MONEY LAUNDERING & TERRORIST FINANCING (ML/TF) RISK ASSESSMENT METHODOLOGY

December 2018

GENERAL INFORMATION

About this document

This document forms part of the AML Program Manual provided by AML Accelerate, which has been designed to address and enable compliance with relevant AML/CFT legal and regulatory obligations.

This document should be read in conjunction with the following related documents, which form components of the AML Program Manual:

- **Company Information** – which contains contextual information relating to our organisation;
- **ML/TF Risk Assessment** – which contains the outputs of a structured process of identifying and assessing money laundering and terrorist financing (ML/TF) risks and the controls in place to manage and mitigate the ML/TF risks an organisation may reasonably face;
- **AML Program** – which contains the approach to addressing the relevant AML/CFT legal and regulatory requirements for a type of business;
- **Customer Due Diligence (CDD) Standards** – which contains the type and extent of due diligence undertaken on customers, based on their legal form and their assessed level of ML/TF risk; and
- **Appendices** – which contains a glossary of key terms, a list of reference materials used in the preparation of the AML/CFT Program Manual, and other supporting information and documents.

The AML Accelerate platform also provides the ability to create a supporting AML Operating Manual. Where an AML Operating Manual has been created, it should be read in conjunction with the documents contained in the AML Program Manual.

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1. Money Laundering and Terrorism Financing (ML/TF) Risk Assessment

Purpose of the ML/TF Risk Assessment

Risk management is the process of identifying risk and developing policies and processes to minimise and manage that risk. This requires the development of a process to identify, assess, prioritise, mitigate, manage and monitor risk exposures.

Money laundering (ML) or terrorist financing (TF) risk is the risk that an organisation, or a product or service offered by an organisation, may be used to facilitate ML/TF).

It is unrealistic that an organisation would operate in a completely risk-free environment in terms of ML/TF. Therefore, an organisation should identify the ML/TF risks it may reasonably face, then assess the best approach to reduce and manage those risks.

ML/TF risk assessment is a process of assessing an organisation's risk of, and vulnerabilities to, being used by money launderers and terrorist financiers.

To ensure completeness, consistency and accuracy of the assessment of ML/TF risks, AML Accelerate has developed this ML/TF risk assessment methodology, which forms part of the AML Program Manual.

2. ML/TF Risk Assessment Methodology

General

This ML/TF risk assessment methodology was developed by AML Accelerate's AML/CFT subject matter experts based on domestic and international ML/TF risk assessment methodologies, as well as industry and regulatory guidance. The methodology also leverages international risk management standards, including ISO31000.

The methodology has been designed to enable organisations, using the AML Accelerate platform, to comprehensively identify and assess ML/TF risks by responding to a series of pre-defined questions, which generate an enterprise level ML/TF risk assessment for an organisation.

Once ML/TF risks have been identified and assessed, it is the responsibility of the organisation to develop, operationalise and continually monitor mitigating systems, processes and controls to effectively manage ML/TF risks.

These mitigating systems, processes and controls are set out in the AML/CFT Program and Customer Due Diligence Standards, which form part of the AML Accelerate AML Program Manual.

This ML/TF risk assessment methodology defines each risk dimension used in the AML Accelerate ML/TF risk assessment, considering the following dimensions of ML/TF risk:

- Environmental Risk:
  - Predicate criminal offences;
  - Money laundering;
  - Terrorist financing;
  - Targeted financial sanctions; and
  - Regulatory compliance
- Customer Risk:
  - Customer location;
  - Customer business activities;
  - Politically exposed persons (PEPs);
  - Customer legal form;
- Business Risk:
  - Business operations;
  - Outsource AML/CFT controls; and
  - Employees
- Channel Risk:
  - Face to face customer engagement; and
  - Third party customer engagement
- Product Risk:
  - Product or service flexibility; and
  - Products defined as higher ML/TF risk
- Country Risk

This methodology explains how each sub-risk factor within each of the risk dimensions (as set out above) is identified and assessed to determine the level of ML/TF risk for an organisation. The methodology also provides definitions used as part of the AML Accelerate ML/TF risk assessment.

Inherent and residual ML/TF risk

This methodology assesses both the inherent ML/TF risk and residual ML/TF risk:

- Inherent ML/TF risk is the outcome of an assessment of the likelihood of a risk occurring and the impact of the risk, were it to occur. Inherent risk is the risk before controls applied to mitigate the risk being assessed; and
- Residual ML/TF risk is the outcome of an assessment of the identified inherent risk after the existence and operational effectiveness of controls that have been put in place to mitigate that risk being assessed have been taken into consideration.

Inherent and residual risk definitions

The AML Accelerate risk assessment methodology defines the criteria for rating both the inherent and residual risk, as well as consistent criteria for assessing the effectiveness of controls as:

Inherent Risk Rating (IRR)	
Significant	Major ML/TF risk.
High	Serious ML/TF risk.
Medium	Moderate ML/TF risk.
Low	Minor or negligible ML/TF risk.
Control Assessment	
Excellent	Highly effective controls. Controls in place are state of the art controls necessary to mitigate the risks, and the controls appear to be working highly effectively at mitigating the risk.
Adequate	Effective controls. Controls in place are the right controls necessary to mitigate the risk and the controls appear to be working sufficiently.
Poor	Ineffective controls. Controls in place but not the right controls necessary to mitigate the risk, or the controls appear not to be fit for purpose.
No Control/ Not Tested	No controls in place or the effectiveness of the controls in place have not been tested.
Residual Risk Rating (RRR)	
Significant	Risk almost sure to occur and/or to have major consequences and inadequate controls in place to mitigate the risk.
High	Risk likely to occur and/or to have serious consequences, and adequate controls in place.
Medium	Possible this could occur and/or have moderate consequences, and adequate or excellent controls in place.
Low	Unlikely to occur and/or have minor or negligible consequences, and adequate or excellent controls in place.

This methodology applies the above criteria, but these are adjusted for each ML/TF risk factor assessed.

3. Risk Assessment Results

AML Accelerate provides a ML/TF risk assessment on a number of levels to help an organisation understand and therefore be in a position to manage and mitigate their ML/TF risks.

<table>
<tr><th>Level</th><th>Description</th></tr>
<tr><td>Level 1</td><td>Executive Summary - One consolidated view of all the ML/TF risk at an organisation level.</td></tr>
<tr><td>Level 2</td><td>Risk Category – a consolidated view of the risk ratings for each of the following risk categories:
Environmental Risk
Customer Risk
Business Risk
Channel Risk
Product Risk
Included is a summary of the inherent risk ratings, controls, and residual risk rating for each risk category and their sub-categories.</td></tr>
<tr><td>Level 3</td><td>Risk Sub-Category – a consolidated view of the risk rating of each risk component that makes up a risk category.</td></tr>
<tr><td>Level 4</td><td>Individual Risk – a consolidated view of the risk rating of each risk component that makes up a risk sub-category.</td></tr>
<tr><td>Level 5</td><td>Individual Risk – a detailed assessment of the risk, the risk's indicators, the inherent risk, the controls, and the effectiveness of the controls for each of the 21 risks assessed by the AML Accelerate risk assessment model.</td></tr>
</table>

AML Accelerate calculates the consolidated risk ratings at level's 1, 2, 3 and 4 by assigning a numerical score to the rating results at the level below and aggregating those scores to determine the risk rating.

4. Environmental Risk

What is environmental risk?

Environmental risk considers the external and internal environments that an organisation operates in.

The methodology facilitates an assessment of the predicate crimes that can give rise to ML/TF, identified by international guidance, which an organisation can be vulnerable. This vulnerability may be because a customer is involved in the commission of one or more predicate crimes and/or is seeking to use products and services to launder the proceeds of a predicate crime.

The methodology has grouped predicate crimes into several categories to assist the assessment. The grouping includes deceptive crimes, illicit trafficking, property crimes, and crimes against the person (personal crimes).

The ML/TF environmental risk methodology also includes the internal vulnerability of the organisation to being used to launder money, finance terrorism, or breach targeted financial sanctions.

In addition, the ML/TF environmental risk methodology considers the organisation's vulnerability to non-compliance with relevant AML/CFT law and regulation, if it does not put in place appropriate controls or implement adequate responses to AML/CFT obligations.

Environmental ML/TF risk is assessed at the inherent risk and residual risk level.

Inherent environmental risk

Inherent environmental ML/TF risks are assessed and rated through the AML Accelerate platform by applying a combination of risk likelihood and risk impact, using the following matrix:

Environmental Inherent Risk Rating (IRR)		Impact			
		Minor	Moderate	Major	Unknown
Likelihood	Very likely	Medium	High	Significant	High
	Likely	Low	Medium	High	High
	Unlikely	Low	Low	Medium	High
	Unknown	High	High	High	High

The methodology defines and applies consistent criteria for both the likelihood and impact when assessing inherent environmental ML/TF risk:

Likelihood		
Very likely	Almost certain that the risk will occur several times a year.	A risk is very likely if it has occurred previously and may also occur in the near future.
Likely	High probability the risk will occur at least once.	A risk is likely if it has occurred previously and is likely to occur again.
Unlikely	Unlikely if not impossible the risk will occur.	A risk is unlikely if it has not occurred previously and is not expected to occur.
Unknown	Do not know the likelihood of the risk occurring.	If you do not know or are unsure whether a risk will occur the likelihood is unknown.
Impact		
Major	Major damage or effect should it occur. Serious consequences for the business or compliance with AML/CFT obligations or vulnerable to serious terrorist act or large-scale money laundering risk.	A major impact means the risk could result in significant financial penalties (with reference to the size and profitability of the business) or limitations or restrictions on business activities that could affect the businesses ability to continue as a going concern.
Moderate	Moderate damage or effect should it occur. Moderate consequences for the business or compliance with AML/CFT obligations or some level of money laundering or terrorism financing risk.	A moderate impact means that whilst the risk could result in financial penalties or limitations or restrictions on business activities These would not affect the businesses ability to continue as a going concern.
Minor	Minor or negligible consequences or effects should it occur. Low level of money laundering or terrorism financing risk.	A minor impact means that any financial penalties or limitations or restrictions on business activities are not material.
Unknown	Do not know the impact or have not assessed the impact of it occurring.	If you do not know or are unsure what the impact will be the impact is unknown.

The methodology defines and applies consistent criteria when assessing inherent environmental ML/TF risk:

Rating	Inherent Risk Rating
Significant	Major ML/TF risk.
High	Serious ML/TF risk.
Medium	Moderate ML/TF risk.
Low	Minor or negligible ML/TF risk.

Residual environmental risk

Residual environmental ML/TF risks are assessed and rated through the AML Accelerate platform by overlaying the inherent ML/TF risk with an assessment of the controls to mitigate that risk, using the following matrix:

Environmental Residual Risk Rating (RRR)		Control Assessment			
		Excellent	**Adequate**	**Poor**	**No Control/ Not Tested**
Environmental Inherent Risk Rating (IRR)	**Significant**	Medium	High	Significant	Significant
	High	Low	Medium	High	High
	Medium	Low	Low	Medium	Medium
	Low	Low	Low	Low	Low

The methodology defines and applies consistent criteria when assessing the effectiveness of controls as part of a residual environmental ML/TF risk:

Control Assessment	
Excellent	Highly effective controls. Controls in place are state of the art controls necessary to mitigate the risks and the controls appear to be working highly effectively at mitigating the risk.
Adequate	Effective controls. Controls in place are the right controls necessary to mitigate the risk and the controls appear to be working sufficiently.
Poor	Ineffective controls. Controls in place but not the right controls necessary to mitigate the risk or the controls appear not to be fit for purpose.
No Control/ Not Tested	No controls in place or the effectiveness of the controls in place has not been tested.

The methodology defines and applies consistent criteria when assessing residual environmental ML/TF risk:

Rating	Residual Risk Rating (RRR)
Significant	Risk almost sure to occur and/or to have major consequences, and inadequate controls in place to mitigate the risk.
High	Risk likely to occur and/or to have serious consequences, and adequate controls in place.
Medium	Possible this could occur and/or have moderate consequences, and adequate or excellent controls in place.
Low	Unlikely to occur and/or have minor or negligible consequences, and adequate or excellent controls in place.

5. Customer Risk

What is customer risk?

ML/TF customer risk is the risk or vulnerability that customers may be involved in money laundering or terrorist financing activities. ML/TF customer risk is significantly influenced by the nature and/or attributes of a customer.

The methodology applied to assess customer ML/TF risk at an enterprise level through the AML Accelerate platform defines customer risk as the combination of:

- The customer footprint within the customer base, which consists of their geographic location and if they are engaged in business activities that are vulnerable to ML/TF; and
- The types of customer within the customer base, which consists of whether they are a Politically Exposed Persons (PEP) and their legal forms vulnerabilities to ML/TF risk.

The methodology applies the following criteria for assessing ML/TF risk regarding customer footprint:

- Customers located in overseas jurisdictions (in particular higher ML/TF risk countries) may contribute to rating customers as higher ML/TF risk; and
- Customers engaged in higher risk business activities or occupations may contribute to rating customers as higher ML/TF risk.

The methodology applies the following criteria for assessing ML/TF risk regarding customer types:

- Where a customer who is an individual is identified as a PEP, or a family member or close associate of a PEP, this may contribute to rating customers as higher ML/TF risk; and
- The types of customers and the percentage assessed as representing a higher ML/TF risk, as part of customer due diligence, may contribute to rating customers as higher ML/TF risk.

The inherent ML/TF customer risk rating is a function of both the customer footprint risk and customer type risk.

Customer footprint risk

Customer footprint risk is a combination of customer location risk and business risk assessment:

- Customer location risk relates to where customers are located, based, or have a contact address. Where customers are overseas or in a higher ML/TF risk country it may contribute to rating the customer base as representing a higher footprint ML/TF risk.
- Customer business risk relates to nature of business activities that the customers undertake or are engaged in, as some activities are inherently more vulnerable than others to ML/TF. Where customers are engaged in or are undertaking higher ML/TF risk business activity, this may contribute to rating the customer base as higher footprint ML/TF risk.

Customer footprint risk is assessed through the AML Accelerate platform using the following matrix:

Customer Footprint Risk		Customer Business Risk			
		High	Medium	Low	Unknown
Customer Location Risk	High	High	High	Medium	High
	Medium	High	Medium	Medium	High
	Low	Medium	Medium	Low	High
	Unknown	High	High	High	High

Customer type risk

Customer type risk is a combination of whether customers are politically exposed persons (PEPs), as well as what legal form customers are:

- Politically Exposed Person (PEP) risk is a term used to describe someone entrusted with a prominent public function, such as a senior political figure, or an individual closely related to such a person. The definition of PEP also includes close associates of senior political figures, who have joint beneficial ownership of a legal entity or legal arrangement between them. Where customers are PEPs this contributes to rating the customer base as higher footprint ML/TF risk.
- Non-individual customers are identified internationally as representing a higher ML/TF risk, as legal entities can be used to facilitate the concealment of ownership and control. The type of customer and the percentage of each customer type (including individuals) that have been identified, through customer due diligence, to represent a higher ML/TF risk contributes to rating the customer base as higher footprint ML/TF risk.

Customer type risk is assessed through the AML Accelerate platform using the following matrix:

Customer Type Risk		Customer Politically Exposed Person (PEP) Risk			
		High	Medium	Low	Unknown
Higher Risk Customers	High	High	High	Medium	High
	Medium	High	Medium	Medium	High
	Low	Medium	Medium	Low	High
	Unknown	High	High	High	High

Inherent and residual customer risk

Inherent customer ML/TF risk, when using the AML Accelerate platform, is assessed by applying a combination of customer footprint risk and customer type risk, using the following matrix:

Customer Inherent Risk Rating (IRR)		Customer Type Risk		
		High	**Medium**	**Low**
Customer Footprint Risk	**High**	Significant	High	Medium
	Medium	High	Medium	Medium
	Low	Medium	Medium	Low

Residual customer ML/TF risks, when using the AML Accelerate platform, are assessed by overlaying the inherent ML/TF risk with an assessment of the controls to mitigate that risk, using the following matrix:

Customer Residual Risk Rating (RRR)		Control Assessment			
		Excellent	**Adequate**	**Poor**	**No Control/ Not Tested**
Customer Inherent Risk Rating (IRR)	**Significant**	Medium	High	Significant	Significant
	High	Low	Medium	High	High
	Medium	Low	Low	Medium	Medium
	Low	Low	Low	Low	Low

Inherent and residual customer risk definitions

The methodology defines and applies consistent criteria when assessing inherent customer ML/TF risk:

Rating	Customer Inherent Risk Rating (IRR)
Significant	Customers represent a significant vulnerability to ML/TF risks, which need to be addressed by controls.
High	Customers represent a serious vulnerability to ML/TF risks, which need to be addressed by controls.
Medium	Customers represent a moderate vulnerability to ML/TF risks, which need to be addressed by controls.
Low	Customers represent a minor or negligible vulnerability to ML/TF risks, which need to be addressed by controls.

The methodology defines and applies consistent criteria when assessing the effectiveness of controls as part of a residual customer ML/TF risk:

Control Assessment	
Excellent	Highly effective controls. Controls in place are state of the art controls necessary to mitigate the risks and the controls appear to be working highly effectively at mitigating the risk.
Adequate	Effective controls. Controls in place are the right controls necessary to mitigate the risk and the controls appear to be working sufficiently.
Poor	Ineffective controls. Controls in place but not the right controls necessary to mitigate the risk or the controls appear not to be fit for
No Control/ Not Tested	No controls in place or the effectiveness of the controls in place has not been tested.

The methodology defines and applies consistent criteria when assessing residual customer ML/TF risk:

Rating	Customer Residual Risk Rating (RRR)
Significant	Inadequate controls and significant customer ML/TF risks.
High	Poor controls and high customer ML/TF risks.
Medium	Adequate controls and medium customer ML/TF risks.
Low	Excellent controls and lower customer ML/TF risks.

6. Business Risk

What is business risk?

ML/TF business risk is the risk or vulnerability of a business operations customers to money laundering or terrorist financing activities. ML/TF business risk is significantly influenced by where the business operations are located, the use of third parties, and the ML/TF risks resulting from employees.

The methodology applied to assess business ML/TF risk through the AML Accelerate platform defines business risk as the combination of business operations risk and employee risk.

Business operations risk

Business operations risk is a combination of business location risk and business third party risk assessments:

- Business location risk assesses where business operations are located, based, or operate out of. Where business operations are in a higher ML/TF risk country it may contribute to rating the business operations as representing a higher ML/TF risk.
- Business third party risk assesses the use by the business of third parties to undertake some or all the AML/CFT controls required by relevant AML/CFT law and regulation. Where a business uses third parties to operate AML/CFT controls but has inadequate governance and oversight of the activities of the third party, it may contribute to rating the business operations as representing a higher ML/TF risk.

The methodology assigns consistent criteria for assessing business third party risk:

Rating	Outsourced Control Risk
High	The business does not know whether it uses third parties to operate AML/CFT controls. OR The business does use third parties to operate AML/CFT controls but does not know whether the outsourcing arrangements are fully documented or if the third party is regulated on the same/a similar basis. OR The business does use third parties to operate AML/CFT controls, but either the outsourcing arrangements are not fully documented, or the third party is not regulated on the same/similar basis.
Medium	The business uses third parties to operate AML/CFT controls, and the outsourcing arrangements are fully documented, and the third party is regulated on the same/similar basis.
Low	The business does not use third parties to operate AML/CFT controls.

Business operations risk is assessed through the AML Accelerate platform using the following matrix:

Business Operations Risk		Outsource Control Risk			
		High	Medium	Low	Unknown
Business Location Risk	High	High	High	Medium	High
	Medium	High	Medium	Medium	High
	Low	Medium	Medium	Low	High
	Unknown	High	High	High	High

Additional contextual data

The methodology also collects additional data that provides context to the risk of outsourcing AML/CFT controls to third parties by assessing:

- The nature of the AML/CFT controls that are undertaken by third parties
- The formal documentation of outsourcing arrangements
- The regulatory status of the third-party service provider performing AML/CFT controls

Employee risk

Employee risk is a combination of employee good-standing risk and employee role risk assessments:

- Employee good-standing risk assesses whether employees have been subject to criminal conviction and other adverse information.
- Employees subject to criminal conviction and other adverse information identified through screening, are considered to represent a higher ML/TF risk.
- Employee role risk assesses the extent to which a business employs people in roles that are recognised as having increased vulnerability to being used to facilitate laundering money or finance terrorism.

Employee risk is assessed through the AML Accelerate platform using the following matrix:

Employee Risk		Employee Role Risk			
		High	Medium	Low	Unknown
Employee Screening Risk	High	High	High	Medium	High
	Medium	High	Medium	Medium	High
	Low	Medium	Medium	Low	High
	Unknown	High	High	High	High

Additional contextual data

The methodology also collects additional data that provides context to the risk of employees in higher risk roles by assessing the additional controls applied to employees in higher risk roles.

Inherent and residual business risk

Inherent business ML/TF risk, when using the AML Accelerate platform, is assessed by applying a combination of business operations risk and employee risk, using the following matrix:

Business Inherent Risk Rating (IRR)		Employee Risk		
		High	**Medium**	**Low**
Business Operation Risk	**High**	Significant	High	Medium
	Medium	High	Medium	Medium
	Low	Medium	Medium	Low

Residual business ML/TF risks, when using the AML Accelerate platform, are assessed by overlaying the inherent ML/TF risk with an assessment of the controls to mitigate those risks, using the following matrix:

<table>
<tr><th colspan="2" rowspan="2">Business
Residual Risk Rating (RRR)</th><th colspan="4">Control Assessment</th></tr>
<tr><th>Excellent</th><th>Adequate</th><th>Poor</th><th>No Control/
Not Tested</th></tr>
<tr><td rowspan="4">Business
Inherent Risk
Rating
(IRR)</td><td>Significant</td><td>Medium</td><td>High</td><td>Significant</td><td>Significant</td></tr>
<tr><td>High</td><td>Low</td><td>Medium</td><td>High</td><td>High</td></tr>
<tr><td>Medium</td><td>Low</td><td>Low</td><td>Medium</td><td>Medium</td></tr>
<tr><td>Low</td><td>Low</td><td>Low</td><td>Low</td><td>Low</td></tr>
</table>

Inherent and residual business risk definitions

The methodology defines and applies consistent criteria when assessing inherent business ML/TF risk:

Rating	Business Inherent Risk Rating (IRR)
Significant	Business operations represent a significant vulnerability to ML/TF risks, which need to be addressed by controls.
High	Business operations represent a serious vulnerability to ML/TF risks, which need to be addressed by controls.
Medium	Business operations represent a moderate vulnerability to ML/TF risks, which need to be addressed by controls.
Low	Business operations represent a minor or negligible vulnerability to ML/TF risks, which need to be addressed by controls.

The methodology defines and applies consistent criteria when assessing the effectiveness of controls as part of a residual business ML/TF risk:

Control Assessment	
Excellent	Highly effective controls. Controls in place are state of the art controls necessary to mitigate the risks and the controls appear to be working highly effectively at mitigating the risk.
Adequate	Effective controls. Controls in place are the right controls necessary to mitigate the risk and the controls appear to be working sufficiently.
Poor	Ineffective controls. Controls in place but not the right controls necessary to mitigate the risk or the controls appear not to be fit for purpose.
No Control/ Not Tested	No controls in place or the effectiveness of the controls in place has not been tested.

The methodology defines and applies consistent criteria when assessing residual business ML/TF risk:

Rating	Business Residual Risk Rating (RRR)
Significant	Inadequate controls and significant business ML/TF risks.
High	Poor controls and high business ML/TF risks.
Medium	Adequate controls and medium business ML/TF risks.
Low	Excellent controls and lower business ML/TF risks.

7. Channel Risk

What is channel risk?

ML/TF risk is significantly influenced by the nature and/or attributes of the channels used to deliver products and services to customers.

Channel risk is determined by whether the delivery of a product or service involves face to face contact with the customer, as face to face contact limits the ability for customer anonymity and facilitates establishing whether the customer is who they are claiming to be.

The use of third parties as part of the delivery chain of a product or service also creates a higher ML/TF channel risk.

The methodology applied to assess channel ML/TF risk through the AML Accelerate platform, defines channel risk as the combination of third party risk and non-face to face customer engagement risk.

Third party risk

Third party risk is a combination of third party use by a business to engage customers and third-party location risk assessments:

- Third party use risk assesses the use by the business of third parties to engage and attach customers for their products and services. The level of a business' use of third parties to engage customers may contribute to rating the channel as representing a higher ML/TF risk.
- Third party location risk assesses where third parties used by the business to engage customers are located, based, or operate out of. Where third parties are in a higher ML/TF risk country it may contribute to rating the channels used by the business as representing a higher ML/TF risk.

Third party risk is assessed through the AML Accelerate platform using the following matrix:

Third Party Risk		**Third Party Use Risk**			
		High	**Medium**	**Low**	**Unknown**
Third Party Location Risk	**High**	High	High	Medium	High
	Medium	High	Medium	Medium	High
	Low	Medium	Medium	Low	High
	Unknown	High	High	High	High

Non-face to face risk

Non-face to face risk assesses the extent to which customers are not met face to face. Where a customer is not met in person (face to face) there is an increased vulnerability that the customer may not be who they claim to be, which may contribute to rating the channels used by the business as representing a higher ML/TF risk.

Additional contextual data

The methodology also collects additional data that provides context to the risk of the channels used by assessing the methods used to engage customers or deliver products and services to customers.

Inherent and residual channel risk

Inherent channel ML/TF risk, when using the AML Accelerate platform, is assessed by applying a combination of third party risk and non-face to face risk, using the following matrix:

Channel Inherent Risk Rating (IRR)		Third Party Risk		
		High	**Medium**	**Low**
Face to Face risk	**High**	Significant	High	Medium
	Medium	High	Medium	Medium
	Low	Medium	Medium	Low
	Unknown	High	High	High

Residual channel ML/TF risks, when using the AML Accelerate platform, are assessed by overlaying the inherent ML/TF risk with an assessment of the controls to mitigate those risks, using the following matrix:

Channel Residual Risk Rating (RRR)		Control Assessment			
		Excellent	**Adequate**	**Poor**	**No Control/ Not Tested**
Channel Inherent Risk Rating (IRR)	**Significant**	Medium	High	Significant	Significant
	High	Low	Medium	High	High
	Medium	Low	Low	Medium	Medium
	Low	Low	Low	Low	Low

Inherent and residual channel risk definitions

The methodology defines and applies consistent criteria when assessing inherent channel ML/TF risk:

Rating	Channel Inherent Risk Rating (IRR)
Significant	Channels used to engage customers represent a significant vulnerability to ML/TF risks, which need to be addressed by controls.
High	Channels used to engage customers represent a serious vulnerability to ML/TF risks, which need to be addressed by controls.
Medium	Channels used to engage customers represent a moderate vulnerability to ML/TF risks, which need to be addressed by controls.
Low	Channels used to engage customers represent a minor or negligible vulnerability to ML/TF risks, which need to be addressed by controls.

The methodology defines and applies consistent criteria when assessing the effectiveness of controls as part of a residual channel ML/TF risk:

Control Assessment	
Excellent	Highly effective controls. Controls in place are state of the art controls necessary to mitigate the risks and the controls appear to be working highly effectively at mitigating the risk.
Adequate	Effective controls. Controls in place are the right controls necessary to mitigate the risk and the controls appear to be working sufficiently.
Poor	Ineffective controls. Controls in place but not the right controls necessary to mitigate the risk or the controls appear not to be fit for
No Control/ Not Tested	No controls in place or the effectiveness of the controls in place has not been tested.

The methodology defines and applies consistent criteria when assessing residual channel ML/TF risk:

Rating	Channel Residual Risk Rating (RRR)
Significant	Inadequate controls and significant channel ML/TF risks.
High	Poor controls and high channel ML/TF risks.
Medium	Adequate controls and medium channel ML/TF risks.
Low	Excellent controls and lower channel ML/TF risks.

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8. Product or Service Risk

What is product or service risk?

ML/TF risk is significantly influenced by the nature and/or attributes of products and services.

Product or service risk is determined by whether the attributes of a product or service offer the user functionality that can be used to facilitate money laundering and/or terrorist financing.

The methodology applied to assess product ML/TF risk through the AML Accelerate platform, is based on different attributes that are risk factors to whether the product or service is more vulnerable and therefore is higher risk from a money laundering and financing terrorism perspective.

Product or service flexibility

The flexibility of a product or service is an assessment of how much functionality and capability it allows the customer.

The methodology establishes questions that can be applied to a product or service to determine the level of flexibility and therefore the level of ML/TF risk.

The risk factors that make a product or service more vulnerable to ML/TF risk are:

- Customer or user anonymity;
- The use or access by third parties;
- The availability or use overseas; and
- The ability to use or gain access to cash.

The methodology assigns consistent criteria for assessing product flexibility:

Rating	Product Flexibility Risk Factor
Low	A yes score of **0 to 5** means the product is not flexible and is therefore not very vulnerable to ML/TF risk. The dynamics of the product are not attractive to money launderers and terrorist financiers.
Medium	A yes score of **6 to 8** means the product is somewhat flexible and is therefore vulnerable to ML/TF risk. The dynamics of the product are moderately attractive to money launderers and terrorist financiers.
High	A yes score **9 or over** means the product is very flexible and is therefore highly vulnerable to ML/TF risk. The dynamics of the product are highly attractive to money launderers and terrorist financiers.

Higher risk products and services

The product ML/TF risk assessment methodology also considers whether the product or service has been identified as representing a higher ML/TF risk by typologies or case studies.

The AML Accelerate methodology leverages international typologies that identify cases a where a product or service has been used or are particularly vulnerable to ML/TF.

The higher risk products and services will be reviewed at least annually to ensure the typologies remain current and to identify new typologies that represent a higher ML/TF risk.

Where the product or service has been determined to be higher risk the AML Accelerate risk assessment methodology assigns a risk flag, which enhances the inherent risk rating derived from the risk factor assessment.

Additional contextual data

The methodology also collects additional data that provides context to the risk of the product or service by assessing:

- The percentage of customers using the product or services
- The amount of revenue the product or service generates
- Whether the product or service is subject to monitoring
- How many suspicious matters have been lodged that related to the product or service

Inherent and residual product or service risk

Inherent product or service ML/TF risk, when using the AML Accelerate platform, is assessed by applying a combination of flexibility rating and higher risk product classification, using the following matrix:

Product Inherent Risk Rating (IRR)		**High Risk Product**	
		Yes	**No**
Product Flexibility	**High**	Significant	High
	Medium	High	Medium
	Low	Medium	Low

Residual product ML/TF risks, when using the AML Accelerate platform, are assessed by overlaying the inherent ML/TF risk with an assessment of the controls to mitigate those risks, using the following matrix:

Product Residual Risk Rating (RRR)		**Control Assessment**			
		Excellent	**Adequate**	**Poor**	**No Control/ Not Tested**
Product Inherent Risk Rating (IRR)	**Significant**	Medium	High	Significant	Significant
	High	Low	Medium	High	High
	Medium	Low	Low	Medium	Medium
	Low	Low	Low	Low	Low

Inherent and residual product risk definitions

The methodology defines and applies consistent criteria when assessing inherent product ML/TF risk:

Rating	Product Inherent Risk Rating (IIR)
Significant	The products offered by the business are significantly vulnerable to ML/TF risks which need to be addressed by controls
High	The products offered by the business are seriously vulnerable to ML/TF risks which need to be addressed by controls
Medium	The products offered by the business are moderately vulnerable to ML/TF risks which need to be addressed by controls
Low	The products offered by the business have minor or negligible vulnerability to ML/TF risks which need to be addressed by controls

The methodology defines and applies consistent criteria when assessing the effectiveness of controls as part of a residual product ML/TF risk:

Control Assessment	
Excellent	Highly effective controls. Controls in place are state of the art controls necessary to mitigate the risks and the controls appear to be working highly effectively at mitigating the risk.
Adequate	Effective controls. Controls in place are the right controls necessary to mitigate the risk and the controls appear to be working sufficiently.
Poor	Ineffective controls. Controls in place but not the right controls necessary to mitigate the risk or the controls appear not to be fit for
No Control/ Not Tested	No controls in place or the effectiveness of the controls in place has not been tested.

The methodology defines and applies consistent criteria when assessing residual product ML/TF risk:

Rating	Product Residual Risk Rating (RRR)
Significant	Inadequate controls and significant product ML/TF risks
High	Poor controls and high product ML/TF risks
Medium	Adequate controls and medium product ML/TF risks
Low	Excellent controls and lower product ML/TF risks

9. Country Risk

What is country ML/TF risk?

Country risk is the assessment of a country's or jurisdiction's vulnerability to money laundering, terrorism financing, and targeted financial sanctions. A country's ML/TF risk directly impacts the AML/CFT program controls:

- Business operations in higher risk countries are considered to represent a higher ML/TF risk;
- Customers located in higher risk countries are considered to represent a higher ML/TF risk; and
- Enhanced Customer Due Diligence (ECDD) must be undertaken on all customers using the business operation in higher risk countries, unless their relationship is only domestically located in that higher risk country.

Country risk assessment

The methodology establishes that ML/TF country risk is a combination of the following risk factors:

- Targeted Financial Sanctions;
- AML/CFT concerns;
- Terrorism/lacking in anti-terrorism controls concerns;
- Illicit drug trafficking concern;
- Corruption concerns;
- Money laundering concern; and
- Financial secrecy concerns,

The AML Accelerate risk assessment methodology assesses each country against each risk factor and assigns a risk rating to each country.

The AML Accelerate risk assessment rating achieves an international standard for country risk, which can be adapted by the user to address risks or concerns expressed about a country by the government or authorities in the country in which they are located.

Country risk factors
AML Accelerate uses the following sources to identify the various risk factors applied as part of the country risk assessment:

Risk Factor	Source
Targeted Financial Sanctions	UN List and sanctions wiki
AML/CFT concerns	FATF
Terrorism concerns	US Department of State's Country Report on Terrorism
Illicit drugs concerns	US INSCR Report
Corruption concerns	Transparency International Corruption Perceptions Index
Money Laundering concerns	US INSCR Report
Financial secrecy concerns	Financial Secrecy Index

The AML Accelerate platform will monitor for changes in the risk indicators for countries and make any necessary changes to ML/TF country risk on at least an annual basis.

Targeted financial sanctions

The AML Accelerate Country Risk Methodology applies two targeted financial sanction ratings, namely:

- Countries with people and entities subject to United Nation sanctions; and
- Countries with people and entities subject to unilateral sanctions by another country.

AML Accelerate identifies where a country has people and entities that meet the above criteria and includes that as part of the overall country risk assessment.

United Nations sanctioned countries are rated Restricted and countries impacted by Other Sanction regimes are rated a minimum of High by AML Accelerate.

AML/CFT concerns

The AML Accelerate Country Risk Methodology leverages the Financial Action Task Force (FATF) published position on jurisdictions that in the FATF's view have strategic AML/CFT deficiencies and have not made sufficient progress in addressing the deficiencies or have not committed to an action plan developed with the FATF to address the deficiencies as part of its country risk assessment methodology. More information can be found at: http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/?hf=10&b=0&s=desc(fatf_releasedate)

The FATF in its publications calls on its members to consider the risks arising from the deficiencies associated with each jurisdiction.

Where a country is named by the FATF this is factored as a single score in the AML Accelerate ML/TF Country Risk Rating.

Terrorism vulnerability

AML Accelerate leverages US work in identifying State Sponsors of Terrorism and Terrorist Safe havens as part of its country risk assessment methodology. More information about the US State Department Report can be found at: https://www.state.gov/documents/organization/268024.pdfhttps://www.state.gov/j/ct/rls/crt/2016/

U.S. law requires the Secretary of State to provide Congress, by April 30 of each year, a full and complete report on terrorism about those countries and groups that meet the criteria of State Sponsor of Terrorism and Terrorist Safe Havens.

Where a country is identified as a State Sponsor of Terrorism or Terrorist Safe Haven this is factored as a single score in the AML Accelerate ML/TF Country Risk Rating.

Money laundering vulnerability

The AML Accelerate Country Risk Methodology leverages the money laundering concern assessment undertaken as part of the US International Narcotics Strategy Control Report (INSCR). More information about the INSCR can be found at:
https://www.state.gov/documents/organization/268024.pdf

The INSCR defines a major money laundering country as one "whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking."
Where a country is named by the INSCR as a Major Money Laundering Concern this is factored as a single score in the AML Accelerate ML/TF Country Risk Rating.

Illicit drug vulnerability

The AML Accelerate Country Risk Methodology leverages the US International Narcotics Strategy Control Report (INSCR) to identify major illicit drug producing countries and drug transit countries. More information about the INSCR can be found at:
https://www.state.gov/documents/organization/268025.pdf

Where a country is named by the INSCR as a major illicit drug producing country or drug transit country this is factored as a single score in the AML Accelerate ML/TF Country Risk Rating.

Corruption vulnerability

The AML Accelerate Country Risk Methodology leverages the Transparency International (TI) Corruption Perceptions Index (CPI) as part of its country risk assessment methodology. More information about the TI CPI can be found at:
https://www.transparency.org/news/feature/corruption_perceptions_index_2016?gclid=Cj0KCQiAtJbTBRDkARIsAIA0a5Pls1cP-m5EPqUHIE-UuKvbO4X96EETMLcClGvT5uIOp1C9ITgg6NwaAgwREALw_wcB

The TI CPI identifies the level of corruption within a country and rates each country between 1 and 100, with the lower the score representing a higher level of corruption.

The TI CPI identifies countries with a score of less than 40 to have an endemic level of corruption, and it is this criteria AML Accelerate applies to identify a countries vulnerability to corruption. Where a country is named by the TI CPI as having endemic corruption this is factored as a single score in the AML Accelerate ML/TF Country Risk Rating.

Financial secrecy

The AML Accelerate Country Risk Methodology leverages the Financial Secrecy Index (FSI) issued by the Tax Justice Network as part of its country risk assessment methodology.

The FSI Secrecy Scores are calculated based on 15 indicators. For full explanation of the methodology and data sources, please read the FSI-methodology document, here:
www.financialsecrecyindex.com/PDF/FSI-Methodology.pdf

Where a country is named by the FSI has a Secrecy Score of 40 or less this is factored as a single score in the AML Accelerate ML/TF Country Risk Rating.

Country risk definitions

Using the above public data sources, countries are rated as either:

Country Risk Rating	
Restricted	Country is subject to United Nations Sanctions
High	Subject to "Other Sanctions" OR Assessed in two (2) or more non-sanction categories.
Medium	Assessed in one (1) non-sanction category OR Full FATF Member and assessed in 2 other categories (other than UN Sanctions and Other Sanctions)
Low	Not assessed in any category OR FATF Member and assessed in only 1 other category (other than UN Sanctions and Other Sanctions)