

RED FLAG INDICATORS FOR CAPITAL MARKETS INTERMEDIARIES

General Comments

The list of situations given below is intended to highlight some basic ways in which money may be laundered or used for TF purposes. While each individual situation may not be sufficient to suggest that ML/TF is taking place, a combination of such situations may be indicative of a suspicious transaction. The list is not exhaustive and will require constant updating and adaptation to changing circumstances and new methods of laundering money or financing terrorism. The list is intended solely as an aid, and must not be applied as a routine instrument in place of common sense.

The list is not exhaustive and may be updated due to changing circumstances and new methods of laundering money or financing terrorism. CMI's are to refer to STRO's website for the latest list of red flags¹.

A customer's declarations regarding the background of such transactions should be checked for plausibility. Not every explanation offered by the customer can be accepted without scrutiny.

It is reasonable to suspect any customer who is reluctant to provide normal information and documents required routinely by the CMI in the course of the business relations. CMIs should pay attention to customers who provide minimal, false or misleading information, or when applying to open an account, provide information that is difficult or expensive for the CMI to verify.

Transactions Which Do Not Make Economic Sense

- i) Transactions that cannot be reconciled with the usual activities of the customer, for example switching from trading only penny stocks to predominantly blue chips.
- ii) A customer relationship with the CMI where a customer has a large number of accounts with the same CMI, and has frequent transfers between different accounts.
- iii) Transactions in which assets are withdrawn immediately after being deposited², unless the customer's business activities furnish a plausible reason for immediate withdrawal.
- iv) Transactions which, without plausible reason, result in the intensive use of what was previously a relatively inactive account, such as a customer's account which shows virtually no normal personal or business related activities but is used to receive or disburse unusually large sums which have no obvious purpose or relationship to the customer or his business.
- v) Unexpected repayment of a delinquent account without any plausible explanation.

¹ The website address as at 24 April 2015: <http://www.cad.gov.sg/aml-cft/suspicious-transaction-reporting-office/suspicious-transaction-reporting>.

² For CMIs, this could mean depositing of funds into trust accounts, margin accounts, as collaterals or for fund management purposes.

- vi) Corporate finance transactions under consideration that do not make economic sense in respect of the business operations of the customer, particularly if the customer is not a listed company.
- vii) Request by a customer for investment management services where the source of funds is unclear or not consistent with the customer's apparent standing.
- viii) Buying and selling of security with no discernible purpose or in circumstances which appear unusual.
- ix) Large amounts of funds deposited into an account, which is inconsistent with the salary of the customer.

Transactions Involving Large Amounts of Cash

- i) Frequent withdrawal of large cash amounts that do not appear to be justified by the customer's business activity.
- ii) Provision of funds for investment and fund management purposes in the form of large cash amounts.
- iii) Customers making large and frequent cash deposits but cheques drawn on the accounts are mostly to individuals and firms not normally associated with their business.
- iv) Large cash withdrawals from a previously dormant/inactive account, or from an account which has just received an unexpected large credit from abroad.
- v) A large amount of cash is withdrawn and immediately deposited into another account.
- vi) Provision of margin collaterals in the form of large cash amounts.
- vii) Payments made via large amounts of cash. A guideline to what constitutes a large or substantial cash amount would be a cash amount exceeding S\$20,000 (or its equivalent in any currency).
- viii) Company transactions, both deposits and withdrawals, that are denominated by unusually large amounts of cash, rather than by way of debits and credits normally associated with the normal commercial operations of the company (e.g. cheques, letters of credit, bills of exchange).
- ix) Crediting of customer trust or margin accounts using cash and by means of numerous credit slips by a customer such that the amount of each deposit is not substantial, but the total of which is substantial.
- x) Payments or deposits containing counterfeit notes or forged instruments.
- xi) Unusual settlements of securities transactions in cash form.

Transactions Involving CMI's Accounts

- i) Substantial increases in deposits of cash or negotiable instruments by a professional firm or company, using customer accounts or in-house company or trust accounts, especially if the deposits are promptly transferred between other customer company and trust accounts.
- ii) Transfers of funds from a company's account to an individual account of an employee or persons related to the employee and vice-versa.
- iii) Multiple depositors using a single account.
- iv) Paying in large third party cheques endorsed in favour of the customer in settlement for securities purchased, or for other financial services provided.
- v) Frequent deposits of a company's cheques into an employee's account.
- vi) An account operated in the name of an offshore company with structured movement of funds.
- vii) Purchase of securities to be held by the CMI in safe custody, where this does not appear appropriate given the customer's apparent standing.
- viii) Requests for refunds of unaccountable "erroneous" payments to CMIs' or customers' trust accounts by unknown persons.
- ix) Transfers of funds from various third parties into an account, which is inconsistent with the nature of the customer's business.

Transactions Involving Transfers Abroad

- i) Large and regular payments that cannot be clearly identified as bona fide transactions, from and to countries or jurisdictions associated with (a) the production, processing or marketing of narcotics or other illegal drugs or (b) other criminal conduct.
- ii) Cross border transactions involving acquisition or disposal of high value assets that cannot be clearly identified as bona fide transactions.
- iii) Substantial increase in injection of funds by a customer without apparent cause, especially if such injections are subsequently transferred within a short period of time out of the account or to a destination not normally associated with the customer.
- iv) Repeated transfers of large amounts of money abroad accompanied by the instruction to pay the beneficiary in cash.

Transactions Involving Unidentified Parties

- i) Transfer of money to another CMI without indication of the beneficiary.
- ii) Payment orders with inaccurate information concerning the person placing the orders.
- iii) Use of pseudonyms or numbered accounts for effecting commercial transactions by enterprises active in trade and industry.
- iv) Holding in trust of shares in an unlisted company whose activities cannot be ascertained by the CMI.
- v) Provision of collateral by way of pledge or guarantee without any discernible plausible reason by third parties unknown to the CMI and who have no identifiable close relationship with the customer.
- vi) Customers who wish to maintain a number of trustee or customers' accounts that do not appear consistent with their type of business, including transactions that involve nominee names.
- vii) Requests by a customer for investment management services where the source of funds is unclear.

Tax Crimes Related Transactions

- i) Negative tax-related reports from the media or other credible information sources.
- ii) Unconvincing or unclear purpose or motivation for having accounts opened in Singapore.
- iii) Originating sources of multiple or significant deposits/withdrawals are not consistent with the declared purpose of the account.
- iv) Inability to reasonably justify frequent and large fund transfers from or to a country or jurisdiction that presents higher risk of tax evasion.
- v) Reinvestment of funds back into the original country or jurisdiction after being transferred to another country or jurisdiction, often a tax haven with poor track record on CDD or record keeping requirements.
- vi) Accounts managed by external asset managers who may not be adequately regulated and supervised.
- vii) Purchase or sale of large amounts of precious metals by a customer which is not in line with his business or background.
- viii) Purchase of bank cheques on a large scale by a customer.

Other Types of Transactions

- i) Account activity is not commensurate with the customer's known profile (e.g. age, occupation, income).
- ii) The customer fails to reasonably justify the purpose of a transaction when queried by the CML.
- iii) Transactions with countries or entities that are reported to be associated with terrorism activities or with persons that have been designated as terrorists.
- iv) Frequent changes to the address or authorised signatories.
- v) A large amount of funds is received and immediately used as collateral for margining or financing facilities.
- vi) When a young person (aged about 17-26) opens an account and either withdraws or transfers the funds within a short period, which could be an indication of terrorism financing.
- vii) When a person receives funds from a religious or charitable organisation and utilises the funds for purchase of assets or transfers out the funds within a relatively short period.
- viii) The customer uses intermediaries which are not subject to adequate AML/CFT laws.
- ix) Transactions that are suspected to be in violation of another country's or jurisdiction's foreign exchange laws and regulations.