

## Foreword

**A recent KPMG Global Anti-Money Laundering (AML) Survey found that 88 percent of respondents indicated that AML is a priority for senior management, up from 62 percent in 2011.**

In fact, AML compliance has never been higher on the agenda of senior management. Financial institutions are making significant changes in response to regulatory action and increasingly far-reaching global AML regulations, changing the AML

setups from a standalone function under compliance, to an increasingly complex and overarching function cutting across legal, risk, operations and tax.

In April 2015, the Monetary Authority of Singapore announced that it would progressively increase the level of disclosure on supervisory actions taken for breaches of AML/CFT regulations. This is a positive move in the spirit of raising awareness about money laundering, and what needs to be done to combat it.

For these changes to be effective, it is important for a culture of compliance to be established throughout the

organisation. Driving culture effectively and successfully hinges on leadership and the right tone from the top.

In this issue, we offer you our thoughts on the key changes in the revised Notices relating to AML/CFT and potential implications to financial institutions in Singapore.

**Leong Kok Keong**

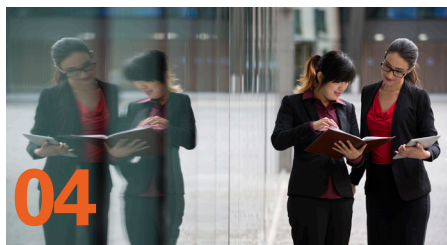
Partner, Head of Financial Services  
KPMG LLP

## Contents



### **Strengthening Singapore's role in Combating Money Laundering and Terrorist Financing**

Financial institutions should ensure that their current systems, policies, procedures and controls are rigorous enough to meet the revised Notices for AML/CFT requirements.



### **Regulatory and tax updates**

An update to recent regulatory and tax changes which may have an impact on your business.



### **Global topics**

Recent KPMG reports, whitepapers and publications from KPMG around the world of relevance to the financial services sector.



# Strengthening Singapore's role in Combating Money Laundering and Terrorist Financing

By: Gary Chia

In April 2015, the Monetary Authority of Singapore (MAS), in an on-going effort to strengthen the Anti-Money Laundering (AML) and Countering the Financing of Terrorism ("CFT") measures in Singapore, revised Notices relating to AML/CFT to benchmark the requirements to recommendations set out by the Financial Action Task Force (FATF) and international best practices.

The updates in the Notices not only clarify and refine previous obligations already set out but include new measures that are crucial to augment Singapore's position in combating money laundering and terrorist financing.

In this issue, we highlight the key changes in the Notices and the possible implications to financial institutions (FIs) in Singapore.

## Increased Focus on Risk-Based Approaches

The revised Notices focus on the application of a risk-based approach to AML/CFT measures. Risk management systems, policies, procedures and controls should also be in place for different AML/CFT measures. Key new updates are elaborated below.

### Risk Assessment and Risk Mitigation

The application of a risk-based

approach to AML/CFT measures is a requirement for FIs to identify, assess and understand their own enterprise-wide money laundering or terrorism financing (ML/TF) risk in relation to:

- Customers of the FIs, through understanding the ML/TF risk each individual customer brings to the FIs, considering the countries that they are operating and incorporated in, and other salient factors while performing due diligence;
- Countries and jurisdictions the FIs operate and are incorporated in;
- Products, services, transactions and delivery channels of the FIs.

In addition, FIs are required to take into account the results of Singapore's National ML/TF Risk Assessment (NRA) report in their enterprise-wide ML/TF risk assessment. FIs should also ensure mitigating measures in place are commensurate with the ML/TF risk identified, and the risk assessment must be documented and kept up-to-date. The enterprise-wide ML/TF risk assessment has to be reviewed at least once every two years or when material trigger events occur, whichever is earlier.

### New Products, Practices and Technologies

Prior to the launch or use of new

products, practices and technologies, FIs should undertake a risk assessment to identify and assess the ML/TF risks that are associated with such new products, new business practices and the use of new technologies. FIs also should pay attention to any new products, business practices, including new delivery mechanisms as well as new technologies which favour anonymity.

### Politically Exposed Persons

This risk-based approach does not only apply to enterprise-wide risk assessment. The new Notice also allows FIs the option of using a risk-based approach for the level of customer due diligence (CDD) performed for Politically-Exposed Persons (PEPs). In the past, enhanced CDD was prescribed for all PEPs, the term "PEP" was defined to cover all types of PEPs, both domestic and foreign, including their family members and close associates. The new Notices have, as per the FATF recommendations, firstly excluded family members and close associates of a PEP from the definition of PEP and secondly, distinguish between (i) domestic PEPs, (ii) foreign PEPs and (iii) international organisation PEPs. The new definition of PEP, MAS allows FIs to adopt a risk-based approach in determining whether to perform

enhanced CDD measures or the extent of enhanced CDD measures to be performed for the different categories of PEPs, their family members and close associates. However, the risk-based approach may not be adopted in cases where the PEP's business relations or transactions with the FI presents a higher risk for ML/TF.

### Clarifications on Existing Requirements

The revised Notices also made the following key clarifications on existing AML/CFT requirements.

#### Group Policy

The revised Notices made clear the need for development and implementation of group policies and procedures for entities within the financial group to share information required for the purposes of CDD and ML/TF risk management.

These policies and procedures should allow the provision of customer, account and transaction information from branches and subsidiaries to the FI's group-level compliance, audit and AML/CFT functions, enabling the monitoring of ML/TF risk as a group.

#### Identification and Verification of Beneficial Owners

The revised Notices have shed more light on the steps expected by MAS to be taken in relation to legal persons and legal arrangements with regard to the identification of Beneficial Owners (BO). The requisite steps in identifying beneficial owners for customers that are legal persons (i.e. entities other than natural persons) are illustrated in Figure 1, whereas for customers that are legal arrangements (i.e. trust or other types of legal arrangements), FIs should identify settlors, trustees, protectors, beneficiaries, and any natural person exercising ultimate ownership, ultimate control or ultimate effective control over the trusts or other types of legal arrangements. Additionally, the MAS also included FATF's approach of a 25 percent

shareholding ownership threshold as an example of a benchmark that FIs can use to identify natural persons who ultimately own the customer.

#### Wire Transfer

Wire transfer requirements have been revised for Commercial Banks, Merchant Banks, Finance Companies, Money-Changers and Remittance Licence Holders. The threshold has been lowered to S\$1,500 and the information required in the message or payment instruction that accompanies the wire transfer has been expanded on. Although domestic wire transfers do not have a threshold, additional information is required to be included in the message.

#### Impact on FIs

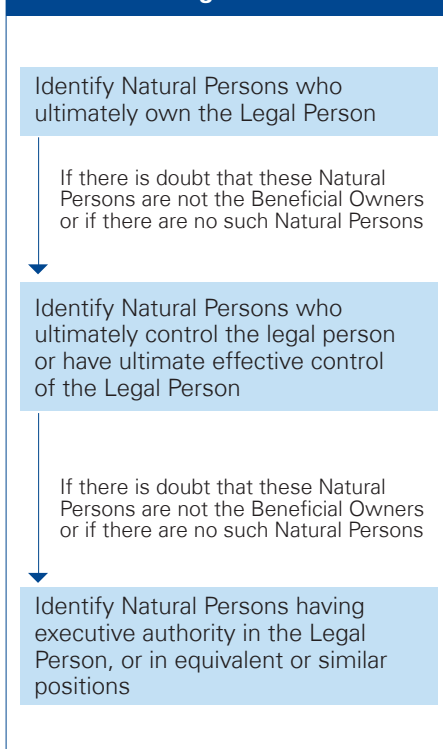
Except for the new updates on enterprise-wide ML/TF risk monitoring, group policies on sharing information required for the purposes of CDD and ML/TF risk management, and risk assessments on new products, practices and technologies which take effect from 24th July 2015, the remaining updates in the Notices took effect from 24th May 2015.

The updates which took effect from 24 May 2015 relate to existing processes that should already be in place within FIs. Client onboarding teams should have taken into account the revised CDD documentation requirements in their onboarding procedures.

As for the updates that will take effect from 24th July 2015, the ability to cope with the new updates will depend on the robustness of the FI's current infrastructure and state of readiness.

The Risk Management functions within FIs will need to consider and document ML/TF risk assessments in their existing enterprise risk framework. Product Management, Technology or possibly Compliance teams will need to perform a ML/TF risk assessment for new products, practices and technologies as per the new Notices'

**Figure 1: Identification of Beneficial Owners of a Legal Person**



requirements. FIs with weak governance and controls may need to devote more resources by developing new policies and procedures to comply with the updates that will take effect from 24th July 2015.

In general, FIs will have to be ready for the increase in compliance cost and the potential challenges and impact that come with implementing new policies and procedures.

#### Next Steps

In summary, the revised AML/CFT Notices provides greater clarity on AML/CFT requirements imposed on FIs. FIs should ensure that their current systems, policies, procedures and controls in place are rigorous enough to meet the new requirements. The Notices also afford some flexibility to calibrate the required procedures, taking into consideration the ML/TF risk of customers. FIs should document the basis of their risk-based assessment and methodology.

## Regulatory Updates

### **Commercial Banks/Merchant Banks/ Finance Companies/Capital Markets Intermediaries/Financial Advisers/ Money-Changers and Remittance Licence Holders/Approved Trustees/Trust Companies/Direct Life Insurers/Stored Value Facility Holders/Non-Bank Credit and Charge Card Licensees**

#### **Commercial Banks/Merchant Banks**

##### **Notice 650 and 1117 on Collection of Statistical Returns for Renminbi Business Activities**

On 8 May 2015, the MAS issued the above Notices to collect statistical returns for Renminbi (RMB) business activities:

- Commercial Banks and Merchant Banks (collectively, the “Banks”) shall prepare monthly RMB returns using the form set out in Appendix 1 of the respective notices.
- Banks that do not carry out any business activities involving RMB shall provide a nil return in the Form.
- Banks shall furnish to the MAS the RMB returns required no later than 21st calendar day following the last

calendar day of each month. If the 21st calendar day is not a business day, Banks shall furnish returns on the immediate following business day.

- The Notices have taken effect from 11 May 2015. Banks are required to report the first set of returns according to the format prescribed in the Notices by 22 June 2015, for positions as at 31 May 2015.

#### **Commercial Banks**

##### **Banking (Credit Card and Charge Card) (Amendment) Regulations 2015 (“Regulations”)**

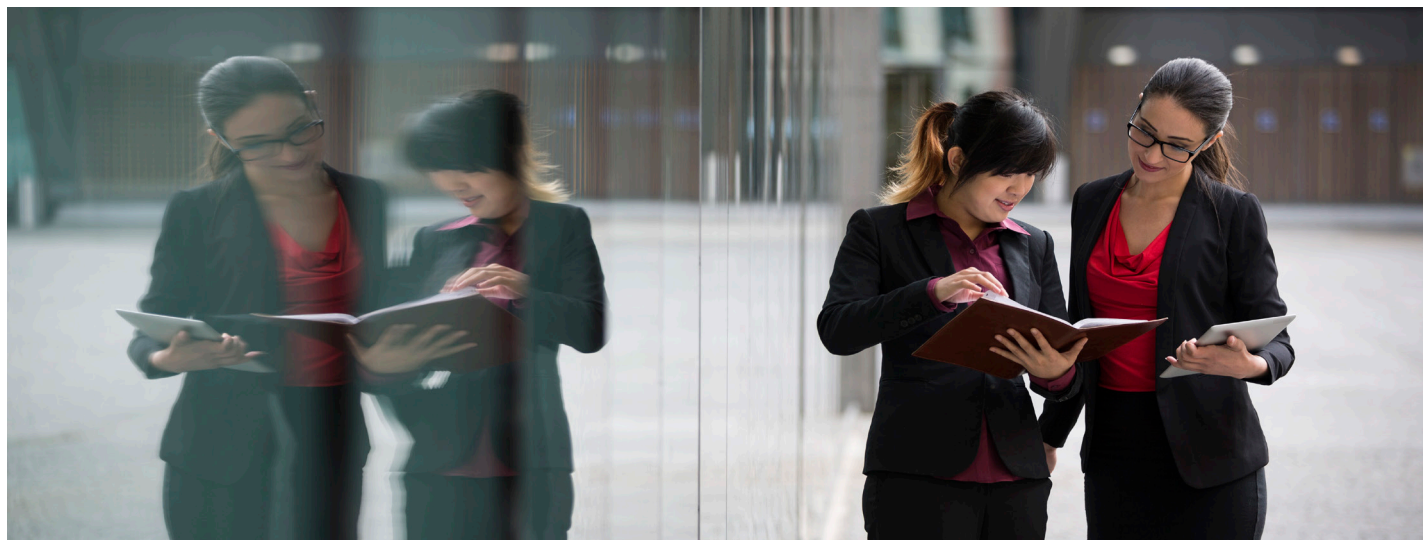
In September 2013, the MAS issued a consultation paper on the new rules on credit cards and unsecured credit limit that banks have to comply with when issuing credit cards and charge cards. The Regulations was amended on 27 May 2015 to reflect these new rules. Except for certain amendments taking effect from 1 September 2015 that relate to checks on income or total net personal assets and the verification of the annual income of a cardholder or guarantor with no fixed monthly income, the Regulations have come into effect from 1 June 2015. These amendments include but are not limited to:

- clarifying that credit limits of a supplementary cardholder can be increased if the supplementary cardholder is a child who is financially dependent on the principal cardholder and if the increase is requested by the principal cardholder; and
- changing specific treatments that were applied to cardholders that have cumulative total outstanding unsecured amounts more than their annual income to apply to cardholders that have cumulative total outstanding unsecured amounts more than their “specified income”. From 1 June 2015 to 31 May 2017 (both dates inclusive), “specified income” is defined as two times the Singapore cardholder’s annual income.

#### **Securities, Futures and Fund Management/Financial Advisers**

##### **Consultation Paper on Regulatory Framework for Intermediaries Dealing in OTC Derivative Contracts, Execution-Related Advice, and Marketing of Collective Investment Scheme**

On 3 June 2015, the MAS published a consultation paper on a proposed



regulatory framework for Intermediaries Dealing in OTC Derivative Contracts, Execution-Related Advice, and Marketing of Collective Investment Scheme. The proposals include:

- As introduced in the earlier February consultation paper, the regulated activity of “dealing in capital markets products” will encompass existing regulated activities of “dealing in securities”, “trading in futures contracts”, and “leveraged foreign exchange trading” as well as the newly regulated activity of dealing in OTC derivatives. An applicant for a Capital Markets Services (CMS) licence to deal in capital markets products will be required to indicate the specific class of capital markets products which it intends to deal in.
- The proposed capital, business conduct and other requirements for OTC Intermediaries which are required to hold a CMS licence. The business conduct and other requirements are also applicable to persons exempt under the SFA (e.g. licensed banks) when they conduct the activity of dealing in OTC derivative contracts under the SFA.

The MAS has developed the proposed regulatory framework for OTC Intermediaries, taking into account the distinct characteristics of the OTC derivative market and the regulatory requirements in major financial jurisdictions.

#### Securities, Futures and Fund Management

#### **Consultation Paper on Amendments to Securities and Futures (Exemption from Requirement to Hold Capital Markets Services Licence) Regulations**

On 24 April 2015, the MAS issued a consultation paper on the Amendments to Securities and Futures (Exemption from Requirement to Hold Capital Markets Services Licence) Regulations.



When a Remote Clearing Member conducts its business activities outside Singapore and only serves overseas-based customers, the MAS considers the business conduct concerns which it poses to Singapore customers to be limited. Hence, the MAS proposes to exempt a Remote Clearing Member which clears futures contracts on a Singapore-based Central Clearing Counterparty (CCP) from the requirement to hold a CMS licence in respect of trading in futures contracts provided that the Remote Clearing Member:

- is incorporated outside of Singapore;
- does not serve any customer resident in Singapore;
- does not carry on business in providing financial services in Singapore;
- carries on business in a jurisdiction where the relevant regulator has an arrangement with MAS for information exchange and cooperation in respect of futures supervision; and
- is registered, licensed, approved or otherwise regulated in respect of trading in futures contracts by the relevant regulator in its home jurisdiction.

## **Tax Updates**

Following the Budget 2015 announcement as covered in the previous issue, the MAS has recently released further details on the tax changes concerning the financial services industry. We highlight the relevant updates below:

#### **Improving the Enhanced-Tier Fund tax incentive scheme**

The extension of the Enhanced-Tier Fund tax incentive scheme (“Section 13X Scheme”) has been clarified as follows:

- From 1 April 2015, both master-feeder-SPV and master-SPV fund structures would be able to submit a consolidated tax incentive application and meet the economic conditions on a collective basis under the latest enhancement.
- In order to do so, such fund structures must satisfy all of the following conditions, in addition to the existing qualifying conditions under the Section 13X Scheme:
  - i. The master fund must be a Singapore incorporated / constituted / registered entity,



as the case may be, and is regarded as a Singapore tax resident<sup>1</sup> for each basis period;

- ii. The master fund can hold up to two additional tiers of SPVs, provided the SPVs are set up as companies and are wholly owned by the master fund; and
  - iii. The economic commitments have to be met on a multiple-fold basis.
- Subsequent to the approval of the master-feeder-SPV or master-SPV fund structure under the Section 13X Scheme, any additions of SPV(s) to the fund structure must be approved by the MAS.
  - In addition, the fund structure would need to ensure that the new economic commitments on a multiple-fold basis are met at the point of the addition of SPV(s).
  - Where the fund structure as whole fails to satisfy the specified conditions e.g. minimum local business spending requirement for any basis period, all the entities under the fund structure would not enjoy the tax exemption on the specified income derived from designated investments for that year of assessment relating to the basis period concerned.
  - When an entity under the approved Section 13X fund structure fails to satisfy the conditions permanently e.g. if an SPV is no longer wholly owned, the MAS would need to be given advance notice of that entity's withdrawal from the Section 13X Scheme. With the withdrawal, the economic commitments would be revised downwards accordingly.
  - A master-feeder-SPV or master SPV fund structure approved under the Section 13X Scheme would only need to submit a single tax return to the IRAS and consolidated annual declaration to the MAS via MASNET within four months from the end of the fund structure's financial year end.

#### **Extending and refining the tax incentive scheme for insurance business**

The following schemes which expired

on 31 March 2015 have been extended for another five years to 31 March 2020 as the Insurance Business Development (IBD) scheme. The concessionary tax rate remains at 10 percent:

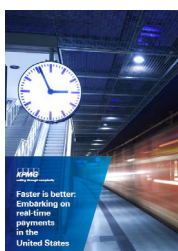
- Concessionary Rate of Tax for Approved General Insurers;
- Concessionary Rate of Tax for Approved Life Insurers; and
- Concessionary Rate of Tax for Approved Composite Insurers.

In addition, the following updates are also released by the MAS:

- With effect from 1 April 2015, an award renewal framework will be introduced to encourage existing incentive recipients on the IBD scheme to continue expanding their activities in Singapore.
- All incentive recipients on the IBD scheme are required to submit an Annual Review Return to the Financial Markets Development Department of MAS within four months from the end of each of their respective financial years.

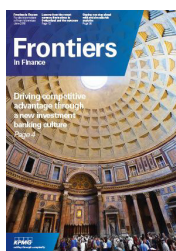
1. For a master fund setup as a company, it must be incorporated in Singapore and a tax resident of Singapore throughout each basis period.  
For a master fund set up as a trust, it must be constituted in Singapore and the trustee of the trust must be a tax resident of Singapore throughout each basis period.  
For a master fund organised as a limited partnership, it must be registered in Singapore and all partners of the limited partnership (including all limited partners) must be Singapore tax residents throughout each basis period.

# Global topics



## Faster is better – Embarking on real-time payments in the United States

A KPMG US publication about how real-time payment systems can benefit banks, consumers and corporations.



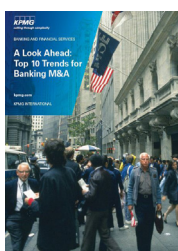
## Frontiers in Finance – June 2015

The issue focuses on some of the most pressing opportunities and challenges for financial institutions in their continuing fight for competitive advantage.



## Evolving Banking Regulation: Part 1 – From Design to Implementation (Americas Edition)

The report discusses about the timescale and complexity of the journey of post-financial crisis regulatory reform.



## A Look Ahead: Top 10 Trends for Banking M&A

A report identifying the major themes that we believe will have the biggest influence on financial institutions, and the banking sector specifically.



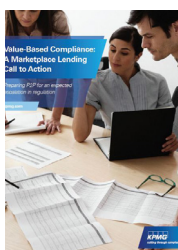
## Picking up the pace: Accelerating banking transformation for growth and customer connectivity

A publication aiming to provide perspectives on the radical transformation currently underway in banking and future insights.



## The evolving role of corporate development in Banking

The report provides insight into the factors that are driving change for banks' corporate development teams and their evolving roles in the years ahead.



## Value-Based Compliance: A Marketplace lending call to action

A paper asserting that more regulatory oversight of the marketplace lending industry appears to be a virtual certainty and suggesting a step-by-step plan for marketplace lenders to achieve compliance while they scale.



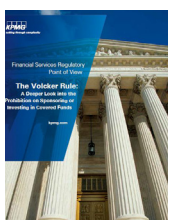
## Evolving Banking Regulation Part 2 – Bank Structure: the search for a viable strategy

The publication focuses on bank structure and the search by many banks for a viable and sustainable future in a world where regulatory and commercial pressures are driving business model change.



## MiFID II Bites: Best Execution

A KPMG EMA overview of MiFID II, discussing the issue of 'Best Execution', part of the wider Investor Protection rules under MiFID, and looking at the challenges that firms could face when seeking to comply with current and coming requirements.



## The Volcker Rule: A Deeper Look into the prohibition on Sponsoring or Investing in Covered Funds

A paper providing an in-depth look at the Volcker Rule's prohibition on banks owning, sponsoring, or having certain relationships with hedge funds or private equity funds.



## Embracing technology for rapid transformation

A report on how capital markets businesses can leverage new tools and technologies to connect with customers, grow their top and bottom lines, institute business and operating models better suited to emerging industry forces, and control of costs.



## Governance of Central Banks: Taking Financial Oversight to the Next Level

A publication focusing specifically on financial oversight. It identifies the characteristics and underlying principles of effective financial oversight, shows how some central banks are addressing the challenges, and draws attention to emerging issues.

# Contributors to this issue



**Leong Kok Keong**

Partner, Head of Financial Services

**T:** +65 6213 2008

**E:** kokkeongleong@kpmg.com.sg



**Andrew Tinney**

Partner, Head of Financial Services Advisory

**T:** +65 6411 8026

**E:** andrewtinney@kpmg.com.sg



**Alan Lau**

Partner, Head of Financial Services Tax

**T:** +65 6213 2027

**E:** alanlau@kpmg.com.sg



**Yvonne Chiu**

Partner, Chief Editor

**T:** +65 6213 2323

**E:** yvonnechiu@kpmg.com.sg



**Gary Chia**

Partner, Risk & Compliance

**T:** +65 6411 8288

**E:** garydanielchia@kpmg.com.sg



**Lyon Poh**

Partner, IT Assurance

**T:** +65 6411 8899

**E:** lpoh@kpmg.com.sg

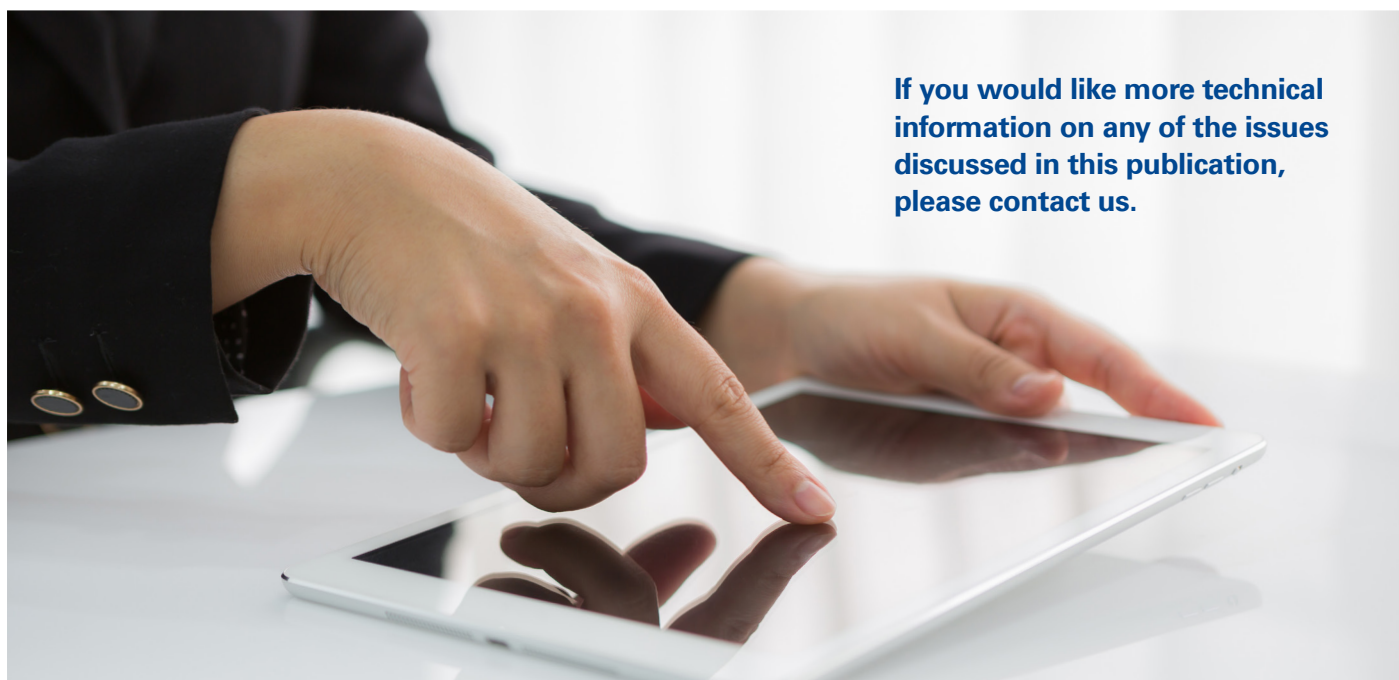


**Reinhard Klemmer**

Partner, Accounting Advisory Services

**T:** +65 6213 2333

**E:** rklemmer2@kpmg.com.sg



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2015 KPMG LLP (Registration No. T08LL1267L), an accounting limited liability partnership registered in Singapore under the Limited Liability Partnership Act (Chapter 163A) and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.