

Circular No. CMI 04/2008  
Our Ref: CMI TC 016/2006

19 December 2008

To: Holders of a Trust Business Licence under the Trust Companies Act (Cap. 336)

Dear Sir/Madam

## **FINDINGS FROM THEMATIC INSPECTION OF LICENSED TRUST COMPANIES**

The Monetary Authority of Singapore ("MAS") conducted a thematic inspection of licensed trust companies ("LTCs") from June 2007 to August 2008. The inspection focused on assessing the LTCs' systems and controls for anti-money laundering and countering the financing of terrorism ("AML/CFT"). The observations from the inspections help provide MAS with a better understanding of the LTCs' level of compliance with AML/CFT regulations as well as best practices in the trust services industry.

2 Most of the LTCs we inspected have measures to comply with the Notice to Trust Companies on Prevention of Money Laundering and Countering the Financing of Terrorism ("TCA-N03") and its related guidelines. We noted that the management of these LTCs demonstrated understanding of the requirements under TCA-N03 and has adopted a hands-on approach in maintaining oversight of the LTCs' business.

### Policies and Procedures

3 The inspections revealed that one main area for improvement is the need for formalisation of AML/CFT policies and procedures ("P&Ps"). Having formalised P&Ps would provide clarity on LTCs' responsibilities and provide greater assurance that all relevant personnel of LTCs comply with the provisions under TCA-N03. Accordingly, we would like to remind all LTCs to enhance their P&Ps by formalising all the AML/CFT practices they have implemented. Where LTCs adopt their corporate group's AML/CFT P&Ps, these should be tailored where necessary, to ensure compliance with TCA-N03 and other relevant local regulatory requirements.

We would also like to remind LTCs that their AML/CFT P&Ps should cover all Trust Relevant Parties ("TRPs") as defined in paragraph 2.1 of TCA-N03 aside from settlors and beneficiaries.

#### On-going Monitoring

4 We observed from the inspections that LTCs have been conducting ongoing monitoring of transactions relating to the trust accounts. However, we noted that the extent of monitoring differs.

5 The more vigilant LTCs scrutinise all injections to determine the nature of inflows and conduct screenings before each distribution. In relation to the review of trust accounts, some LTCs have the practice of reviewing new trust accounts within six months of their establishment. Regular reviews of the trust accounts are also conducted based on the LTC's risk assessment framework. In particular, regular reviews of high risk accounts are conducted within six months from the financial year end of these accounts. Several LTCs have implemented enhanced monitoring for politically exposed persons and other high risk clients. This includes enhanced monitoring of their trust account transactions and conducting annual face-to-face meetings with these clients.

6 We encourage all LTCs to consider adopting these industry best practices, commensurate with the size and scale of their operations, so as to strengthen the oversight of their trust accounts.

#### Customer Due Diligence

7 At some of the LTCs inspected, we noted deficiencies in the identification and verification of the identity of TRPs as part of customer due diligence ("CDD"). Pursuant to paragraphs 4.4 and 4.8 of TCA-N03, LTCs should obtain the contact number and proof of address of TRPs for the purposes of identifying the TRPs and verifying their identity, unless simplified CDD is applied. In such cases, LTCs are required to document the details of their risk assessment and the nature of the simplified CDD measures. It is important that the CDD measures conducted for third parties are aligned to that for TRPs as far as practicable and in accordance with the LTC's documented risk assessment. Non face-to-face verification of TRPs such as beneficiaries should also be as stringent as that undertaken for face-to-face verification of TRPs. Such practices will help ensure the robustness and effectiveness of the CDD measures adopted.

#### Audit Trail

8 Another area for improvement is in respect of maintaining proper audit trail. LTCs should sign and date the receipt of key verification documents to reflect that CDD measures have been conducted in accordance with the timings set out in paragraph 4.3 of TCA-N03. In addition, LTCs should ensure that information relating to TRPs and the trust accounts in their trust administration system is updated in a timely manner to ensure relevance of the information in their records.

#### Other Obligations Under the TCA

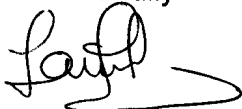
9 LTCs are required to comply with the TCA and other applicable laws and regulations. MAS would like to take this opportunity to draw LTCs' attention to regulation 8(1) of the Trust Companies Regulations ("TCR"), which requires an LTC to appoint at least two resident managers at all times. This requirement is to reduce the incidence of significant errors in management and also serves as a control measure to prevent any single individual from having the ability to engage in unnoticed illicit activity. LTCs should immediately notify MAS when they become aware that they are not able to comply with regulation 8(1) of the TCR. Separately,

we would like to remind LTCs to submit the annual accounts and statutory returns via Forms 5, 6 and 7 in accordance with the timeline prescribed under regulation 19 of the TCR.

10 MAS expects the board and senior management of LTCs, including the resident managers, to maintain adequate oversight of their trust business and ensure compliance with the relevant rules and regulations. We also expect the board and senior management of LTCs to take into account the above findings, recommendations and industry best practices in their on-going review of their policies, processes and controls in respect of their trust business.

11 Please acknowledge receipt of this letter.

Yours faithfully



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EXECUTIVE DIRECTOR  
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