



# TRADE FINANCE, CORRESPONDENT BANKING AND ELECTRONIC FUNDS TRANSFERS



2021 Report

# Contents

---

Executive Summary.....	2
Defined terms and disclaimer.....	2
Part one: Trade Finance.....	3
Background and Impetus for the 2020 Review.....	3
Methodology.....	4
Profile of the Trade Sector for the period.....	5
Part Two: Correspondent Banking and Electronic Funds Transfer.....	13
Background and Impetus for the review.....	13
Methodology.....	13
Profile in the DIFC.....	13
Findings and observations.....	14
Final comments.....	20

# Executive Summary

In early 2020, the Dubai Financial Services Authority (**DFSA**) commenced two thematic reviews that covered three core areas, being: trade finance, correspondent banking, and electronic funds transfers<sup>[1]</sup> (the **2020 Review**).

In terms of how the DFSA decided the scope of the 2020 Review:

- The trade finance thematic review was part of the DFSA's continuing commitment to develop its understanding of risks in this area specific to the Dubai International Financial Center (**DIFC**).
- The correspondent banking thematic review was identified as a focus area in the DFSA Financial Crime Prevention Programme - 2018 AML Report, with a start date in early 2020.
- The electronic funds transfers thematic review was included in the 2020 Review given this activity is an integral part of correspondent banking activities.
- The 2020 Review also presented the DFSA with an opportunity to assess Relevant Persons' Anti-Money Laundering, Combatting Terrorist Financing and Counter-Proliferation Financing systems and controls in the context of Federal AML Legislation and the DFSA AML Rulebook Module.

While each of the trade finance, correspondent banking and electronic funds transfers thematic reviews were separate workstreams, the DFSA realised certain efficiency gains by combining some elements of the thematic work due to the interplay between these three areas and the related systems and controls we would expect to be implemented for AML/CTF/CPF regulatory compliance. This has also reduced the regulatory burden on those Authorised Firms in the sample that engage in activities in all three areas.

This report sets out the 2020 Review findings and general observations concerning the measures taken by Relevant Persons to manage associated risks and comply with DFSA Rules. The findings comprise two parts: (i) Part One concerns trade finance, and (ii) Part two concerns correspondent banking and electronic funds transfers. Authorised Firms are encouraged to consider this report when assessing their practices, policies, systems, controls and governance and to implement appropriate actions where necessary to ensure legal and regulatory compliance.

## Defined terms and disclaimer

Defined terms in this report are identified by the capitalisation of the first letter in a word or of each word in a phrase. These terms are either defined in this report, in the Glossary Module or AML Module (**AML**) of the DFSA Rulebook.

Please note that this report is based on Relevant Persons' responses to the referenced thematic reviews conducted by the DFSA and is intended only to provide a general and informal overview of the matters stated in it. This report is not any form of and must not be relied upon on any basis whatsoever, as legal or professional or any other form of advice and is provided on a general, non-binding basis only.

---

[1] Electronic Fund Transfers means Wire Transfers as defined in the FATF Recommendations and the UAE Federal Law.

# Part one: Trade Finance

## Background and Impetus for the 2020 Review

### International Standards

The Financial Action Task Force (**FATF**), the Wolfsberg Group and the Joint Money Laundering Steering Group (**JMLSG**) have all drawn attention previously to the vulnerabilities of international trade to money laundering, terrorist financing and sanctions, namely Trade-Based Money Laundering (**TBML**). And all three bodies have issued industry best practice guidelines on this topic[2].

### FATF Mutual Evaluation report of the UAE 2020

The FATF Mutual Evaluation report of the UAE published in April 2020[3] also highlighted trade-based money laundering as one of the main risks facing the UAE.

### Impact of the Covid-19 Pandemic

We also considered the impact of the pandemic and whether that contributed to other risks concerning trade finance. Consequently, we reviewed the FATF[4] and MONEYVAL[5] publications on COVID-19-related money laundering and terrorist financing risk, in addition to feedback on this subject from respondents in the survey population.

Common themes arising from these reports include the following:

- increased money laundering risks due to remote (CDD) measures being necessary;
- cyber-related crimes;
- the incidence of counterfeit medical goods and medicinal supplies, or fraudulent activity related to their supply;
- abuse of relief measures that have been implemented by Governments and authorities (at pace); and

- a move away from existing means and mechanisms used by criminals to move illicit funds due to the lockdown of international travel and trade.

Of these, the impact on trade generally, and shifts in trading activity, along with possible exposure to facilitating fraudulent or counterfeit trading, were the most likely relevant factors for Authorised Firms to monitor for signs of heightened financial crime risk in the DIFC. Several respondents in our survey population cited as additional themes increased price volatility in some sectors, which had created challenges in monitoring some of their activity for potential indicators of financial crimes.

Changes in document handling as a result of pandemic-related changes in policies or procedures may have been another potential area of impact requiring heightened monitoring. However, we did not receive any feedback from respondents identifying increased financial crime risk in document handling, which may be due to validation being possible without a need for non-remote verification measures that normally apply to Customer Due Diligence.

Changes to trade activity, shipping and routing, and other checks necessary on trade documentation are all integral parts of an effective due diligence and monitoring programme. The only impact noted in our review due to the Covid-19 pandemic was the adjustment required to implement remote working practices, particularly at global service centres where this type of monitoring and alert management is usually handled.

### Dubai as a trading hub

Given Dubai's continued position as a key trading hub, and the DIFC as a leading international financial centre, having effective systems and controls to conduct trade finance-related activities and adequately mitigate against money laundering risk is essential.

---

[2] Financial Action Task Force – 'Trade Based Money Laundering' – June 2006 paper  
Financial Action Task Force – 'Best Practices on Trade Based Money Laundering' – June 2008 paper  
The Wolfsberg Group, ICC & BAFT – 'Trade Finance Principles' – 2017 paper with 2019 amendment  
The JMLSG Guidance – Part II Sectoral Guidance

[3] Financial Action Task Force – 'Anti-money laundering and counter-terrorist financing measures - United Arab Emirates - Mutual Evaluation Report' – April 2020

[4] Financial Action Task Force – 'COVID-19 related Money Laundering and Terrorist Financing – Risk and Policy Responses' – May 2020 paper

[5] Council of Europe - Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism ('MONEYVAL') – 'Money laundering and terrorism financing trends in MONEYVAL jurisdictions during the COVID-19 crisis' – September 2020

# DFSA's Trade Finance Thematic Review 2015

In 2016, the DFSA published its findings from a thematic review undertaken between August 2015 and March 2016 (the **2016 Trade Finance Thematic Review Findings**) on measures taken by a sample of its Authorised Firms' to demonstrate compliance with their Anti-Money Laundering (**AML**), Counter-Terrorist Financing (**CTF**) and Sanctions obligations, specifically in relation to trade finance activities. The Report is available on the DFSA's [website](#).

Key findings from that thematic review included:

- Governance shortcomings, particularly the understanding and oversight of intra-group outsourced functions for managing TBML risks.
- Lack of suitable training specific to trade finance risks and the need for staff with appropriate skills, knowledge and experience in trade finance.
- Business AML Risk Assessments not adequately identifying TBML risk.
- Customer Risk Assessments not sufficiently sensitive to trade finance products and risk indicators.
- Effectiveness of ongoing CDD measures in identifying and monitoring higher risk activity and transactions.

On conclusion of the thematic work, a number of Authorised Firms were subject to follow up supervisory work, with Risk Mitigation Programmes put in place to ensure necessary remedial measures were implemented by those firms. In addition, in the three years since the publication of our 2016 thematic report, we would expect other Authorised Firms that were not subject to supervisory intervention at that time, but offering trade-related financial products or services, to have taken note of the 2016 Trade Finance Thematic Review Findings and made necessary changes to ensure they are regulatory compliant. Thematic reports are an important supervisory tool in raising awareness and highlighting good and poor practices, and which Authorised Firms are expected to consider and make necessary changes as appropriate. We would expect to see examples of this, such as gap analyses and action plans.

Supervisory effectiveness is also a key topic considered by FATF in its Mutual Evaluation Review work, where the emphasis has moved from technical compliance to outcomes focused assessments and AML/CTF and CPF regime effectiveness.

## Purpose of this Review

The purpose of this trade finance Follow-up Review (the "**Review**") was to:

- assess how Authorised Firms offering trade finance products and services had responded to the 2016 Trade Finance Thematic Review Findings; and
- measure the effectiveness of Authorised Firms' systems and controls in mitigating this trade-based money laundering risk and ensuring sanctions compliance.

## Methodology

The Review was undertaken in three phases:

- **Phase One: Trade finance questionnaire.**

Phase one of the Review was conducted in the first quarter of 2020. It commenced with a review of the trade finance-related data that the DFSA receives from Authorised Firms. Based on that review, the DFSA issued a tailored trade finance questionnaire to a sample of Authorised Firms to gather additional details of their trade finance activities. The questionnaire was designed to capture responses to the key findings from the 2016 Trade Finance Thematic Review Findings to assist the DFSA in determining the extent to which firms had taken notice of them. The questionnaire also aimed to provide an insight into the systems and controls implemented within this population of firms, and an overview of their collective trade-related activities during the period July to December 2019.

- **Phase Two: Desk-based review and follow up.**

Phase two of the review consisted of a desk-based review of Authorised Firm's responses to the questionnaire followed by engagement with selected firms to validate these responses, and further assess the specific systems and controls in place for selected firms. This also included those firms selected for the combined thematic work.

- **Phase Three: Analysis and reporting outcomes.**

Phase three of the Review was conducted in the third quarter of 2020. It involved analysing the findings and observations from the remote assessments, compiling findings for individual Authorised Firm feedback, and preparing this general report.



## Profile of the Trade Sector for the period

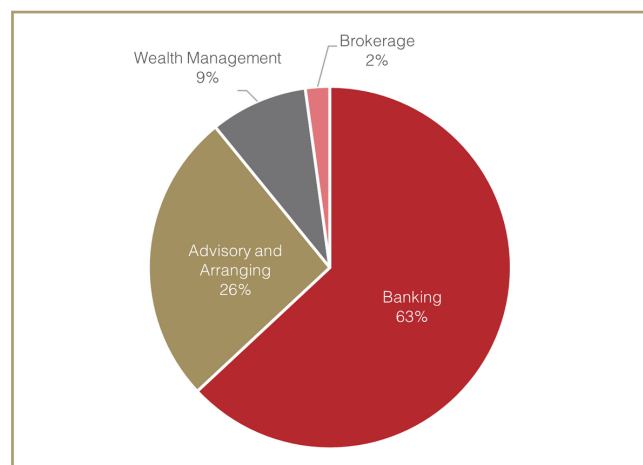
Globally, international trade volumes were reported to have contracted significantly through mid-2020 as a consequence of the pandemic. While volumes did begin to show some recovery in the period, they still remained below their pre-pandemic levels with global trade volumes down 1.6% year-on-year for October 2020, according to current estimates[6].

Data from the UAE Federal Competitiveness & Statistics Authority[7] showed that the UAE was not immune from the decline in global trade, with the total value of non-oil trade down 16.2% year-on-year in the first half of 2020 and volumes down 19.7%[8] too.

Following the publication of the 2016 Trade Finance Thematic Review Findings, we have enhanced our data collection in relation to trade finance. As part of their quarterly financial returns, Authorised Firms in the banking sector in the DIFC provide data on values, jurisdictions and sectors. The information provided is aggregated by the DFSA and was supplemented with data from the trade finance questionnaire conducted in Phase One, to provide a snapshot of trade finance activity by those Authorised Firms sampled for the period 1 July 2019 to 31 December 2019, based on the data submitted. This date range was chosen to provide the two most recent complete quarterly reporting periods ahead of the survey being issued in February 2020. Further detail of trade finance activity undertaken, including type of customers and top three underlying goods, were also obtained from the trade finance questionnaire.

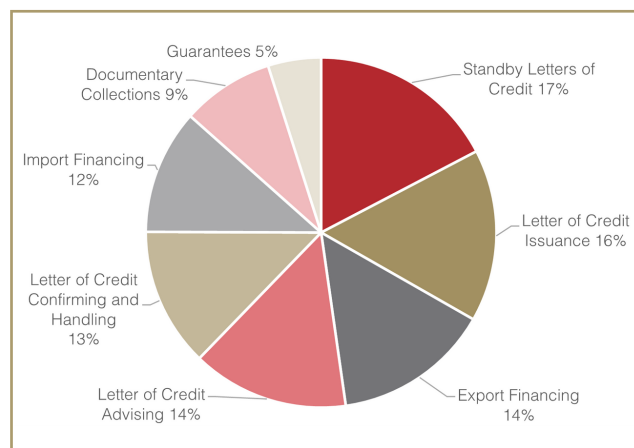
The following section provides the trade finance profile of those firms as described above for the period 1 July 2019 to 31 December 2019.

## Authorised Firm Population



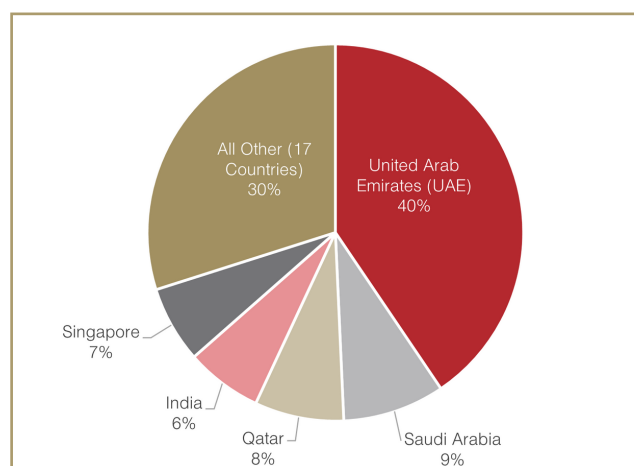
The Authorised Firm population providing trade finance products and services in the DIFC ranges across several sectors and a variety of business models. The chart below represents all Authorised Firms offering trade finance products and services by sector.

## Trade Finance Products/Services



As this chart illustrates, there is no predominance of a particular trade finance product offered in the DIFC. However, it is worth noting that each of these trade finance products can present a different risk profile depending on the role and capacity of the relevant Authorised Firm.

## Customer Jurisdictions



The chart above illustrates the split between jurisdictions (by value) where Authorised Firms' customers are based in respect of their primary business relationship. We have applied a 5% threshold to include only the more predominant jurisdictions but note that trade finance was also provided in 17 other jurisdictions including Kuwait, United Kingdom, USA, Bahrain, China, Iraq, South Korea, Egypt, Germany, Ghana, Hong Kong, Japan, Jordan, Lebanon, Nigeria, Switzerland and Turkey.

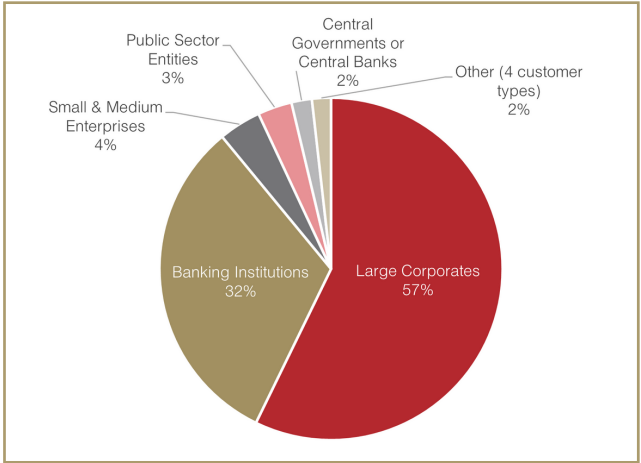
[7] International Monetary Fund

[8] <https://fcsc.gov.ae/en-us/Pages/Statistics/Statistics.aspx>

[9] The reported value of total non-oil trade in the UAE amounted to AED 658 billion, or USD 179 billion in the first half of 2020.

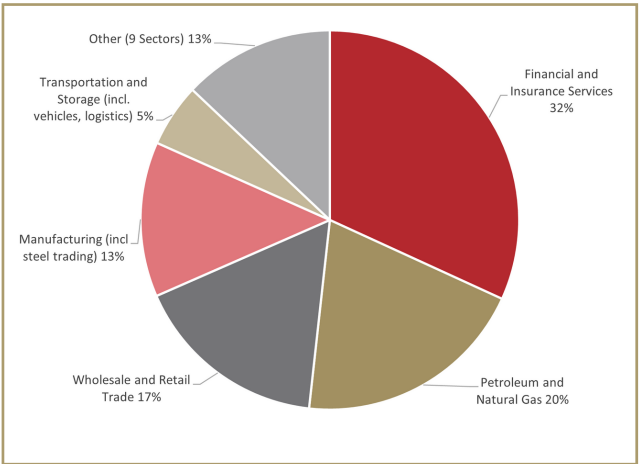
## Customers

The chart below illustrates the split between customer type by value. We have included the top five customers by type, but note that trade finance was also provided to four other customer types, which comprised local governments or local authorities, investment entities including Funds, other financial institutions, and multilateral development banks and lending agencies.



## Sectors

The chart below illustrates the split between business sectors by value. We have applied a 5% threshold to include only the more predominant sectors. However, we note that trade finance was also provided in nine other sectors which comprised of utilities, public administration, construction, agriculture and fishing, mining and quarrying, information and communication, professional and administrative, accommodation and food services, and other services.



## Breakdown of underlying goods (by value) within the sectors

The table below illustrates the split between the most predominant underlying goods by value within the sectors. We have applied a 5% threshold in this case.

Oil, Gas and related commodities	15%
Food commodities	10%
Metal & Steel	10%
Automobile	5%
Chemicals	5%
Electronics	5%
Other – total (listed below)	50%

In addition, trade finance was also provided in relation to 24 other underlying goods. These include: coal, crude oil, energy equipment, manufacturing, plant and equipment, construction material, fertilizer and chemical, pharmaceutical products, agricultural commodities, fast moving consumer goods (FMCG), financial and insurance services, gold, precious stones, telecommunication equipment, transportation, wholesale and retail trade, aircraft, copper cables/wires, infrastructure investment, marble, performance bonds/construction guarantees, ships, textiles, and tobacco.

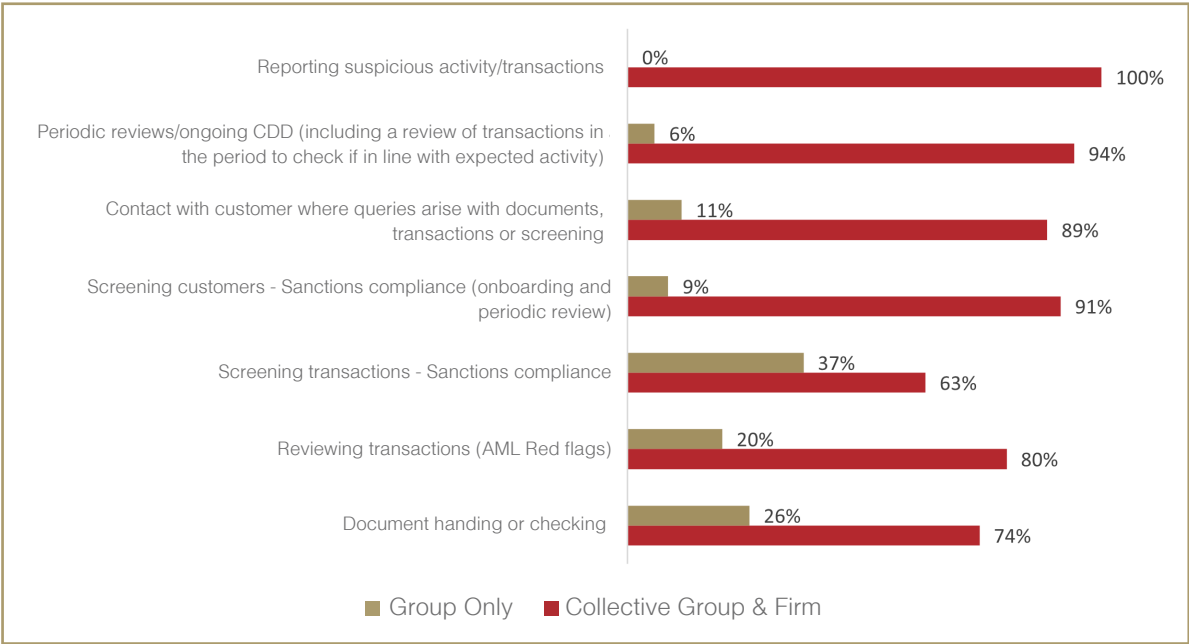
# Findings and observations

This section of the report will consider the findings from the 2020 thematic review, including those areas assessed against the 2016 Trade Finance Thematic Review Findings and some general observations from our 2020 Review.

## Responsibility for processing Trade Finance Activity

The 2020 Review considered how Authorised Firms allocate the responsibility for processing all listed Trade Finance activity and the split of responsibilities between the Authorised Firm and their respective Groups, as applicable. In addition to information provided in the questionnaire and as part of our follow up work, we reviewed Authorised Firms’ governance arrangements as set out in relevant policies and procedures and engaged with each firms’ senior management and other key staff to assess these in more detail.

The table below provides the split of responsibilities between the Authorised Firms and their respective Groups in undertaking trade finance-related processes:



Where Group functions were involved, we also obtained additional information around the screening, monitoring and due diligence arrangements, and the related role and responsibilities and involvement of the DFSA Authorised Firm. The information provided served to reinforce the DFSA’s overall findings that Authorised Firms are largely retaining ownership of their customer relationships locally and are cognisant of their AML/CTF and sanctions (PF & TFS) obligations in relation to their local business presence and activities.

**We consider this an improvement on previous thematic findings with generally high percentages of Authorised Firms either retaining direct responsibility, or working in concurrence with Group functions for screening, monitoring and checking trade finance-related transactions. For those Authorised Firms where the Group carries out these functions, our focus was on the level of oversight and assurance undertaken by the DFSA Authorised Firm.**

Good Practices	Poor Practices
<p>A documented approach that clearly identifies the responsibilities each party has in processing trade finance transactions, including where responsibilities may be outsourced at Group level.</p> <p>Clearly defined ownership of the business relationship in the DFSA Authorised Firm, and the related due diligence and ongoing monitoring obligations.</p>	<p>A lack of clarity over responsibilities, which may lead to key controls not being adequately applied.</p>



## AML Business Risk Assessment (ABRA)

The 2020 Review requested that Authorised Firms provide a copy of their latest ABRA. The majority of respondents included an ABRA that had been reviewed within the last 12 months and referenced trade finance as a risk element in its own right. Where trade finance was not referenced explicitly in the local ABRA, we confirmed this was due to the Authorised Firm's role in the Trade Finance process being restricted to referral to Group entities who then managed the entire transaction, with trade finance being captured within the Group risk framework rather than solely a local risk factor.

The ABRA's varied in style and content. We noted examples where trade finance was included as a high-level risk factor and assessed with other risks such as jurisdiction and industry type, but at a basic level. Others, and particularly branches of larger global firms, included more granular detail, several at business line or business unit level.

We saw some good examples of ABRA's that incorporated controls effectiveness assessments that enabled inherent and residual risk to be identified, assessed, and documented with supporting narrative and testing outcomes, providing a comprehensive view of the risk profile of the relevant Authorised Firm.

***This indicates an improvement on previous thematic findings; however, different trade-related products and services can present different risk factors, in the same way different trade-related customer relationships may. We suggest Authorised Firms consider this when reviewing ABRA's. Where Authorised Firms are primarily referring business to their Group only, we would remind them they are responsible for managing the customer relationship, and their ABRA's should take account of the products and services being facilitated via that local relationship.***

Good Practices	Poor Practices
An ABRA that is tailored to the Authorised Firm's business model for trade finance activity, reflecting the specific trade-related products and services offered, alongside other relevant risk factors such as customer type, customer's activities, sectors and jurisdictions.	Generic trade finance reference with no rationale or Authorised Firm specific assessment apparent.
ABRA's that provide sufficient supporting qualitative data as well as quantitative data to enable a suitably informed assessment of the inherent and residual risk profile of the Authorised Firm.	

## Customer Risk Assessment (CRA)

The 2020 Review requested a copy of the Authorised Firms' CRA framework. As with the AML Business Risk Assessment, the majority of respondents included a CRA that made explicit reference to trade finance.

Our review identified variances in these CRAs. Again, we noted examples where trade finance was included as a high-level risk factor and assessed with other risks such as jurisdiction and industry type; however, the provision of trade finance was rated as high risk in itself.

Other examples were more granular and made distinction between particular types of trade finance activities such as issuing, advising or confirming on letters of credit, or types of import or export financing offered. Again, these also considered other risk factors such as industry type and jurisdiction, and cross-border transaction risk. This meant that trade finance did not always automatically default to high risk but took account of inherent risks in the particular product or service offered, alongside other risk factors such as customer type and jurisdiction.

Almost 90% of the respondent population we followed up for validation were DFSA Authorised Firms operating as local branches of global firms. We note this was part of our intentional focus on Authorised Firms arranging from the DIFC, due to previous thematic findings. These Authorised Firms generally operated under Group risk frameworks with country addenda applied where there were particular local requirements, including within the DIFC.

A number of the Group risk frameworks we reviewed also contained a Product Risk Assessment or similar, which included trade finance facilities.

*This indicates an improvement on previous thematic findings, but as with the ABRA findings, when reviewing customer financial crime risk, Authorised Firms must consider the different risk factors that may be present across a range of trade finance-related products and services, along with other customer risk factors related to trade finance.*

*Authorised Firms should include product risk in their assessment even if only arranging or referring. The customer relationship is being managed by DFSA Authorised Firms in those circumstances and product risk is a necessary element in the CRA.*

Good Practices	Poor Practices
<p>A CRA methodology that takes account of the trade finance product(s) or service(s) being provided and includes other risk factors such as jurisdiction, sector, customer type and nature of a customer's underlying business activity.</p> <p>In the case of financing to another bank, ensuring sufficient understanding of that bank's business and customer base that the business relationship may be exposing the Authorised Firm to. The Wolfsberg Correspondent Banking Due Diligence Questionnaire ("CBDDQ") was evident in common use between FI's to assist in this.</p>	<p>A CRA methodology that defaults trade finance to high risk without considering the nature of the trade finance activity or the other attendant risk factors. While this does ensure that enhanced due diligence and monitoring is applied, it may not reflect a sufficiently sensitive risk-based approach with some business models.</p>

## Trade Finance - Financial Crime Risk addressed in Policies and Procedures

The majority of respondents stated that trade finance risk was contained in their procedures.

These differed depending on the Authorised Firm's scope of operations and Group structures. For example, in one case, the Authorised Firm offered only limited arranging and advisory services in the DIFC, all on behalf of the parent entity. Their procedures were focused on processing and AML "red flags" from that perspective, supplementing checking and screening undertaken by the parent. In another example, procedures covered all the operational processing undertaken by the Authorised Firm, including trade finance-related red flags, due diligence and monitoring, supplemented by broader CDD procedures depending on the nature of the customer. A further example presented a set of procedures, each with relevant items to an overall product provision. In that case, this also included a trade product guide, a product risk assessment, CDD measures applicable to entities being offered trade finance related products and services, and screening procedures.

*We believe this is an improvement on previous thematic findings and would expect Authorised Firms to ensure their procedures are tailored to the specific business activities they undertake and not just include trade finance in generic terms. Our observations on the Business AML Risk Assessment and Customer AML Risk Assessment are also relevant.*

Good Practices	Poor Practices
<p>Procedures tailored to an Authorised Firm's trade finance activity with clear guidance for staff and updated to reflect internal or external changes.</p>	<p>Generic procedures that simply replicate Rulebook content without any adjustments to the Authorised Firm's specific needs.</p>

## Training

All respondents stated that they provided staff with up-to-date training on trade finance and financial crime risks. As part of our follow up work, we requested and reviewed training materials. These materials validated the findings of the trade finance questionnaire.

Overall, the training materials reviewed were considered to be clear and comprehensive, and included recognised red flags, as reflected in sources such as FATF, the combined Wolfsburg Group, ICC and BATF publication, and other external sources, along with case studies and references to published fines and regulatory notices. Specifically, the use of case

studies or practical examples pertinent to an Authorised Firm’s business model and trade finance-related activities was observed in a number of examples, which we regard as an effective training discipline. Training that covers all trade finance-related financial crime aspects, and provides that wider context, is important, but supplementing that with examples and case studies that relate directly to an Authorised Firm’s particular business model makes it far more relevant from a practical perspective.

However, this should not be so narrowly focused as to miss the wider context. In one example, trade finance risk was only obliquely covered under sanctions risk and cross border activity. The particular Authorised Firm’s justification was that this area is where it regarded its predominant financial crime risk to be, given the nature of its particular business model. The firm’s view was that training covering all trade finance scenarios may not add any real practical value. In this case, we consider that important contextual learning may be missed due to an overly narrow focus.

Applying some degree of testing around training is another important element to effective knowledge development, either immediately after delivery or subsequently to check that staff have absorbed the necessary learning.

An additional observation we drew from this work was the value gained from less formal interactions between relevant staff and sharing knowledge on an ongoing basis outside of a classroom or online environment.

The 2016 Trade Finance Thematic Review Findings highlighted a lack of knowledge around dual-use goods, and, through the current 2020 Review, we did see this topic included in training materials, with reference to, and use of, sources such as the EU dual-use goods list. However, several of the Authorised Firms noted that identifying and assessing dual-use goods nevertheless remained a challenging area.

While money laundering and sanctions risks are two predominant areas covered in training materials, several Authorised Firms also emphasised the importance of fraud risk as an integral part of their training.

***This is an improvement on previous thematic findings, and we would emphasise the use of case studies, particularly those tailored to an Authorised Firm’s specific activities, or local and regional reference points, as a good practice. Training that enables interaction and/or assessments, either at the conclusion of, or during, the training is another good practice observed and drew positive comments from many of the staff we interviewed during the review. While the AML and Sanctions frameworks are important parts of staff training, and for raising awareness on the more generic trade finance red flags, the use of case studies, particularly when tailored to the particular Authorised Firm’s business activities, and interactive training was a means of bringing the topics to life and engaging staff with examples they can relate to.***

Good Practices	Poor Practices
Training material tailored to the trade finance products or services offered by the Authorised Firm, including the use of relevant case studies that staff may feasibly encounter.	Using generic training material without highlighting or distinguishing that which would be most relevant to staff undertaking trade finance related activities.
Using tailored materials and relevant case studies to supplement more generic training.	
Checking training has been understood.	
Enabling staff to develop knowledge and awareness of financial crime risk on an ongoing basis.	

**Ongoing Customer Due Diligence**

The trade finance questionnaire asked whether Authorised Firms captured and updated customer information in order to improve ongoing monitoring of risk and transaction activity. All respondents stated that they did capture and update customer information for this purpose.

Our follow up work identified this is achieved largely through periodic reviews at specified times based on the customer risk framework, where a look-back review of transaction activity against expected business was included as part of that review. Event driven reviews were also part of ongoing due diligence measures. For example, where transaction monitoring was done at the Group level, we noted examples of mechanisms for referrals and escalations back to the DIFC Branch [Authorised Firm] for CDD updates, and addressing items raised in requests for further information.

Several Authorised Firms also included the use of proprietary screening tools for relevant information, for example adverse media, which is done locally, and alerts raised by automated systems are referred to compliance staff for review.

Where Authorised Firms were part of larger Groups, most provided additional information confirming the means by which their Groups made referrals to them for ongoing due diligence purposes.

The adequacy and extent of screening measures applied is another key area for customer due diligence measures and identifying higher risk transactions. For example, screening all relevant parties in a transaction (including agents and other third parties where applicable) as well as shipping, port and vessel details, are all part of effective transaction monitoring and help to build a comprehensive picture of a customer for ongoing due diligence purposes. This screening is key to helping identify variances or anomalies.

***This observation indicates an improvement on previous thematic findings with more consistent findings on how Authorised Firms are meeting ongoing CDD requirements.***

Good Practices	Poor Practices
<p>Assessing customer activity against expected activity at periodic review, ensuring any apparent discrepancies are identified, considered and appropriately explained.</p> <p>Clearly evidencing these periodic customer activity reviews have been done.</p> <p>Screening all relevant parties in a transaction, including third parties where applicable.</p> <p>Ensuring that all relevant information from transaction screening controls is captured for more effective ongoing due diligence.</p>	<p>Not taking account of the actual activity of a customer or relying completely on Group functions to assess transactional activity during CDD reviews.</p> <p>Failing to conduct screening on relevant parties.</p>

## Outsourcing Arrangements

Most Authorised Firms in the review had outsourcing arrangements in place. These were predominantly intra-group arrangements, usually for transaction processing, screening and monitoring but also for document handling and checking. The trade finance questionnaire asked for details, and we received a variety of responses. All indicated a level of oversight being applied, and our follow up work showed ownership of the customer relationship in the DIFC was generally recognised, with responsibility for any due diligence obligations retained by local staff. In addition, the following was noted:

- The presence of Intra-Group Service Level Agreements (SLAs) monitored through agreed Key Performance Indicators (KPIs), and reviewed on a periodic basis, for example monthly or quarterly, with reporting through local risk committees or other similar compliance arrangements;
- Local MLRO and compliance staff having access to management information on KPIs from centrally supported systems to monitor data related to SLAs in place. The use of dashboards in larger firms was noted, with management information including transaction and screening alerts, trends in alerts, red flags raised, backlogs in alert handling, data on requests for information or call reports made, overdue periodic reviews, and quality assurance review findings;
- Local representation at relevant committees whose terms of reference include financial crime risk monitoring and /or trade related activities. We also noted examples of interaction between DIFC-based staff and their colleagues at Group Operations and Service Centres, and interaction between DIFC-based staff with local colleagues where trade related issues arise;
- Some degree of checking of trade documents and screening being done locally before passing across to Group Operations Centres for processing;
- Transactions being referred back to the local MLRO and the local relationship manager for checking or sign-off prior to being executed or settled; and
- Monthly or quarterly reviews of customer activity locally to assess against expected activity stated in the Customer Due Diligence done at onboarding or periodic review.

A number of Authorised Firms referenced the 2016 Trade Finance Thematic Review Findings and gap analyses they had conducted against those findings. One Authorised Firm noted a specific change to its procedures as a result, resulting in the local MLRO now having sign-off on all trade finance-related transactions prior to the firm proceeding with the activity. This had not been the case previously where reliance on Group had been the norm. Another Authorised Firm noted a similar approach, with the local MLRO being included in the transaction process to assure that all necessary checks had been completed.

Several Authorised Firms referred to second line assurance testing and third line audit findings, which they have access to and are added measures in helping them to maintain oversight on the effectiveness of intra-group outsourced services.

***This indicates an improvement on previous thematic findings with more consistent findings on how Authorised Firms are ensuring adequate levels of oversight where reliance is placed on other Group functions to meet their AML and Sanctions requirements, and their understanding of these Group functions.***

Good Practices	Poor Practices
<p>Clear Service Level Agreements with outsourced providers, intra-group or otherwise.</p> <p>Clear understanding of the outsourced process, the nature of any checks performed and relevant parties included, the red flags considered, the escalation protocols and the determination of any dispositioning of alerts raised, including the quality assurance measures applied.</p> <p>Management information that has clearly defined Key Performance Indicators and Key Risk Indicators that enable local management to check the status of their customers activity and any information that may have an impact on their risk profile.</p>	<p>Management information that is too generic to provide sufficient assurance to local management that intra-group outsourcing arrangements are functioning as intended.</p>

## Use of New Technology

Over the past few years, we have seen an increase in the use of new technology in combating financial crime. The trade finance questionnaire included a specific question asking whether the Authorised Firms were using any new technology in addition to or separately to transaction, sanctions, shipping and other established screening and monitoring tools so as to process and execute trade finance transactions.

While the majority of respondents use existing technology in their onboarding, screening and monitoring processes, few indicated the use of new technology around their trade finance functions. Two areas where new technology was described were in the following:

- Artificial Intelligence and Machine Learning to help minimise manual trade transaction processing and enhance inputs for further screening and monitoring by existing AML/Sanctions systems.
- Optical Character Recognition - Natural Language Processing to capture all names, entities and related data into a transaction processing system to help ensure more effective sanctions screening.

In addition, several Authorised Firms are enhancing existing systems and controls using new technologies. Of note were enhancements around monitoring and alert management aimed at improving efficiency and consistency in processing certain types of screening alerts raised through use of more automated dispositioning.

Good Practices	Poor Practices
<p>Adequate testing when deploying new technology to ensure it is working as intended. For example, firms should test that automated alerts are identifying transactions requiring closer scrutiny appropriately and that other tools that automate decisions are applying correct judgments.</p>	<p>Reliance on output without testing validity.</p>

## General observations

We include here some general observations from our follow up thematic work.

A number of respondents highlighted **open account trade finance-related activity**, rather than documentary trade finance activity as their bigger challenge. In the absence of detailed trade documentation to review, the importance of good quality customer information (CDD) and effective transaction monitoring was stressed, as was payment screening in particular from a sanctions compliance perspective.

Understanding the purpose and intended nature of a customer's business becomes an even more critical component for ongoing monitoring purposes and particularly ensuring that transactional activity can be calibrated against that to spot anomalies, deviations or other unusual account activity.

Open account trade finance has been reported as accounting for up to 80% of overall trade finance-related activity.

Several respondents referenced **fraud** being an equally important area of risk, with **fraud checks** being an integral part of the overall management of financial crime risk in trade finance. For example, pricing red flags could be indicative of fraud risk as well as money laundering related. We noted certain training material focused on this also.

As noted, a finding with branches of larger Groups was the use of **dashboards to track Management Information** related to their DIFC-managed customers. Dashboards tracked, for example, monitoring alerts raised, or backlogs affecting DIFC-managed customers, requests for information due to alerts or other anomalies with trade documents or transactions, instances of customers showing potential red flags or unusual instructions, periodic reviews and overdues.

This was mirrored by the use of **centralised Customer AML Risk Assessment** and **Customer Due Diligence** platforms, with Group standards setting minimum requirements in terms of risk factors, including trade-finance risk, and any necessary due diligence required.

**Country addenda** designed to supplement these global platforms with any local variants or requirements were also seen. Authorised Firms should ensure that these addenda explicitly note where there is a requirement for something to be clearly recorded. ***Consideration of the UAE National Risk Assessment in these Group Risk frameworks is one area where, in some instances, it was not documented and while assurances were given that it had been considered, this needs to be clearly evidenced.***

Through the DFSA's thematic review work, we noted some good examples of **more detailed trade finance risk considerations**, for example that related to **vessels and ports**, and the importance of tools that enable adequate vessel checks to be completed. Other examples included scenarios covering the use of **shipping containers**, highlighting potential anomalies to watch for, **price-checking** hints, **routing red flags** and **anomalous instruction** examples in documentation. Adequate screening of **related third parties** was another other good practice observed.



# Part Two: Correspondent Banking and Electronic Funds Transfer

## Background and Impetus for the review

As stated in the introduction to this report, the 'DFSA's Financial Crime Prevention Programme - 2018 AML Report' highlighted correspondent banking as one of the thematic reviews expected to start in early 2020, noting enhancements to the DFSA AML Rulebook covering correspondent banks.

Correspondent banking presents a higher inherent money laundering risk, and consequently the FATF Recommendations include specific measures for Financial Institutions offering these services, which are reflected in UAE Federal Laws and the DFSA AML Rulebook.

Generally, the provision of (correspondent) banking services to other banks (respondents) means that the Authorised Firm acts as agent for the respondent, executing transactions on behalf of the respondent's customers, without sight of the underlying customer due diligence. The correspondent therefore relies upon the respondent's customer due diligence measures when performing its role. Correspondent banks may also be exposed to downstream clearing, where a respondent may be acting for another financial institution and its customers, resulting in the correspondent being further removed from any direct customer relationship, and the potential exposure to customer activity that might be outside its own risk appetite if it were a direct relationship.

Related to this risk is the use of electronic funds transfers between Financial Institutions in facilitating underlying customer activity and the specific Federal Laws and AML Rules that apply to these transfers. Sample testing of Authorised Firms' compliance with these laws and Rules provides a current snapshot of the level of Authorised Firms' AML and sanctions compliance when engaging in electronic funds transfers.

## Methodology

As reported under the trade finance thematic review section, we combined certain aspects of the 2020 thematic work given the potential overlap between trade finance, correspondent banking and Electronic funds transfer activities, and given the efficiency gains presented in engaging only with certain Authorised Firms once while covering all three topics. Again, we selected a mix of Authorised Firms based on their reported activities.

In addition to the above, the 2020 Review covered Authorised Firms that reported that they offer electronic fund transfer activity on the annual AML Return. We adopted the same methodology as set in the trade finance follow up review.

- **Phase One: Electronic Funds transfers questionnaire.**

Phase one of the 2020 Review was conducted in the third quarter of 2020. It commenced with a review of the electronic funds transfer data that the DFSA received from Authorised Firms. Based on that review, the DFSA issued a tailored electronic funds transfers questionnaire to a sample of Authorised Firms to gather additional detail of nature and scope of electronic funds transfer activity undertaken in or from the DIFC.

- **Phase Two: Desk-based Review and follow up.**

Phase two of the 2020 Review consisted of a desk-based review of the responses to the questionnaire followed by engagement with selected Authorised Firms to validate these responses, and further assess their current systems and controls.

- **Phase Three: Analysis and reporting outcomes.**

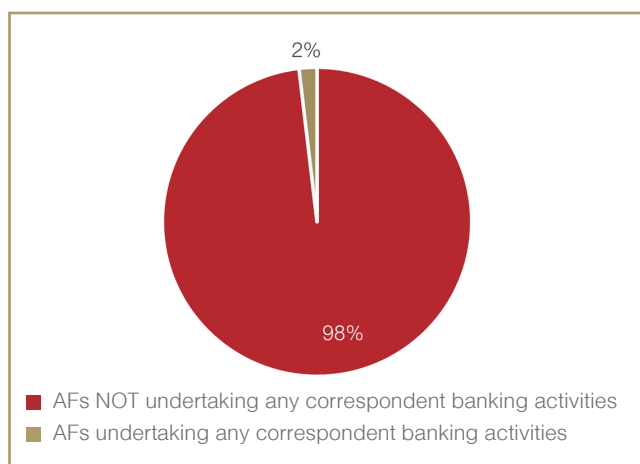
Phase three of the 2020 Review was conducted in the fourth quarter of 2020. It involved analysing the findings and observations from the engagement work, compiling findings for individual Authorised Firm feedback, and preparing this general report.

## Profile in the DIFC

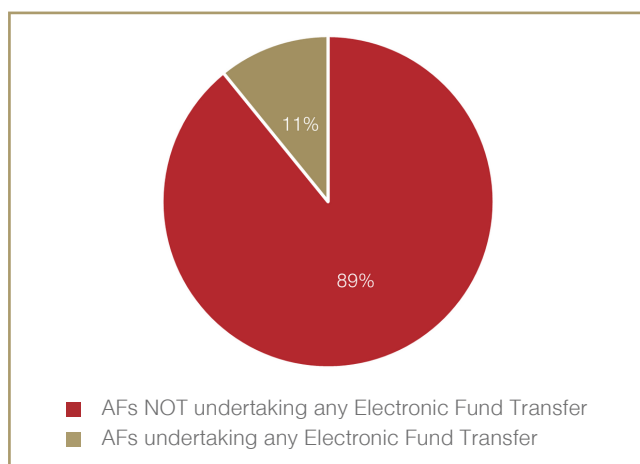
The DFSA annual AML Return captures data in relation to correspondent banking and electronic funds transfers conducted in or from the DIFC. The section aims to capture Authorised Firms that undertake these activities and to assess their systems and controls against the applicable regulatory obligations.

Based on responses set out in the 2019 Annual AML Return, Authorised Firms undertaking these activities are as follows:

## Authorised Firms that undertake any correspondent banking activities



## Authorised Firms sending or receiving electronic funds on behalf of the customer (Electronic Funds Transfer)



## Findings and observations

### Annual AML Return

As part of the review of the 2019 Annual AML Return, the DFSA analysed the relevant submissions and engaged with a number of Authorised Firms to clarify their submissions. It became apparent through the follow up process that Authorised Firms did not refer to the guidance note provided alongside the questions in relation to correspondent banking and electronic funds transfers, nor have they properly considered the particular Authorised Firm's activities so as to provide an accurate response to the question. It is imperative that Authorised Firms consider their Annual AML Return submissions thoroughly and properly in context of their business activities to ensure that accurate data is provided to the DFSA and thereby avoid breaching applicable laws and Rules

## Clarifying the applicability of the Electronic Wire Transfer Obligations

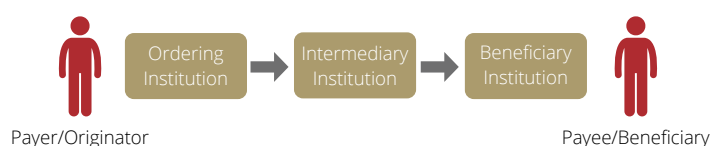
The United Arab Emirates Federal AML Legislation and DFSA AML Module (the **AML Rules**) contain a set of obligations for Relevant Persons to enhance the transparency of electronic funds transfers. Globally, electronic funds transfers have been assessed as presenting a high risk of money laundering, terrorist financing and sanctions violations.

The definition of "fund transfers" in AML Rule 9.3 (Electronic fund transfers) covers the following:

- transactions to transfer funds by electronic means (including instructions sent via the SWIFT network or by internet-based systems);
- transactions to receive funds by electronic means (including serial payments and cover payments), on the account of a payer or payee;
- electronic fund transactions made on behalf of customers that are accompanied by payment instructions (where the payment is to be made to an account, facility or other arrangement at another institution); and
- funds transfers to settle the purchase of securities or to redeem investments are wire transfers where the payment is being made to another institution.

For the purposes of the Federal AML Legislation and the AML Rules, fund transfers obligations do not apply where the transfers and settlements between financial institutions are acting on their own behalf, as the payer and the payee.

### Who are the parties to an Electronic Fund Transfer?



We assessed how the above electronic funds transfer obligations apply to Authorised Firms' activities in the DIFC. We consider such assessment to be crucial in ascertaining the effectiveness of the financial crime risk management framework that applies to electronic funds transfer activities in DIFC. We have set out our findings in this section and included examples of good and poor practice, as we did with the trade finance thematic review findings.

One of the positive findings of this review work was that we were able to readily identify a number of examples in support of good practices observed. While poor practices were less evident, in order to provide a balance, we have included some generic poor practice examples drawn from other sources.

## AML Business Risk Assessment (ABRA)

As with some of the ABRA's reviewed as part of the trade finance thematic review work, we again saw some good examples of ABRA's that incorporated controls effectiveness assessments enabling inherent and residual money laundering, terrorist financing and sanctions risks to be identified and assessed, and documented with supporting narrative and testing outcomes, providing a comprehensive view of the risk profile of the particular Authorised Firm.

All Authorised Firms subject of the review had undertaken an annual review as a minimum, with interim reviews of controls effectiveness also evidenced in one Authorised Firm, and event driven reviews able to be accommodated in other Authorised Firms, for example where changes may have occurred at a jurisdictional level that required review of an Authorised Firm's exposure within the ABRA.

Good Practices	Poor Practices
<p>An ABRA tailored to the particular Authorised Firm's business model for the correspondent banking and electronic funds transfer products and services offered.</p> <p>ABRA's that provide sufficient supporting qualitative data as well as quantitative data to enable a suitably informed assessment of the inherent and residual money laundering risk profile of the particular Authorised Firm. For example, an ABRA considers the inherent risk of each business line as well as the expected volumes, values and types of transactions, in the context of its overall business model.</p>	<p>Use of generic factors without proper consideration of the relevance of these to the firm's specific business model and specific correspondent banking and electronic fund transfer activities. <b>(Not directly observed)</b></p> <p>Only using limited risk data, such as single jurisdictional, customer or product factors, rather than other information that would add further context and depth to the ABRA. <b>(Not directly observed)</b></p>

## Customer Risk Assessment (CRA)

The Authorised Firms included in this thematic review were all using the Wolfsberg Correspondent Banking Due Diligence Questionnaire (CBDDQ), or versions of it, as part of their onboarding and periodic review measures, and integral to their assessment of customer risk. This demonstrated a consistent approach across Authorised Firms and provided clarity for the respondent regarding the information the correspondent would expect to be provided to assist them in meeting their risk assessment (and due diligence) obligations.

One point we would highlight is the need for Authorised Firms to ensure they validate information provided where appropriate and take into account the nature of the risk and relationship. We observed a number of examples where this occurred, including checks against other sources, and the correspondent engaging with the respondent for further clarification on certain responses given. In one or two other examples this was less evident, whether in practice or by reason of insufficient documentation. This same point is also reflected in our CDD findings.

Most Authorised Firms were using centralised platforms for capturing the CRA details, where the underlying risk methodologies produced a system-generated rating for each customer. The procedures we assessed in the relevant Authorised Firms included assurance checks and the ability to override ratings in individual cases, with adequate governance evidenced around this. We conducted sample file reviews with each of the Authorised Firms in this thematic review and did not identify any instances where we considered risk scores to be misaligned with the particular customer profile or with the methodologies in place.

Good Practices	Poor Practices
<p>Customer Risk Assessments that enable a full and accurate view of the risks presented by individual respondent banks.</p> <p>Ensuring sufficient understanding of the respondent bank's products, services and customer base that the business relationship may be exposing the correspondent bank to.</p> <p>The Wolfsberg Correspondent Banking Due Diligence Questionnaire (CBDDQ) was evident in common use between AF's to assist in this.</p> <p>Ensuring a clear understanding of the purpose and intended nature of business relationship established with the Financial Institution concerned.</p>	<p>Customer Risk Assessments with limited validation evident and over reliance on the respondent regarding the information provided.</p> <p>Applying a 'one size fits all' approach to risk assessment and due diligence, with no variance for individual customer risk attributes such as jurisdiction, or business models and activities. <b>(Not directly observed)</b></p>

## Customer Due Diligence/Ongoing CDD

As noted under the CRA section, all Authorised Firms included in this part of the thematic review were using the Wolfsberg CBDDQ or a version of it. This demonstrated a consistent approach in relation to the information obtained as part of onboarding or ongoing CDD.

The extent to which the information obtained or provided was validated independently did vary. In one case, the validation work extended to site visits and meetings with staff at the respondent, where the risk was considered higher.

Other Authorised Firms included reviews of the respondent's system and controls, generally through the policies & procedures, or extracts of these. Calls with relevant staff at the respondent were also noted. In another example, the extent to which this had been done was less apparent.

All Authorised Firms took account of the AML framework in place at the jurisdiction in which their respondents were based. We also noted information being validated through sources such as the Bankers Almanac and other publicly available data, including regulatory notices and other findings where applicable. Other examples demonstrated that the Authorised Firms had also sought to understand the respondent's customer base and banking services offered.

The onsite validation work and engagement in the cases noted above was included as part of ongoing CDD, and as with other examples in the sample of Authorised Firms reviewed, a review of transactional activity over the period compared to that expected was also completed during periodic or event driven CDD reviews. This was in addition to requests for information (RFI) reviews arising from alerts generated in the interim due to transaction related thresholds being breached.

Good Practices	Poor Practices
<p>Concurrent CDD measures at local level where referrals are made through Group affiliates.</p> <p>Use of clear, country specific addendum, where local requirements vary with Group standards, and additional measures may be necessary to ensure fully compliant CDD.</p> <p>Adequate risk-based reviews of the ongoing risk and relationship, including site visits in higher risk cases, assessments of systems and controls and transactional reviews.</p>	<p>Not adequately documenting periodic reviews to assure transaction activity has been properly considered.</p> <p>Relying on parent banks to conduct CDD for a correspondent account sourced through or related to an existing relationship within the Group and taking no steps to ensure this had been done to meet required local standards. <b>(Not directly observed)</b></p> <p>Having little or no information on file for anticipated values and volumes, and nature of business expected. <b>(Not directly observed)</b></p>

## Transaction Monitoring/Screening

Transaction monitoring and payment screening are essential components of an effective control framework for Authorised Firm offering correspondent banking and electronic fund transfer services.

Given the nature of the Authorised Firms that formed the core sample of this review, their operating models required considerable reliance on Group service centres or hubs to perform these functions. Therefore, we focused on the level of understanding, oversight and assurance undertaken locally regarding these intra-group outsourcing arrangements rather than on the specific monitoring or screening systems capabilities.

All Authorised Firms subject to review had automated monitoring and screening in place, predominantly through Group service centres as noted.

Examples of interdictions due to alerts being raised through transaction monitoring were evidenced in several of the Authorised Firms subject to review, including actions taken to mitigate further risks while requests for information (RFI) were satisfactorily answered. In most cases this was action taken on alerts raised subsequent to the transaction but with the objective of mitigating any continued risk identified. The actions included temporary restrictions to further activity, for example through a particular geographical channel or type of transaction, enhanced monitoring and additional due diligence measures, and engagement with the Respondent.

Similarly, all Authorised Firms subject to review had systems and controls in place to manage electronic fund transfers. All were using SWIFT as their payment messaging system and had policies and procedures for messages needing repairs due to errors, omissions or other anomalies such as re-submitted instructions. This was again predominantly managed through Group service centres, although we did see some examples of local practices for payment message processing through SWIFT, where a 'four eyes' or 'maker/checker' approach to electronic fund transfers was applied, and senior management approval included, manageable in those cases due to the relatively low volumes, albeit higher values of the transactions.

Good Practices	Poor Practices
<p>Engagement with Group functions in order that a sufficient level of understanding exists with responsible staff in the DIFC on the parameters and coverage of Group systems used to service local business units, and any issues that may arise with them.</p> <p>Effective feedback loops are in place when alerts are raised to help in assuring unusual behaviours, anomalies or other issues are being correctly identified, and subsequently actioned appropriately, particularly where respondents pose higher risk.</p>	<p>Insufficient engagement with Group functions or a lack of understanding or oversight with respect to customers for which Authorised Firms ultimately have the relationship responsibility. <b>(Not directly observed)</b></p>

## Training

The Authorised Firms offering correspondent banking and included in this thematic review all provided bespoke training for staff on the financial crime risks presented by this business activity. Training included other relevant topics, such as sanctions, where the importance of effective systems and controls around payments and electronic funds transfers was reiterated.

In addition to internal training, we noted the measures put in place by one Authorised Firm to engage with its respondents and improve their knowledge and awareness of the correspondent's expectations. For example, the measures included reference to the risk factors and control standards it would need their respondents to consider and demonstrate in order to maintain the business relationship.

The same was also observed in relation to electronic funds transfers.

Good Practices	Poor Practices
<p>Mandatory training for first line and business unit staff which includes the financial crime risks specific to correspondent banking and electronic fund transfer services.</p> <p>Use of case studies pertinent to correspondent banking risks specific to the Authorised Firm, rather than just generic training packs.</p> <p>Less formal, ongoing engagement between first and second line highlighting cases or issues as they arise as part of continued professional development (CPD) and knowledge transfer.</p> <p>Bespoke training for specialist staff, including use of external sources, to ensure CPD is maintained.</p>	<p>Not assessing those receiving training to ensure an adequate level of understanding has been secured. <i>(Not directly observed)</i></p>

## Quality Assurance and Audit

A standard practice across all Authorised Firms included in this thematic review was the three-line defence model.

As part of the review, we observed evidence of assurance testing of CDD in the first line by internal testing teams, and at second and third line, including assurance testing on the quality of the first line assurance programme[9]. Authorised Firms also applied a 'four eyes' or 'maker/checker' approach, providing a concurrent quality assurance measure.

In all cases, management information generated as a result of these quality assurance reviews was made available to senior management, usually through relevant risk and governance committees, and either by way of formal audit reports or updates to committees through local compliance reporting. This reporting was monthly or quarterly.

Audit outputs we reviewed included clear timeframes for remediation and response, and accountable action owners identified.

Good Practices	Poor Practices
<p>Audits and assurance testing that assesses the application of policy and procedures, and their effectiveness in practice, rather than the existence of the controls only.</p> <p>Audit findings that include reference to possible root cause issues.</p>	<p>Audits that highlight control issues but do not always indicate potential root causes, or these are not adequately referenced in management responses.</p>

## Governance and Oversight

Another positive finding for all Authorised Firms subject to review was the clear and positive 'tone from the top' displayed with regard to senior management expectations on the approach to, and management of, financial crime risks around correspondent banking relationships. We also saw evidence of a good level of understanding and engagement at SEO/CEO level locally, and all Authorised Firms reported staff performance management measures covering compliance objectives and completion of related training.

In addition, we noted examples of support from Group or parent entities in implementing programmes locally such as CDD and monitoring systems enhancements.

[9] For the purposes of this review, we use terms from the widely recognised three lines of defence model in which the first line (or business line) owns and manages the risk, the second line, as the financial crime specialist function, sets the policies and provides assurance testing on their effectiveness, and the third line provides independent assurance testing of that, usually through internal audit functions



The Authorised Firms assessed all had committee structures in place in varying degrees and with varying terms of reference depending on the complexity and extent of correspondent banking and related electronic fund transfer services (and other business) offered by the particular Authorised Firm.

In one example, there was a dedicated correspondent banking oversight committee, with reporting through a detailed risk dashboard enabling senior management and other designated persons access to comprehensive and current data on their correspondent banking activities, including financial crime related management information. This included alert data and red flags noted with individual respondents, and covered values, volumes and patterns of transactions where variances exceeded pre-determined thresholds. Interventions or enhanced monitoring measures were agreed at committee level, with actions tabled for subsequent reporting, and accountable persons identified to deliver against these.

Examples were provided of interventions taken with respondents in order to mitigate risk while issues were addressed by the respondent.

In other examples, we saw relevant committees attended by first and second line staff, including senior management, with financial crime risk tabled as an agenda item and reporting through the use of management information related to the particular Authorised Firm's correspondent banking or electronic fund transfer activities. For example, reporting covering data on CDD anomalies or omissions, transaction monitoring flags, backlogs in CDD reviews and alert handling, and blocked fund transfers and/or those needing repairs.

Where functions were outsourced intra-group, Authorised Firms operated using Service Level Agreements (SLAs), supported by agreed Key Performance Indicators (KPIs) as part of measures to ensure adequate coverage and oversight was provided for, and by these functions. KPI's were also part of Management Information (see below).

Good Practices	Poor Practices
Clear 'tone from the top' on expectations and behaviours around financial crime risk management.	Not sufficiently documenting how management information may have been used and actioned.
Engagement by senior management in review and sign-off on correspondent relationships.	
Clear terms of reference for committees, including required and optional attendees, frequency of meetings, reporting arrangements, and scope of responsibility.	
Clear articulation of ownership and responsibilities in each function, with individual roles specified by title.	
Clear records of matters considered, outcomes and/or actions agreed and any subsequent monitoring and reporting, including the use of management information provided to the relevant committee.	

**Management Information (MI)**

In all firms in this part of the review, structured MI reporting was in place, both in respect of the format and also the frequency of reporting. Several Authorised Firms had developed dashboards, accessible to staff in the business and second line functions with responsibility for management or oversight in these areas. Other Authorised Firms used formatted reporting through spreadsheets or Microsoft Word documents and tracked by second line staff.

These tended to be firms with less complex business operations and while these MI measures offer a means of capturing and reporting data, they may not function as expected in their intended use, or provide the necessary security and audit controls to ensure data integrity. Therefore, we would encourage firms to invest in suitable technology to manage their information.

As noted above, the MI provided to us as part of this review covered a range of reporting including data on CDD anomalies or omissions, transaction monitoring flags, backlogs in CDD reviews and alert handling, and data on blocked fund transfers and/or or those needing repairs. It also contained information on training completion and pass rates, performance against KPI's (where Group service centres were in place) and reporting data on Suspicious Activity Reports (SARs) and sanctions circumvention attempts.

Good Practices	Poor Practices
Clear and accessible MI.  MI includes reporting on the effectiveness of systems and controls.	MI that is high-level and not sufficiently tailored to offer adequate reporting for governance and oversight purposes. <b>(Not directly observed)</b>

## Final comments

The DFSA would like to extend its thanks to staff at all Authorised Firms who contributed to the 2020 Review by providing the requested documentation and participating in our virtual-site visits and meetings during these challenging times.

The primary aim of this work was to determine the extent to which Authorised Firms actioned the 2016 Trade Finance Thematic Review Findings and to enable the DFSA to gain better insights into the effectiveness of current systems and controls implemented by the sample Authorised Firms offering the products and services that were the subject of the thematic reviews.

In conclusion, we note that there has been steady progress on awareness and inclusion of trade finance risk factors, employing relevant expertise and training to support trade finance related activities. Where Authorised Firms have relied on Group functions, those firms have implemented systems and controls for oversight and assurance to ensure their ownership of the customer relationship is properly and fully maintained.

Combatting financial crime is, and will continue to be, a key regulatory priority for the DFSA. Accordingly, this subject will continue to feature in the DFSA's future supervisory agenda.



**FOR GENERAL ENQUIRIES**

**T**+971 4 3621500   **W**[www.dfsa.ae](http://www.dfsa.ae)