(Unofficial Translation)

**LAO PEOPLE'S DEMOCRAT REPUBLIC**
**PEACE INDEPENDENCE DEMOCRACY UNITY PROSPERITY**

**National Committee for Anti-Laundering and**
**Counter-Financing of Toerrorim**
**Anti- Money Laundering Intelligence Office**

Vientiane Capital, dated 19 May 2019

# Manual
# On Risk Based Approach of
# Anti-Money Laundering and Counter-Financing of Toerrorim

- According to the Law on Anti-Money Laundering and Counter-Financing of Toerrorim, No50/NA, dated 21 July 2014;
- Based on the Lao National Risk Assessment Results 2018.

## Article 1 Objectives

This manual is used to evaluate the reporting units responsible for implementing the work of anti-money laundering and counter-financing of terrorism, with the aim of evaluating and assessing the implementation of the reporting units that are adequate, tighter and consistent with relevant legislation with effectiveness.

## Article 2 Scope

This manual is used for assessing the reporting units set out in Articles 7 and 8 of Article 8 of the Law on Anti-Money Laundering and Counter-Financing of Terrorim.

## Article 3 Risk assessment model based on risk management principles for the work of anti-money laundering and counter-financing of terrorism

**1. Monitoring and Inspection Mode**

- Document monitoring and inspection;
- Monitoring and inspection at place.

**2. Monitoring and Inspection Procedures**

The procedure for monitoring and inspecting the reporting entities on risk assessment, based on risk management principles for the work of anti-money laundering and counter-financing of terrorism, will be performed as follows:

- Set goals for monitoring and inspection;
- Set a date for monitoring and inspection;
- Set the purpose of monitoring and inspection;
- Collect relevant information from the intelligence Division;

- Reviewprevious inspection reports;
- Appoint a monitoring and inspection committee;
- Notices to financial institutions;
- Divide responsibility to the monitoring and inspection committee;
- Meet with the Director or staff in charge of data collection and repor to inform the purpose of monitoring and inspection;
- Monitor and inspect legislations, implementation and financial institution's amendments to previous guidelines.

**3. Periods for monitoring and inspection**

- Monitoring and inspecting of risk assessment according to the principles of risk management, anti-money laundering and counter-financing of terrorism are divided into three stages:
- The high and medium- high risk reporting units must conduct a risk assessment every three years;
- The medium risk reporting units must conduct a risk assessment every four years;
- The low-medium and medium risk reporting units must conduct a risk assessment every five years;

**Article 4 Contents on risk assessment, based on risk management principles for the work of anti-money laundering and counter-financing of terrorism**

**1) Assessment Principles**

The risk assessment based on risk management principles for the work of anti-money laundering and counter-financing of terrorism are followed by two key factors that affect the assessment: **Inherent Risk Indicators** and **AML/CFT Control Indicators**.

❖ **Inherent Risk Indicators:**

Inherent Risk Factor is a risk factor that can occur on its own, which affects the risk on size and volume of the variable as follows:

**1. Size:**

- Registered capital for establishment
- Total assets (fixed and working assets);
- Number of customers for services;
- Transaction number of service products and service units.

**2. Corporate Governance:**

- Defining or establishing an internal operating plan;
- Appointment of data collection and reporting staff at each level;
- Establishment of a specific department or unit for data collection and reporting;

- Assigning to a specific department or unit to collect data and report directly to the Executive Board.

3. **Clarity and Diversity of Ownership:**

- Clear and disclosed shareholding structure;
- Identifying and disclosing the number of shares, shareholders and sources of capital that the shareholders provide for financing;
- Examining the sources of capital and criminal history of each shareholder;
- Disclosure of sources of capital to carry out business activities from time to time.

4. **Risk Appetite:**

- Transactions with risky countries;
- Relationships with individuals or legal entities and countries identified in the UN List;
- There are transactions with clients or legal entities that do not take measures to prevent money laundering and terrorist financing, including domestic and international transactions.

5. **High risk clients:**

- Customer risk classification (low or high);
- Transactions to customers who are unable to provide information or provide factual information in accordance with their KYC / CDD measures;
- Service of clients who are or are related to a domestic or international crime group;
- Number of clients who use cash (including foreign currencies) to apply for services.

6. **High risk products/services (in terms of nature and complexity):**

- Customers' transactions that are complex, high in amount, frequency of movement and variety of individuals involved;
- Transaction amount;
- Number of transactions that can be loaned;
- Causes of long-term non-recoverable debt;
- Number of deposit transactions;
- Number of withdrwal transactions.

7. **International operations and transactions**

- Customer discovery rules: have sufficient information on the checks of the transferee and the beneficiary;
- Foreign banks as represented banks: the number of representative banks, the value of the transaction.

8. **High risk geographic location of operation domestic or international:**

- Location of offices or branches of commercial banks in risk areas;

- The Bank is in a risky country or AML / CFT account.

9. **Reliance on third parties, agents, and remote processes (deliver cannels):**

- Agent identification rules and conditions to establish relationships with agents;
- Number of products offered by the agent.

❖ **AML/CFT Control indicators:**

AML/CFT Control indicators are factors that can reduce, prevent and control potential risks are represented by the following variables:

1) Management’s commitment to the work of AML/CFT:

- AML / CFT Management Structure within the reporting unit: Senior management staff in AML / CFT work;
- Bank's internal policies and plans for AML / CFT work.Understanding of ML/TF risks:
- Their own internal risk assessment;
- AML / CFT training materials: presentations, registration forms;
- Training: There is ongoing training, important topics, periodic exams and training sessions.

2) Independence and Effectiveness of Compliance Function:

- Have internal unit for implementing the work of AML / CFT specifically;
- Effective coordination between reporting units and managers: provision of information, internal regulation, experienced staff and sufficient responsibility for such tasks.

3) Adequacy of the AML/CFT Policy and Procedeures:

- AML / CFT Internal Rules: There are specific regulations on the work of AML / CFT within the rights and obligations of the reporting entities under Article 18 of the AML / CFT Law No. 50 / NA, dated 21 July 2014;
- Developing specific policies, procedures, and work plans related to AML / CFT tasks.

4) Effectiveness of KYC/CDD:

- Rules of Know Your Customer (KYC): Collection of information and evidents or documents of both the client and the legal entity to verify the identity of the customer, such as:Name and Surname, ID, name of legal entity, office address, enterprise registration copy and so on, necessary and be able to authenticate;
- Rule of CDD: Continuing customer service to ensure that the information previously provided by the client is currently accurate; Increase attention to paid customer service for individuals with political status.

5) Effectiveness of Monitoring (including MIS):

- The rules and mechanism for AML / CFT implementation in order to ensure real implementation in each period.

6) Effcetiveness of STR Analysis and Reporting:

- Reporting: Internal reporting requirements are set; Completeness of the reporting form; The period of reporting; Responsible Employee Mechanism;
- Suspicious Transaction Reporting: Internal Management Process that is at the Head Office's Responsibility; Completeness of the reporting form; The mechanics of the staff involved;
- Continuous monitoring;
- Confidentiality of reporting;
- Other rules that the Bank may set out to provide for more effective analysis and reporting of transactions.

**7) Effectiveness of Report Keeping:**

- Collection of information on customer details;
- Collection of information on customer transactions;
- Collection information on money transfer;
- Keeping of information.

**8) Effectiveness of Internal Audit:**

- Internal controls: Inspect, evaluate, review policies, rules and operating manuals, as well as control the effectiveness of them.

**9) Effectiveness of Training Activities:**

- Continuing to formulate ongoing AML / CFT training for own staff.

**2. Assessment**

Risk assessment based on risk management principles for the work of anti-money laundering and counter-financing of terrorism was conducted on the basis of a data analysis of 19 inherent risk factors and AML / CFT control factors obtained from reporting units, to set the score and input it into the risk assessment tool (Excel Tool).

❖ **Form of scoring**

There are two types of risk assessment tools: Risk Score and Risk Reduction Score. Scoring is set from 1 (minimum score) to 5 (highest score).

- Risk Reduction Score (+): Entering a score of 1 means that the factor is low risk. But a score of 5 would mean that the risk was high. (the higher scores the higher risks).

- Risk Reduction Score (-): Entering a score of 1 means that this factor is less effective in implementing risk reduction. But a score of 5 means that these factors are highly effective in reducing risk. (the higher scores the lower risk).

❖ **Assessmen Result:** After the scoring and rating of 19 factors is included in the risk assessment tool, the tool calculates the risk rating of the reporting entity:

- Scores 0-19 are low risk;
- Score of 20-39 is low- medium risk;
- Scores 40-59 are medium risk;

- Scores 60-79 are medium-high risk;
- Scores of 80-100 are high risk.

**Article 5 Implementation**

The Monitoring and Inspection Division of the Anti-Money Laundering Intelligence Office is assigned to assess the reporting units in order to effectively implement risk assessment activities in accordance with the principles of risk management on the Anti-Money Laundering and Counter-Financing of Terrorism.

**Article 6 Effectiveness**

This Manual is effective form the date of signing.

**Director General of AMLIO**

**Phengsy Phengmuong**