

Module 5

Recognition and reporting of suspicious transactions

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- ❖ 4 steps recommended by the JFIU to identify suspicious activities:

Step 1 – Recognition of suspicious activity indicators

- ❖ Examples of indicators:
 - ❖ Buying and selling of securities/ futures with no discernible purpose or in circumstances which appear unusual
 - ❖ Wash trading
 - ❖ Frequent funds transfers or cheque payments to or from unverified, or difficult to verify, third parties

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Step 2 – Appropriate questioning of the customer

- ❖ Where a transaction bears one or more suspicious activity indicators, question the customer on the reason for conducting the transaction and the identity of the source.
- ❖ On occasions staff members of intermediaries have expressed reluctance to ask questions as they may offend the customer, they should ask questions which are apparently in furtherance of promoting the services of the firm or satisfying customer needs.
- ❖ Persons engaged in legitimate business will have no objection to answering such questions.
- ❖ If a customer is unwilling, or refuses, to answer questions or gives replies which staff members suspect are incorrect or untrue, it may be a further indication of suspicious activity.

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Step 3 – Review information on hand

- ❖ Applies the “know your customer principle”
- ❖ Staff members should review the following to judge if the transaction is suspicious:
 - ❖ The customer’s occupation
 - ❖ The customer’s residential address
 - ❖ The customer’s age
 - ❖ The customer’s net worth/ annual income
 - ❖ The average balance and number and type of transactions seen on an account over a period of time

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Step 4 – Decide if reporting is necessary

- ❖ Having taken into account of all available information, staff member should decide whether a suspicious transaction report (“STR”) should, or should not, be made.



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- ❖ Take appropriate measures to ensure that your firm does not involve in any types of ML or TF by accident or through the possible collusion of staff -> strictly follow the KYC principle
- ❖ Should not assume that the CDD obligations have already been performed by the banks that handle the initial cash deposits -> conduct your own CDD
- ❖ Remind each individual staff member of his legal and regulatory obligations to report suspicious transactions to the JFIU
- ❖ Should not tip off