these products for ML/TF, considered as follows:

It is well known that due to the low marketability of such derivative products, there is usually very much fluctuation in their prices, which can be exploited by some for ML/TF, transferring large profits from one client to another through pre-arranged transactions. It therefore estimates that the ML/TF risk is **likely** and the impact can be **large**.

Thus, based on the risk rating table (from the previous example) these products get a **high degree of risk (3).**

B. Risk assessment and examples - Example B Risk assessment of products and services expected by the Company B.

Risk group	**PRODUCTS AND SERVICES**			

Danger	Chance to appear	Impact	Degree of danger	Handling / due diligence measures
Out-of-order derivatives	Likely	Great	High 3	Increased due diligence measures
Other products and services ...				

As a result of the risk assessment of these products, Company B provided, among others, in its procedures increased monitoring of transactions in these products in order to prevent pre-agreed transactions and/or their identification and reporting to the Special Unit for the Prevention of Money Laundering.

In this way, the risk assessment of the other factors reasonably related to the Company can be made and, on the basis of the resulting risk levels, the necessary modifications can be made to the ML/TF prevention procedures.

Risk assessment and regular reassessment of ML/TF prevention procedures are necessary because the risks change over time - for example, there are changes in the customer base, products and services, the business practices of the companies and the legislative framework.

According to paragraph 2(d) of article 8 of the Decision 1/506/8.4.2009 of the Hellenic Capital Market Commission, the risk assessment is carried out on an annual basis. If in the following years there are no changes to the Company's risks, then a simple note from the Company is sufficient for each year that no changes have been noted.

IV. SUMMARY

- Recently, the issue of the ML/TF risk assessment, which should now be carried out at the level of the state, the competent authorities and the liable persons, is of great importance in the world 3691/2008.
- The risk assessment will result in a comprehensive table of risk scores of all those factors that reasonably affect each Company.

- On the basis of risk ratings resulting from the risk assessment, Companies make the necessary modifications to the procedures they apply to deal with ML/TF.
- The risk assessment is carried out on a yearly basis to ensure that the procedures applied adequately address all the ML/TF risks.