INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

Implementation Guidance
EP 200 IG 1

Anti-Money Laundering and Countering the Financing of Terrorism – Requirements and Guidelines for Professional Accountants in Singapore

Frequently Asked Questions

This Implementation Guidance (IG) was issued by the Council of the Institute of Singapore Chartered Accountants (ISCA) in November 2015 and updated in November 2018.

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ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM – REQUIREMENTS AND GUIDELINES FOR PROFESSIONAL ACCOUNTANTS IN SINGAPORE

FREQUENTLY ASKED QUESTIONS

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Introduction

The Institute of Singapore Chartered Accountants (ISCA) issued the Ethics Pronouncement (EP) 200, *Anti-Money Laundering and Countering the Financing of Terrorism – Requirements and Guidelines for Professional Accountants in Singapore,* in October 2014. EP 200 was updated in November 2015, August 2016, March 2017 and June 2023.

The comprehensive requirements relating to AML/CFT contained in EP 200 are benchmarked to international best practices and the latest "International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation" issued by the Financial Action Task Force (FATF Recommendations). EP 200 was first developed by an ISCA Working Group comprising representatives from across the public accounting sector and in consultation with the relevant regulators such as the Monetary Authority of Singapore, the Accounting and Corporate Regulatory Authority, (ACRA) and the Commercial Affairs Department of the Singapore Police Force. EP 200 (Revised on 1 June 2023) has adopted the anti-money laundering and countering the financing of terrorism (AML/CFT) requirements in the Accountants (Prevention of Money Laundering and Financing of Terrorism) Rules 2023 ("the Rules 2023") issued by ACRA.

EP 200 (Revised on 1 June 2023) defines a professional firm as:

(i) An accounting corporation, an accounting firm or an accounting LLP approved under the Accountants Act (collectively referred to as "accounting entity" for the purpose of this IG); or

(ii) An entity, other than those in (i) above, owned or controlled by a professional accountant or professional accountants, that provide professional services.

The Rules 2023 applies to professional firms categorised under (i) that performs designated high-risk services as described under paragraph 3(2)(a) of the Rules 2023 ("designated high-risk services").

While professional firms categorised under (ii) are not subject to the Rules 2023, these firms are still subject to the requirements of EP 200 (Revised on 1 June 2023). EP 200 (Revised on 1 June 2023) requires these firms to comply with the Rules 2023 when they perform designated high-risk services.

In other cases where professional firms do not perform designated high-risk services, EP 200 (Revised on 1 June 2023) requires the firms to adopt a risk-based approach (please refer to Section 2 of EP 200 (Revised on 1 June 2023)) in complying with the Rules 2023.

With the objective of supporting the accountancy profession to implement the requirements in EP 200, ISCA has developed EP 200 Implementation Guidance (IG) 1 – *Frequently Asked Questions* to assist professional accountants and professional firms.

Definitions

1. Who is the beneficial owner?

Under paragraph 2(1) of the Rules 2023, a beneficial owner is defined as "an individual who ultimately owns all of the assets or undertakings of the client (whether or not the client is a body corporate)", or "an individual who has ultimate control or ultimate effective control over, or has executive authority in, the client" or "an individual on whose behalf the client has employed or engaged the services of an accounting entity".

The following are non-exhaustive examples of beneficial owners, according to the type of clients a professional firm may have:

Clients who are companies

The beneficial owner of this client may include any individual who:

(a) Ultimately owns or controls (whether through direct or indirect ownership or control) more than 25% of the shares or voting rights of the client; or

(b) Otherwise exercises control over the management of the client.

Clients who are limited liability partnerships (LLPs)

The beneficial owner of such a LLP may include any individual who:

(a) Is ultimately entitled to or controls (whether the entitlement or control is direct or indirect) more than a 25% share of the capital or profits or more than 25% of the voting rights of the partnership; or

(b) Otherwise exercises control over the management of the partnership.

Clients who are trusts

The beneficial owner:

(a) of a trust may include any individual who is entitled to a vested interest in at least 25% of the capital of the trust property. "Vested interest" means an interest that a person is currently entitled to, without the need for any pre-conditions to be fulfilled;

(b) of a trust may include any individual who has control over the trust. "Control" means a power whether exercisable alone, jointly with another person or with the consent of another person under the trust instrument or by law to dispose of, advance, lend, invest, pay or apply trust property; vary the trust; add or remove a person as a beneficiary to or from a class of beneficiaries; appoint or remove trustees; or direct, withhold consent to or veto the exercise of any of the above powers; or

(c) for a trust other than one which is set up or which operates entirely for the benefit of individuals falling within (a), the beneficial owner may include the class of persons in whose main interest the trust is set up or operates and the class must be described.

(d) where the trust is the estate of a deceased person, the beneficial owner may be an executor, administrator or personal representative until the administration of the estate is complete.

Clients who are other bodies corporate or legal arrangements

The beneficial owner of these clients may include:

(a) where the individuals who benefit from the body corporate or legal arrangement have been determined, any individual who benefits from at least 25% of the property of the body corporate or the legal arrangement;

(b) where the individuals who benefit from the body corporate or legal arrangement have yet to be determined, the class of persons in whose main interests the body corporate or legal arrangement is set up or operates; or

(c) an individual who controls at least 25% of the property of the body corporate or legal arrangement.

Establishing Internal Policies, Procedures and Controls

2. What does establishing internal policies, procedures and controls to address money laundering and terrorist financing entail?

Under paragraph 2.1 of EP 200, professional firms must develop and implement internal policies, procedures and controls to address money laundering and terrorist financing concerns and communicate these to its employees. Such policies, procedures and controls should:

(a) Provide for the identification and scrutiny of complex or unusually large transactions, unusual patterns of transactions which have no apparent economic or visible lawful purpose and any other activity which the professional firm regards as particularly likely by its nature to be related to money laundering or terrorist financing;

(b) Specify the taking of additional measures to address any specific risks associated with non-face to face business relationships or transactions. In addition, to provide for the scrutiny of any money laundering threats that may arise from new or developing technologies that might favour anonymity; and

(c) Enable the professional firm to determine whether a client, person acting on behalf of the client, connected party of the client or beneficial owner of the client is a politically exposed person (PEP), family member of a PEP or close associate of a PEP.

Conducting Customer Due Diligence for Existing Clients

3. How often should customer due diligence be conducted?

As stated in paragraph 5(2) of the Rules 2023, an accounting entity or individual practitioner shall apply CDD measures to its existing clients based on its own assessment of risk, taking into account when and whether any CDD had previously been applied to such existing clients, the adequacy of documents, data and information obtained and any change in circumstances or nature of services provided to its clients.

Examples of triggers for conducting customer due diligence measures for existing clients:

(a) The professional firm is being asked by an existing client to perform a transaction that is significant, having regard to the nature of the business relationship with the client;

(b) There is a substantial change in the professional firm's client documentation standards;

(c) There is a material change in the nature of the business relationship with the client;

(d) The professional firm becomes aware that it may lack adequate identification information on a client; or

(e) The professional firm becomes aware that there may be changes in the ownership or constitution of the client.

4. What constitutes 'reasonable measures' taken to verify the identity of beneficial owners?

Under paragraph 7 of the Rules 2023, the professional firm is required to identify the client's beneficial owners and to take *reasonable measures* to verify these beneficial owners when it performs any designated high-risk services.

The professional firm may consider obtaining an undertaking or declaration from the client on the identity of, and the information relating to, the beneficial owner. Notwithstanding the obtaining of such an undertaking or declaration, the professional firm remains responsible for complying with its obligations to take reasonable measures to verify the identity of the beneficial owner. The firm should, for example, research publicly available information on the beneficial owner or arrange a face-to-face meeting with the beneficial owner, to corroborate the undertaking or declaration provided by the client.

Exemptions from Identifying and Verifying the Identity of Beneficial Owner

Unless the professional firm has doubts about the veracity of the information obtained in carrying out CDD measures or suspects that the client is carrying out or facilitating money laundering or the financing of terrorism, paragraph 7(6) of the Rules 2023 exempts the professional firm from the inquiry of any beneficial owner where the client is:

(a) an entity listed on the Singapore Exchange;
(b) an entity listed on a stock exchange outside Singapore which is regulated by an authority of a country or territory other than Singapore regulating the provision of financial services;
(c) a Singapore financial institution;

(d) a financial institution incorporated or established outside Singapore that is subject to and supervised for compliance with requirements for the prevention of money laundering and the financing of terrorism consistent with the standards set by the FATF; or

(e) an investment vehicle, the managers of which are

  (i) Singapore financial institutions; or

  (ii) Financial institutions incorporated or established outside Singapore, and subject to and supervised for compliance with requirements for the prevention of money laundering and the financing of terrorism consistent with the standards set by the FATF.

5. How can the purpose and intended nature of the business relationship be determined?

One of the CDD measures to be taken under paragraph 2(1) of the Rules 2023 is for the professional firms to understand, and as appropriate, obtain information on the purpose and intended nature of the business relationship.

The professional firm can obtain the following information to understand the purpose and intended nature of the business relationship:

(a) Details of the client's business or employment;

(b) The nature and purpose of the relationships between the client and underlying beneficial owners; and

(c) The anticipated level, frequency and nature of transactions that are to be performed by the professional firm for the client throughout the business relationship.

Screening the Client

6. Which sanction lists should professional firms screen their clients against?

When an accounting entity or individual practitioner of the accounting entity performs any designated high-risk services, paragraph 9 of the rules mandates an accounting entity or individual practitioner of the accounting entity to screen a client, the client's agent, connected parties of the client and beneficial owners of the client against relevant money laundering and terrorist financing information sources, which are to include the following:

(a) any lists and information provided by the Registrar and any relevant law enforcement authority;
(b) any other source of information relating to money laundering and terrorism financing as the Registrar may direct.

An entity, other than an accounting entity, owned or controlled by a professional accountant or professional accountants, performing any designated high-risk services, should also screen the above-mentioned personnel.

Sanction lists for screening

The minimum sanction lists for screening are:

- The "Lists of Designated Individuals and Entities" on the Monetary Authority of Singapore (MAS) website;

  The "Lists of Designated Individuals and Entities" on the MAS website include the First Schedule of the Terrorism (Suppression of Financing) Act. More information on targeted financial sanctions[1] can be found on the MAS webpage on targeted sanctions. Professional firms should subscribe to MAS' webpage on anti-money laundering (AML) and countering the financing of terrorism (CFT) and Targeted Financial Sanctions to receive alerts to changes to the Lists;

- The Terrorist Alert List on the ISCA website (this list can only be accessed by ISCA members. It should be kept confidential and should not be communicated, reproduced or distributed to any external party outside of the firm); and

- Any other similar lists and information required of professional firms for screening purposes stipulated by relevant authorities in Singapore such as the Accounting and Corporate Regulatory Authority (ACRA).

Professional firms may, depending on their risk assessment, perform further screening against other money laundering or terrorist financing information sources, for example, the sanction lists published by the Office of Foreign Assets Control of the US Department of the Treasury.

[1] In Singapore, *targeted financial sanctions* refer to those implemented under the United Nations Act (Chapter 339) and its associated regulations, but they are also implemented through the Monetary Authority of Singapore Act and the Terrorism (Suppression of Financing) Act. *Targeted financial sanctions prevent funds or assets from benefiting individuals or entities linked to terrorism, proliferation, or other threats to international peace and security, including freezing assets and prohibiting financial transactions. Refer to https://www.mas.gov.sg/regulation/anti-money-laundering/targeted-financial-sanctions for more information.*

Professional firms are also encouraged to refer to the Singapore's Inter-Ministerial Committee on Terrorist Designation's (IMC-TD) webpage for more information on terrorist designations and de-listings.

Paragraph 14(1) of the Rules 2023 further requires enhanced customer due diligence (CDD) measures to be performed when clients are from higher risk countries known to have inadequate measures for the detection and prevention of money laundering or terrorist financing. Clients can be screened against the following lists of countries or jurisdictions with deficiencies with regard to AML or CFT measures available on the official FATF website. These lists are regularly updated after every FATF plenary meeting.

It is also recommended that professional firms refer to the Singapore National Money Laundering and Terrorist Financing Risk Assessment Report (Report) issued by the Ministry of Home Affairs, Ministry of Finance and the MAS to understand the money laundering and terrorist financing risks in Singapore for professional accountants, as well as other sectors that the professional accountants have dealings with. This helps professional firms better assess the adequacy of their internal AML and CFT systems and controls in mitigating the risks identified, and to strengthen these controls where necessary. Professional firms should incorporate the findings in the Report in their implementation of AML and CFT mitigating measures.

7. What should professional firms do when there are positive hits against the sanction lists during screening?

Where screening results in a positive hit against sanctions lists, professional accountants are reminded of their obligation to cease all dealings with the designated persons and entities and where applicable, freeze without prior delay and prior notice, the funds or assets, so as to comply with applicable laws and regulations in Singapore, including Terrorism (Suppression of Financing) Act 2002, relating to sanctions and freezing of assets of persons. Any such assets should be reported promptly to the relevant authorities and a suspicious transaction report should be filed.

Ongoing Monitoring

8. What are the basic requirements of ongoing monitoring?

As stated in paragraph 2(1) of the Rules 2023, professional firms performing any designated high-risk services are required to monitor its business relations with its clients on an ongoing basis. In order to do this, professional firms shall:

(a) Scrutinise transactions undertaken throughout the course of the relationship (including, where necessary, the source of funds) to ensure that the transactions are consistent with the professional firm's knowledge of the client, his business and risk profile;

(b) Keep the documents, data or information obtained for the purpose of applying CDD measures up-to-date; and

(c) Determine the appropriate frequency on when on-going monitoring must be conducted using a risk-based approach.

9. How often should ongoing monitoring be conducted?

Ongoing monitoring to determine the need to update CDD information should be considered at appropriate times, using a risk-based approach, based on the professional firm's knowledge of the client and the nature of services provided by the professional firm. A professional firm may also wish to consider monitoring on a more regular basis if there are triggering events, such as those indicated in FAQ 3.

Ongoing monitoring can either be done in real time, in that new transactions are reviewed as they take place or are about to take place, or after the event. In practice, a professional firm with sufficient resources to implement an electronic monitoring system can conduct automated monitoring on a relatively constant basis. However, a professional firm without the resources to do so may have to rely on more manual and resource-intensive methods of ongoing monitoring.

Enhanced Customer Due Diligence

10. What measures should be taken when dealing with clients that are individuals on a non-face-to-face basis?

As stated in paragraph 14(1) of the Rules 2023, professional firms must perform enhanced CDD measures and enhanced ongoing monitoring:

(a) In respect of all complex or unusually large transactions, or unusual patterns of transactions that have no apparent or visible economic or lawful purpose;

(b) When the professional firm proposes to have, or has established, a business relationship with a client from or in a country or territory outside Singapore known to have inadequate measures for the prevention of money laundering or the financing of terrorism (as determined by the professional firm, or as notified to the professional firm by the Registrar);

(c) in respect of any other categories of clients or any other transactions which the professional firm considers may present a high risk of money laundering or the financing of terrorism; and

(d) in respect of a business relationship with a client, where the client is from or in a country or territory for which the FATF has called for countermeasures (including enhanced CDD measures) to be performed, as may be notified to professional firm by the Registrar.

Where a professional firm deals with a client individual without face-to-face access, the professional firm may, in its professional judgement, determine that steps should be taken to manage the higher risk that such a method of dealing may present. For example, by verifying the client's identity as follows:

(a) Ensuring that the client's identity is established by additional documents, data or information;

(b) Implementing supplementary measures to verify or certify the documents supplied, or requiring confirmatory certification by a Singapore financial institution; or

(c) Ensuring that the first payment is carried out through an account opened in the client's name with a Singapore financial institution.

Other examples of the measures to mitigate the increased risk due to not being able to have face-to-face contact when establishing a business relationship that professional firms may perform are:

(a) To hold real-time video conference with the client in addition to obtaining copies of identification documents; or

(b) Confirmation of the client's salary details by requiring the presentation of additional documents, data or information such as recent bank statements; or

(c) Certification by chartered accountants, lawyers or notaries that copies of the client's identification documents provided to the professional firm are true copies.

11. What enhanced customer due diligence measures should be taken for politically exposed persons?

Under paragraph 13 of the Rules 2023, enhanced CDD measures shall be taken when business relationship is entered into with foreign PEPs, or when high risk business relationships are entered into with domestic PEPs, international organisation PEPs, or PEPs who have stepped down from their prominent public functions, taking into consideration the level of influence such persons may continue to exercise after stepping down from their prominent public functions (whether as client or beneficial owner). The definition of a PEP also includes an immediate family member or close associate of the PEPs.

Enhanced CDD measures that the professional firm may take include:

(a) Inquiring into the background and purpose of any transaction that the professional firm is engaged to carry out;

(b) Obtaining approval from its senior management for establishing the proposed business relationship. The objective is that senior management is aware of the proposed business relationships with PEPs and that a professional firm does not undertake business relationships with them without proper controls;

(c) Taking reasonable measures to establish the source of wealth and source of funds which are involved in the proposed business relationship.

The source of wealth generally refers to the origin of the PEP's entire body of wealth/ total assets, and how the PEP came to acquire such wealth. The source of funds refers to the origin of the particular funds which are the subject of the business relationship between the PEP and a professional firm. The information obtained should be substantive and facilitate the establishment of the original source of funds, or the reason for the funds having been acquired. Assumptions or benchmarks used should be supported by clear and reasonable basis.

Establishing source of wealth is important to (i) ensure the legitimacy of the PEP's source of wealth; and (ii) inform on the ongoing monitoring of business relations with the PEP. Professional accountants should apply rigor in assessing the plausibility of the PEP's source of wealth and avoid overreliance on the PEP's representations. Where professional accountants are unable to establish source of wealth that is of higher risk or a significant portion of a PEP's wealth, closer senior management oversight and enhanced monitoring are needed.

In designing their policies and procedures to establish source of wealth of PEPs in a risk-proportionate and reasonable manner, professional accountants should consider the following risk principles:

- Materiality
- Prudence
- Relevance

Senior management should:

- Exercise close oversight over higher risk accounts
- Ensure that ongoing monitoring controls take into account the PEP's risk profile

The information on the source of wealth may be obtained from the PEP and credible public sources. A professional firm may rely on publicly disclosed assets or rely on self-declarations of the PEP. However, when relying on self-declarations, any inability to verify the information should be taken into account in establishing the actual value of the wealth or funds. A professional firm may also rely on information sources such as publicly available property registers, land registers, asset disclosure registers, company registers, past transactions and other sources of information about legal and beneficial ownership where available. Internet and social media searches may also be relied on to reveal useful information about a client's source of wealth or funds. A professional firm may also conduct more thorough searches through commercial screening software. Possible sources of wealth or funds include a PEP's current income, sources of wealth or funds obtained from his current and previous positions, business undertakings and family estates;

(d) Conduct enhanced on-going monitoring on the business relationship entered into, which means on-going monitoring that is enhanced in terms of frequency over the course of the business relationship in question; and

(e) Keep a record in writing of any findings.

12. What are other high-risk situations that may warrant enhanced customer due diligence?

Professional judgement should be exercised when assessing the level of risk and due diligence to perform. However, a professional firm may in assessing the risks involved in these situations, take into account examples such as the type of client, the type of service or transaction that the client expects the professional firm to perform and the geographic area of operation of the client's business. A professional firm is also required to give particular attention to business relationships and transactions with persons from or in countries that have inadequate AML or CFT measures.

If a professional firm is satisfied that there is a high risk, it shall perform enhanced CDD measures and enhanced on-going monitoring.

Examples of high-risk situations include large cash payments, unexplained payments from a third party or use of multiple foreign accounts.

Suspicious Transactions Reporting

13. What considerations should professional accountants take in relation to suspicious transactions reporting?

Professional accountants must have procedures in place to report suspicious transactions. The minimum areas to be covered in the procedures should include:

(a) Persons to whom they have to report;
(b) Avenue to report suspicious transactions;
(c) Information required to be in a suspicious transaction report (STR); and
(d) Timeliness of STR.

Professional accountants must have procedures for reporting or escalating suspicious transactions to the compliance officer and/or senior management.

If in the course of work, a professional accountant knows or has reasonable grounds to suspect that any property may be connected to money laundering or financing of terrorism or proliferation, he/she must promptly alert the compliance officer or a member of the senior management, unless there is a risk of tipping-off as mentioned below. The compliance officer or senior management should consider making a STR to the Suspicious Transaction Reporting Office ("STRO") of the Commercial Affairs Department ("CAD"). **The STR should be lodged as soon as reasonably practicable upon the establishment of suspicion, no longer than 5 business days. STRs for higher risk cases, such as Targeted Financial Sanctions ("TFS") are to be filed within 1 business day, if not immediately.**

A STR may be made electronically via the STRO Online Notices and Reporting Platform ("SONAR"). More details on how to file STRs via SONAR are available on CAD's website: https://www.police.gov.sg/sonar

If a decision is made not to file a STR, the reasons for the non-filing should be documented and made available when required.

Where a professional accountant has knowledge or suspicion of money laundering or terrorism financing or proliferation and reasonably believes that performing any of the CDD measures will tip-off a customer, the professional accountant may stop performing the measures. The professional accountant shall file an STR immediately and document the basis of the assessment.

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