

# Financial Intelligence Unit

## Quarterly Report

Release date: 12<sup>th</sup> March 2018

### 2<sup>nd</sup> Issue: June 2017

The Financial Intelligence Unit (FIU) continued to carry out its functions as stipulated under the Money Laundering & Proceeds of Crime (MLPC) Act and Regulations. These functions include receiving, analyzing and dissemination of reports, as well as the supervision of financial institutions and cash dealers to ensure compliance with their obligations under the MLPC Act and Regulations.

During the June 2017 quarter, the FIU received the following reports:

#### 1. Number of reports received

Type of reports filed	April 2017	May 2017	June 2017	Total	March 2017 Qtr
Suspicious Transaction Reports (STRs)	1	1	0	2	4
Currency Transaction Reports (CTRs) <sup>1</sup>	656	818	799	2,273	1,862
Border Currency Reports (BCRs) <sup>2</sup>	6	5	8	19	19

The FIU received 2 STRs this quarter from its reporting entities. The number of CTRs increased over the months totaling to 2,273 reports in the June 2017 quarter. There were 19 BCRs reported by the Ministry of Revenue & Customs this quarter. The FIU retained information obtained in these reports to assist in data analysis.

<sup>1</sup> CTRs reporting is for transaction equal to and above T\$10,000. Transactions include deposits and withdrawals in all types i.e. deposit, withdrawal, exchange of currency or other payment or transfer with the exemptions of government agencies and financial institutions transactions. Customers with established relationship with the reporting entity conducting transactions of that amount are also exempted if their background or business activities support the amount of the transaction.

<sup>2</sup> BCR reporting requires declaration at the border by any person entering or leaving the Kingdom with cash amounting to more than T\$10,000 or its equivalent in foreign currencies

## 2. STR analysis

STR by type	Apr-17	May-17	Jun-17	Total	Mar-17 QTR
Unusual significant transactions	0	0	0	0	2
Large and rapid movement of funds	1	0	0	1	0
Using personal accounts for business purpose	0	1	0	1	2
Possible avoidance of Exchange Control requirements	0	0	0	0	0
<b>TOTAL</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>4</b>

One of the 2 reports filed during the June 2017 quarter was related to using of personal account for business purpose. The other report was in relation to large and rapid movement of funds from the reported account. The number of

reports filed decreased compared to last quarter where 4 reports were filed, of which 2 were related usage of personal account for conducting of business transactions. The remaining 2 reports were related to unusual significant transactions that were inconsistent with the customer's known background. This is also a decline from 5 STRs that were submitted during the June 2016 quarter, of which 4 reports were in relation to large and rapid movement of funds and 1 report was in relation to a third-party transaction. This decline was due to a number of reasons including, 2 reports submitted on the same suspicious incident and 1 report filed with no suspicious indicator. The types of STR being reported remains constant throughout the years with usage of personal account for conducting of business transaction becoming a common trend.

## 3. Number of STRs disseminated

Following the analysis of the 2 reports, both reports were disseminated to the Ministry of

Law Enforcement Agencies	Apr-17	May-17	Jun-17	Total	Mar-17 QTR
Police	0	0	0	0	1
Customs & Revenue	1	1	0	2	1
Other (reporting entity)	0	1	0	1	3

Revenue & Customs for further investigations due to possible contravention of tax obligations. One of the reports was also referred back to the reporting entity to complete due diligence on the person of interest and to require account holder to use a business account for the business related activities. In the previous quarter, out of the 4 STRs received, the FIU disseminated 1 report to Police as well as the Ministry of Revenue & Customs for further investigations and referred back 3 reports to the reporting entities to complete and update due diligence on the reported persons. This shows that although the number of reports received in this quarter declined, the quality of the reports improved and were further disseminated for the LEAs to further investigate. In the June 2016 quarter, of the 5 STRs received, 4 were passed on to LEAs for further investigations which is very similar to dissemination ratio of this quarter.

#### 4. CTRs data analysis

	<b>Apr-17 (TOP\$M)</b>	<b>May-17 (TOP\$M)</b>	<b>Jun- 17 (TOP\$M)</b>	<b>TOTALs (TOP\$M)</b>	<b>Mar-17 QTR (TOP\$M)</b>
Inwards <sup>3</sup>	10.88	10.67	12.79	<b>34.34</b>	<b>24.14</b>
Outwards <sup>4</sup>	4.77	6.02	5.73	<b>16.52</b>	<b>17.32</b>
<b>Transaction purpose</b>					
Business	7.68	6.71	10.74	<b>25.13</b>	<b>15.10</b>
Personal	7.97	9.98	7.78	<b>25.73</b>	<b>26.36</b>
<b>Transaction type</b>					
Telegraphic transfer (TT)	2.30	0.97	1.43	<b>4.70</b>	<b>5.32</b>
Cash	7.69	9.75	8.72	<b>26.16</b>	<b>24.93</b>
Cheque	2.63	2.91	4.44	<b>9.98</b>	<b>6.23</b>
Cash/Cheque	1.70	0.45	0.47	<b>2.62</b>	<b>0.22</b>
Other	1.33	2.61	3.46	<b>7.40</b>	<b>4.76</b>

From the 2,273 reports received this quarter, majority of the report volume were for inward transactions. The transactions were classified into purposes such as business or personal related. From this quarter's data, the volume of transactions was evenly distributed amongst business and personal purposes. Cash transactions continued to be the dominant type of transactions reported over the months followed by the use of cheques and TTs. Total inward transactions increased by \$10 million from the previous quarter while outwards transactions decreased by \$1 million. The increasing trend is mainly due to increase in business related transactions from the previous quarter, noting increase in transactions done in cheque and other types. Transactions done via TTs decreased from the previous quarter by \$1 million, which reflected on the decrease in outward transactions this quarter.

<sup>3</sup> Inward CTRs are all types of inward transactions to the reporting entity reported under 'Transaction type' for the purposes reported under 'Transaction purpose'.

<sup>4</sup> Outward CTRs are all types of outward transactions from the reporting entity reported under 'Transaction type' for the purposes reported under 'Transaction purpose'.

## 5. BCRs data analysis

The FIU received 19 BCRs during the June 2017 quarter from the Ministry of Revenue & Customs. Majority of the reports continues to be outbound funds across the border. A bulk of these

outbound funds were for currencies for	Apr-17 (TOP\$M)	May-17 (TOP\$M)	Jun-17 (TOP\$M)	TOTALs (TOP\$M)	Mar-17 QTR (TOP\$M)
Inbound	0.03	0.01	0.05	0.09	0.15
Outbound	2.15	4.44	5.39	11.98	7.84
<b>Purpose of funds</b>					
Business	2.12	4.44	4.35	10.91	7.76
Personal	0.03	0	0	0.03	0.23

shipment of financial institutions and were all approved by the Reserve Bank before transporting across the

border. Inbound funds were all individuals visiting or returning to Tonga. The number of reports filed in the previous quarter were the same as this quarter. However, the report amount of outbound funds almost doubled in this quarter mainly due to increase in amounts of currencies shipment for financial institutions. There were no suspicious activities noted on the BCRs submitted during the quarter.

## 6. Asia Pacific Group on Money Laundering (APG) obligations

As member of the APG, the FIU collated Tonga's annual progress report for the year 2016/17 during the June quarter. Tonga's law enforcements agencies including Police, Customs & Revenue and Attorney General's Office contributed to completing this report which provided an update to the APG on Tonga's progress with implementing the international AML/CFT standards. This is a mandatory update report which gets tabled at the APG Annual Meeting in July 2019 to determine if Tonga has made sufficient progress with regards to compliance with the international standards.

Tonga's APG membership also subjects the country to a process called the Mutual Evaluation in 2019. This process will evaluate Tonga's compliance with the Financial Action Task Force (FATF) Recommendations (international standards) in terms of legislative capacity and the effectiveness of the AML/CFT framework. In preparation for this, experts from New Zealand were here to assist in completing Tonga's National Risk Assessment (NRA) in the week beginning 29 May 2017. The NRA was to identify the money laundering and terrorist financing risks in Tonga which would assist relevant agencies to put in place measures to effectively address those risks. The NRA report for Tonga is being compiled by the New Zealand experts and will be provided to all relevant agencies once completed.

## **7. De-risking efforts**

The FIU's efforts to minimize de-risking of money transfer operators continue. In June 2017, one of the commercial banks advised their intention to discontinue banking relationship with one of its money transfer customers. In an effort to assist the money transfer operator in retaining their bank account, the FIU together with the Non-bank division held consultations with the parties involved to ensure that relevant information are shared and that compliance reports are completed accurately. To date, that money transfer operator still maintains its bank account with the same bank.

In June 2017, Reserve Bank participated in a study by World Bank mission to assess the effects of de-risking in Tonga. The primary objectives for the mission were to (i) compile qualitative and quantitative data that deal with various subjects, including: tendency in correspondent bank (account closing) and (ii) evaluate the possible impacts of risk reduction about certain categories of clients and possible effects on activities (such as commercial funding, investment, and access to the funding). The Reserve Bank is expecting a draft report from the mission team in the coming months.

## **8. Compliance checks**

The FIU together with the Financial Institutions, Non-Banks Division continued with the quarterly spot checks of foreign exchange dealers in June 2017. The aim of these visits were to follow up on non-compliance issues identified from the Annual Compliance checks completed in December 2016 and quarterly check completed in March 2017. Both divisions are continuing with these quarterly checks in an effort to keep these reporting entities abreast of their AML/CFT obligations.

## **9. Events**

- 29<sup>th</sup> May – 2<sup>nd</sup> June 2017, Completion of Tonga's National Risk Assessment
- 5<sup>th</sup> -9<sup>th</sup> June 2017, World Bank Mission on De-risking
- June 2017, Quarterly Spot checks to foreign exchange dealers