

Central Bank of Seychelles Risk-Based Supervision Policy on Anti-Money Laundering and Countering the Financing of Terrorism Supervision

1.0 Introduction

The Central Bank of Seychelles' (CBS) legal mandate for Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) supervision is derived from section 55(1) of the AML/CFT Act, 2020. This mandate is formally institutionalised in a risk-based AML/CFT supervision policy, whereby as the designated competent authority, CBS supervises Reporting Entities (REs) under its purview for compliance with the applicable legal and regulatory AML/CFT requirements.

CBS' AML/CFT supervision is conducted through the evaluation of the adequacy of the internal risk assessment frameworks of REs, as well as the effectiveness and proportionality of their risk mitigating systems including their policies, procedures and internal controls. CBS carries out this function through; including, *inter alia*: (a) offsite monitoring, institutional and sectoral risk profiling activities; and (b) the conduct of risk-informed on-site inspections. These interlinked functions are conducted in close coordination with other CBS supervisory functions including licensing and prudential supervision. Likewise, AML/CFT supervision extends to consolidated supervision of financial groups including under close collaboration with other supervisors in and outside of Seychelles.

2.0 Institutional Arrangements and Coordination

The CBS carries out its financial system soundness and stability mandate by ensuring effective regulation and supervision of entities under the CBS' institutional portfolio of entities, including: banks, bureaux de change, financial leasing companies, non-deposit taking financial institutions, credit unions, non-bank credit granting institutions, payment system participants and financial market infrastructures. The AML/CFT section in the Financial Surveillance Division of CBS is responsible for the conduct of risk-based AML/CFT supervision of REs through offsite and onsite examination. The section is also the contact point for collaboration with other national AML/CFT agencies. It also conducts research and facilitates the formulation of policies and procedures for the effective implementation of the AML/CFT framework in respect to entities under the CBS' purview.

3.0 Risk Based Approach (RBA) to AML/CFT Supervision

As stipulated above, CBS supervises compliance with the applicable AML/CFT requirements by applying a risk-based approach (RBA) to all REs under its purview. The objective is to apply a proportional approach to AML/CFT supervision based on the risk profile of each RE, as well as

sectoral and national risk assessments. This in turn helps determine the intensity, frequency, type and scope of supervision activities based on Money Laundering and Terrorism Financing (ML/TF) risk, both for offsite and onsite purposes.

CBS also adopts an integrated, comprehensive and collaborative approach to ML/TF risk supervision that includes both prudential and AML/CFT elements. The risk-based framework is therefore closely integrated with all of the other supervisory activities of the CBS including licensing, prudential supervision and enforcement, as well as collaboration and coordination with other supervisors and agencies. The CBS' RBS framework includes the following main components:

(a) Market Entry Risk Controls

The licensing requirements and processes of CBS are also risk-based. These controls are designed to prevent criminals and their associates from participating in the ownership, control and management of REs in line with the Financial Action Task Force (FATF) Recommendations. This includes robust fit and proper tests on owners, beneficial owners, directors and senior management that take into account their personal and professional qualifications, criminal and regulatory history, as well as strong ethical corporate governance values. Licensing procedures require close involvement of AML/CFT supervisory staff to ensure that prior to the commencement of operations, REs implement robust and proportional AML/CFT systems and controls that are compliant with Seychelles' requirements, their size and complexity, and their inherent ML/TF risk profiles.

(b) Offsite AML/CFT Supervision

The CBS' offsite AML/CFT supervision focuses on assessing and understanding the ML/TF risks of REs, as well as their sectoral and national risks. It entails identifying, assessing and evaluating ML/TF risks and documenting the ML/TF risk profiles of each entity. The risk assessment includes the inherent risks in REs' business lines and processes (customers; products, services and transactions; geographic exposures; and distribution channels). It also includes an assessment of the adequacy and proportionality of risk mitigation and controls systems which takes into account the size and complexity of operations. Combined with prudential supervision, CBS can plan, prioritise and resource its supervisory activities in a more efficient and effective manner, including budgeting for the annual calendar of onsite inspections, staffing levels and training.

The assessment of ML/TF risks is combined with other institutional risk assessments to enable CBS management to take a consolidated view of institutional and group risks, and to strategise and plan its supervisory activities accordingly. In addition, if a financial institution belongs to a group, CBS consolidates and coordinates the institutional ML/TF risk profiles with those of other members of the group to ascertain the overall risk of the group. Where necessary, this is done in coordination and consultation with other supervisory agencies.

(c) Onsite AML/CFT Inspections

The offsite risk assessment processes and outputs provide the principal input in planning and conducting onsite inspections. Particularly, the risk profile of each RE informs the type, objectives, frequency, scope and duration of onsite inspections. For REs assessed as high risk, onsite inspections are subject to proportionately enhanced supervisory measures.

The types of inspections that can be conducted include the following:

- i) General full scope inspections
- ii) Limited scope inspections
- iii) Targeted inspections
- iv) Thematic inspections

The onsite inspection is risk-based and focuses on verifying key risk factors and applicable controls, including legal compliance. Consequently, the Report of Inspection/Examination is also risk-focused. The report and its supporting documentation form the basis for corrective and other risk-mitigating recommendations, non-compliance findings and enforcement action, including sanctions. The findings thereafter form an important input into offsite activities to continue the supervision cycle.

4.0 Supervision of Financial Institutions that are Members of Financial Groups

Where a RE is a member of a financial group whose members are supervised by other supervisors, the expectation is that all supervisors should coordinate their supervisory activities, particularly with respect to onsite inspections. Furthermore, protocols shall be established for the planning of inspections, including parallel and/or joint inspections, and for the sharing of supervisory information and inspection results. A key objective of such coordination is to develop a harmonised framework for AML/CFT risk-based supervision as well as a methodology for consolidating group risk assessments and profiling.

Where a financial institution is a branch, subsidiary or affiliate of a foreign financial institution or group (CBS as host supervisor), or is the parent company of branches, subsidiaries affiliates in other countries (CBS as home supervisor), there shall be close collaboration, coordination and exchange of AML/CFT related information between supervisors for the supervision of the cross-border operations of such groups.

5.0 Notification to REs

As part of its obligations in relation to outreach and engagement, CBS aims to notify REs of any concerns on perceived, emerging and evolving risks which may have an impact on their activities/obligations, in addition to concerns of weaknesses in the AML/CFT systems of other countries deemed as being higher risk.