



qatar

FINANCIAL CENTRE

REGULATORY AUTHORITY

QFCRA Practice Note 2007-1

Annual MLRO Report

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Chapter 1

Introduction

This practice note aims to provide general direction for the *money laundering reporting officer* in making the annual *MLRO* report to *senior management* with respect to the operation and effectiveness of the firm's anti *money laundering* / combating the financing of terrorism (AML/CFT) systems and controls. It is to be considered as persuasive rather than prescriptive, and indicative of good practice.

The *MLRO* report must be submitted to *senior management* at least annually and a copy provided to the *Regulatory Authority*.

The level of detail to be included in the *MLRO* report largely depends on the nature, scale and complexity of the firm, and therefore the suggested structure and content of the *MLRO* report can be adapted accordingly.

Some of the issues referred to in this practice note may not apply to or be directly relevant to all firms and therefore it is the responsibility of the *MLRO* to decide the necessary level of detail to be included in the *MLRO* report.

This practice note uses certain terms that are defined in the glossary of the *Interpretation and Application Rulebook (INAP)* available through the *Regulatory Authority* website (www.qfcra.com). Defined terms are identified throughout this practice note by the italicisation of the term.

The QFC Legislation governing Financial Crime including the QFC AML Regulations and AML Rulebook are available on the *Regulatory Authority* website (www.qfcra.com/legislation).

Chapter 2

Regulatory requirements

Article 8 (7) of the *AML Regulations* requires the *MLRO* to report at least annually to *senior management* on the following matters:

- the firm's compliance with all applicable AML/CFT laws including all relevant articles, rules and regulations;
- the suitability of the AML/CFT policies, procedures, systems and controls;
- any findings under Article 14 of the *AML Regulations* and how the firm has taken them into account;
- any internal or external *suspicious transaction reports* made by the firm's staff pursuant to Article 13 of the *AML Regulations* and action taken in respect of those reports, including the grounds for all decisions;
- results of the (at least) annual review of the firm's AML/CFT policies, procedures, systems and controls; and
- any other relevant matters related to AML/CFT as it concerns the firm's business.

The *MLRO* report will serve its purpose best if it focuses mainly on outcomes. In particular, it should provide a considered conclusion about the overall effectiveness of the firm's AML/CFT systems and controls, and, if necessary, make appropriate recommendations for improvement in the ongoing management of the firm's AML/CFT risks.

The *MLRO* report is intended to enable the *MLRO* to clearly evidence the discharge of the *MLRO*'s on-going duties and responsibilities. It should also enable the *MLRO* to undertake a stock take of the reporting period, plan next steps going forward, document key AML/CFT key performance indicators, record the policies the firm has in place and their effectiveness, and identify key issues that should be reported to *senior management*.

Senior management of the firm must assess the report and take any action necessary to resolve identified deficiencies.

The *MLRO* report, the *senior management* assessment, and a report of the action taken because of the assessment, must be provided promptly to the *Regulatory Authority*.

Chapter 3

Structure and content

This chapter provides a suggested outline for the structure and content of the *MLRO* report.

3.1 Executive summary

An executive summary should include an outline of the issues discussed in the *MLRO* report and should cover:

- the organisational structure and responsibility for AML/CFT systems and controls;
- a report on the operation of the firm's AML/CFT systems and controls;
- a summary of any relevant business developments impacting the AML/CFT systems and controls; and
- conclusions and recommendations for action.

3.2 Organisational structure and responsibility for AML/CFT systems and controls

Director/Senior manager

- Provide the name of the specific *director* or *senior manager* (if not the *MLRO*) who has overall responsibility in the firm for establishing and maintaining effective AML/CFT systems and controls in the firm. Include any demarcation of responsibilities.

MLRO details

- Provide the name, location and details of the qualifications and experience of the *MLRO* and anyone to whom the *MLRO* has delegated responsibility. Any other roles held by the *MLRO* should be identified and the nature of those responsibilities clearly explained.
- Provide the dates the *MLRO* and any delegates were appointed and details of any temporary arrangements in place.
- If the firm is part of a *group*, describe the *group MLRO* structure and reporting lines.
- Provide the name, location and job title of the appointed deputy *MLRO*.

MLRO functions

- Confirm the role and responsibilities of the *MLRO*, in accordance with Article 8 of the *AML Regulations*.
- Identify and outline any areas where the *MLRO* has been restricted in any way from fully carrying out the *MLRO*'s duties.
- Identify and outline whether there are currently sufficient resources available to the *MLRO* to effectively carry out the role.

3.3 Report on operation of firm's AML/CFT systems and controls

Business model

- Summarise the firm's products, services and delivery channels and identify associated AML/CFT risks.
- Summarise the geographical area(s) of the firm's operations and identify associated AML/CFT risks.

Documenting AML/CFT policies and procedures

- Detail the documented AML/CFT policies and procedures that are currently in place.
- Describe the process for agreeing and documenting changes to the firm's AML/CFT policies and procedures.
- Describe any material changes made to AML/CFT policies during the reporting period.
- Discuss how the firm is addressing any AML/CFT practice notes issued by the *Regulatory Authority* or the Qatar Central Bank.
- Comment on any relevant regulatory or legislative changes during the reporting period and provide an indication of any forthcoming changes of which the *MLRO* is aware and any perceived impact the changes will have on the firm's AML/CFT risk management process.
- Describe how direction and information from different sources (Financial Action Task Force, Middle East and North Africa Financial Action Task Force etc) has been taken into account.

Appropriate AML/CFT training

- Summarise the firm's training policy and discuss how the firm identifies which *employees* require AML/CFT training.

- Summarise the methods of AML/CFT training used and what action is taken to evaluate the effectiveness of the AML/CFT training.
- Indicate the number of *employees* who were required to receive AML/CFT training during the reporting period, the number that actually received the training and the dates the training was received. Indicate the number of *employees* that have not received training and provide an explanation about why they have not received training.
- Outline the intended AML/CFT training programme for the reporting period ahead along with any budgetary considerations.
- Outline the *MLRO's* personal AML/CFT training history (and that of any *senior managers* and *directors*) over the reporting period, if different from that of other *employees*, and any proposed AML/CFT training for the forthcoming reporting period.
- Outline any difficulties faced in achieving a satisfactory level and quality of appropriate training. Indicate where improvement is necessary and how these difficulties were or will be addressed.

Compliance monitoring arrangements

- Describe the arrangements made for ensuring that the firm's AML/CFT systems and controls are working effectively and that they are fit for purpose (i.e. how comprehensive they are and whether they are appropriate to the nature, scale and complexity of the firm's business).
- Describe the specific arrangements in respect of the monitoring of the ongoing effectiveness of AML/CFT systems and controls.
- Describe the firm's arrangements for monitoring transactions including details of the review conducted under Article 6 (4) of the *AML Regulations* and *AML Rules 3.3.4-3.3.6*.
- Describe any material control failures identified during the reporting period and the action taken to address the failure.

Internal AML audits

- Discuss the frequency and outcomes of any internal audit reviews of the AML/CFT systems and controls performed during the reporting period.

Reporting to senior management

- Describe arrangements for regular internal management reporting on AML/CFT, indicating the frequency of reporting and to whom reports are made.

- Describe the scope and coverage of regular AML/CFT reports to *senior management* and include an outline of the content.

Recordkeeping

- Explain the firm's policy on record retention (i.e. format, location, period of retention) and identify any proposed changes.

3.4 Business operations

Business areas

- Outline the core business activities of the firm over the reporting period, indicating where changes in business activity had implications for AML/CFT systems and controls.
- Consider any business developments that have impacted the AML/CFT systems and controls or the AML/CFT strategy.
- Indicate whether a comprehensive AML/CFT risk analysis of the firm's business operations has been performed.

Customers and the customer identification process

- Provide, by business area/unit, the type and size of the *customer* base over the reporting period. Distinguish between new *customers* in each business area/unit, identify countries of origin, and indicate the associated AML/CFT risk profile/assessment.
- Provide information on the firm's *politically exposed persons* (PEP) policies and procedures, and identify any PEPs with whom the firm maintains a business relationship.
- Summarise any government, regulatory and international findings issued during the reporting period and how the firm considered these findings, including details of any action taken by the firm because of these findings.
- Describe what screening arrangements the firm has put in place to ensure compliance with all applicable international terrorist and UN sanctions lists. Identify also the information sources used in the screening process and the chronology and frequency of any checks.
- Summarise relationships where *customer* identification and due diligence has not been conducted directly by the firm (i.e. introducing brokers or third parties).

- Outline the policies and procedures that apply to accepting business introduced by third parties.
- Detail the methods used for *customer* identification verification. Any exceptions to the *customer* identification policies should also be explained.
- Summarise how individual high-risk *customers* are identified and dealt with.
- Describe how additional Know Your Client information is collected under the risk-based approach, and how it is monitored.

Suspicious transaction reporting

- Outline the method used to identify suspicious transactions (i.e. system monitoring, individual case by-case basis etc) and consider any shortcomings with this process. Summarise any other ways in which suspicions were identified during the reporting period.
- Highlight any improvements, enhancements and system upgrades that are considered necessary.

Suspicious transaction reporting policies and procedures

- Summarise the number of internal *suspicious transaction reports* made by individual business area/unit.
- Summarise the number of internal *suspicious transaction reports* that were not forwarded to the Financial Information Unit of the Central Bank of Qatar (*FIU*).
- Summarise any circumstances that may have led to increased or decreased internal reporting levels and identify and discuss the reasons for any significant trends in internal reporting.
- Consider any significant trends in internal reporting that might require the *MLRO* to change the existing parameters for *suspicious transaction reporting*. Indicate whether any changes have been implemented or suggested.
- Summarise the reviews that are made by the *MLRO* in the area of internal reporting generally.

External reporting

- Indicate whether there have been any instances where reports have not been made to the *FIU*.

- Provide a breakdown by business area/unit of all external reports made to the *FIU* and copied to the *Regulatory Authority*.
- Indicate whether any feedback has been received from the *FIU*.

3.5 Conclusions and recommendations for action

Conclusion: Overall assessment of systems and controls

- Indicate whether AML/CFT systems and controls have been regularly reviewed and by whom reviews have been conducted.
- Indicate how the reviews of AML/CFT systems and controls have been evidenced.
- Summarise any material control failures identified during the reporting period, identify any issues that are regulatory breaches and summarise the remedial action taken.
- Discuss the effectiveness of the transaction monitoring processes.
- Consider the overall effectiveness of the AML/CFT risk assessment and risk management framework.

Recommendations for action

- Identify, in order of priority, any areas that require preventative or remedial action and outline the action considered necessary and the expected timeframe for implementation.
- Comment on the adequacy of AML/CFT resources and identify any deficiencies.
- Detail any other recommendations.