



Anti-money laundering and counter-terrorist financing measures - Malaysia

6. Supervision

Effectiveness and technical compliance



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6. SUPERVISION

Key Findings

Malaysia has a sound legal framework for supervision and supervisors have the required powers to regulate the RI population. Malaysia has well implemented market entry fit and proper controls across FIs, though some gaps exist with market entry for certain DNFBPs, including casino management.

All regulators apply a risk-based approach to supervision. The substance of supervision has been transitioning from a more rules-based approach to truer risk-based approaches with comprehensive risk assessment inputs in the last two years.

BNM is a strong, professional and well-resourced risk-based supervisor, and is demonstrating effective supervision of the banking sector and MSBs (MVTs and money changers), which carry the bulk of the ML/TF risks. SC takes a comparably sound approach in supervising and mitigating ML/TF risks in the securities sector. LFSAs' AML/CFT supervisory capability is improving in relation to the relatively small offshore sector, in part through its joint supervision with BNM of prudentially regulated FIs present in Labuan. The BNM FIED is taking a risk-based approach to DNFBP supervision with the casino a clear priority reflecting the identified risks. FIED requires additional resources to adequately supervise the balance of the sizable DNFBP population.

Remedial actions and sanctions, including fines and the revocation of licenses have been imposed for violations of AML/CFT requirements. This has contributed to successes in improving a focus on risk mitigation and compliance by regulated entities, although this needs to be deepened across a range of sectors.

6.1 Background and Context

6.1. There is a sectoral based supervisory arrangement in Malaysia but dual-track supervision is also followed for entities with hybrid activities. The three main regulators are also responsible for AML/ CFT supervision with BNM supervising those DNFBPs which are not otherwise regulated by either SC or LFSA. BNM is the apex supervisory body with coverage of 60% assets of the financial sector. It regulates banks, DFIs, Insurance companies, MSBs (MVTs and money changers) and NBFIs, as well as certain DNFBPs. SC is responsible for the supervision of capital markets services intermediaries. The LFSA supervises the offshore financial sector entities in the Federal Territory of Labuan. LFSA regulates commercial banks, investment banks, insurance companies, leasing companies and TCSPs. The offshore sector accounts for between 6. 6% of the total financial sector, meaning the vast majority of the Malaysian financial sector is onshore.

6.2. Due to the off-shore / on-shore conglomeration and cross-shareholding of banking sector entities in Labuan and across Malaysia there is close coordination between BNM, SC and LFSA to mitigate ML/TF risks.

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6.2 Technical Compliance (R.26-28, R.34, R.35)

- R.26 – Regulation and supervision of FIs - **Malaysia is rated compliant**
- R.27 – Powers of supervisors - **Malaysia is rated compliant**
- R.28 – Regulation and supervision of DNFBPs - **Malaysia is rated largely compliant**
- R.34 – Guidance and feedback - **Malaysia is rated largely compliant.**
- R.35 – Sanctions - **Malaysia is rated largely compliant**

6.3 Effectiveness: Immediate Outcome 3 (Supervision)

(a) *Measures to prevent criminals and their associates from entering the market*

6.3. All the financial sector supervisors have controls in place to prevent criminals and their associates from entering the market. BNM and SC have demonstrated examples and consistent statistics of withdrawal of permission or rejection of applications by banking, insurance and securities in positions ranging from key management to board members and CEOs due to failures of fit and proper controls. LFSA also has good practices of conducting fit and proper tests, with statistics demonstrating adverse findings and market entry being denied for Labuan TCSPs.

6.4. Reflecting identified risks, BNM conducted a comprehensive relicensing exercise across the MSB (MVTs and money changers) sector in 2012 and 2013. This involved applying significantly upgraded regulatory controls, including fit and proper tests, which resulted in the expulsion of a large number of entities from the sector. In 2012 all 839 entities had to reapply for licenses under the MSBA, which resulted in wide scale industry consolidation. Over 200 entities voluntarily surrendered their licenses, for reasons including merging with other licensees, converting to agents or exiting the industry. BNM rejected more than 100 relicensing applications due to failure to meet basic regulatory requirements. The number of licensed entities further reduced from 515 in 2012 to 474 in 2013 due to further consolidation in the industry. BNM required 323 entities that obtained licences under the new Act to significantly improve existing processes and controls to address ML risks within six to 12 months. The cancellation of licenses and improved controls resulted in a significant removal of risk from the sector without greatly affecting financial inclusion.

6.5. Licensing and fit and proper controls of the sole casino suffer from capacity and resources constraint in MoF to carry out background checks on beneficial owners, management and operators of the casino. While the continued stable ownership of the casino by a prominent publicly listed company gives a high degree of

transparency to its beneficial ownership, the lack of controls and checks on beneficial owners, management and operators is a significant gap. The MoF requires greater capacity to implement more effective market entry controls with a particular focus on management and operators. The casino has presence in the USA, UK and Bahamas with foreign shareholding patterns.

6.6. Different types of DNFBPs are subject to fit and proper controls by government regulators and SROs. Each of the DNFBPs has experience in applying these controls and it is apparent that they are achieving a number of fit and proper outcomes which adds some effectiveness. The onshore trust companies are subject to regulation and supervision by CCM under the Companies Act (CA) and Trust Companies Act (TCA) and the MAICSA established SOPs on assessment of fitness and propriety for induction of members. The Bar Council has a well-established track record of applying the fit and proper controls under the Legal Professions Act 1976. The Board of Valuers, Appraisers and Estate Agents enforces registration conditions which are akin to fit and proper requirements by estate agents (Section 22A of VAEEA 1981). The Accountants Act 1967 provides for suitable fit and proper controls at the point of entry to as a member of the Malaysian Instituted of Accountants. Auditors of public interest entities are also subject to fit and proper requirements regulated by the SC, which underpins a sound audit sector.

6.7. Fit and proper requirements for dealers in precious metals and stones in East Malaysia are limited to those DNFBPs which are registered as a company under the CA 1965. At the time of the onsite 345 dealers (small retailers) were not registered as a company out of 1600 dealers in precious metals and stones in total.

(b) Supervision for compliance with AML/ CFT and identification of ML/ TF risks

6.8. Overall the supervisors' internalisation of risk-based approaches is good. The measures used by the supervisory authorities to understand and assess ML/TF risks of their respective sectors and entities they supervise generally reflect a decent understanding of the threats and vulnerabilities. Each supervisor has developed a risk analysis tool to assess inherent risk of each sector using a wide range of information. This includes the finding of the NRA and sector-by-sector threat and vulnerability assessments and periodically produced FIED strategic products on risk. BNM, SC and LFSA also include a greater focus on TF and emerging issues and BNM and SC, in particular, have an open channel to RMP to discuss risk issues. The results of the risk analysis feed into the supervisory authorities' ongoing risk assessment process within each sector. The overall ML/TF risk serves as a key input in determining the intensity of supervision.

6.9. The frequency, scope and intensity of BNM and SC supervision is guided by risk considerations, in particular the findings of the NRA and sectoral assessments and other inputs from LEAs and supervisors. BNM's four supervision departments and SC's two departments have the necessary tools and processes to collect information needed for identifying and maintaining an understanding of ML/TF risk. LFSA's supervisory team is developing its understanding of ML/TF risk and increasingly basing the scope and intensity of supervisory interventions on risk mitigation factors.

6.10. The process of supervisors assessing ML/TF risk generates a classification of their RIs which helps to guide the frequency, scope and intensity of supervisory treatment. This includes a consideration of elements of risks associated with products, services, customers, delivery channels, geographic locations etc. Thematic inspections by supervisors have focused on key preventive measures, including CDD, processes for identifying and reporting suspicion, implementation of targeted financial sanctions and identification of beneficial ownership.

6.11. There is a high level of co-operation between supervisors and other competent authorities, in particular LEAs, in relation to AML/CFT risk mitigation. All AML/CFT supervisors are also LEAs responsible for predicate and ML investigations. All three have a close working relationship with RMP, in particular with the SB on CFT issues. Supervisors seek and share information with LEAs and other regulators in relation to market entry, risk mitigation events, etc. to guide their selection of supervisory interventions.

6.12. The three supervisory authorities are members of the Financial Working Group under the NCC and the close coordination and joint supervision amongst them assists with identifying risk areas. There is cross membership between the boards of BNM, LFSA and SC and MOUs are in place between each body for supervisory matters.

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6.13. Joint supervision between BNM and LFSA, and BNM and SC adds to effectiveness. BNM partners with SC in supervising certain institutions such as investment banks and partners with LFSA in many of its inspections.

Table 6.1. Supervisory staff available to supervisors

| | Total number |
|------------------------------|--------------|
| Bank Negara Malaysia | 438 |
| Banking | 252 |
| Insurance | 127 |
| Money services | 44 |
| DNFBPs and other FIs (FIED) | 15 |
| Securities Commission | 65 |
| Labuan FSA | 16 |

Table 6.2. Financial Institutions onsite examinations and supervisory reviews

| | 2011 | 2012 | 2013 | 2014 | Total |
|--|-----------|-----------|-----------|-----------|--------------|
| BNM sectors | | | | | |
| Banking | 65 | 62 | 110 | 76 | 313 |
| Investments banks | 14 | 13 | 20 | 14 | 61 |
| DFIs | 7 | 7 | 19 | 12 | 45 |
| Insurance/ takaful | 36 | 19 | 26 | 25 | 106 |
| MSBs (MVTs and money changers) | 89 | 681 | 157 | 212 | 1 139 |
| SC financial institutions | | | | | |
| Stockbroking/ Derivative broking | 15 | 16 | 20 | 26 | 77 |
| Fund management/ Unit Trust Management | 7 | 28 | 29 | 43 | 107 |
| LFSA FIs (with BNM) | 12 | 10 | 11 | 10 | 43 |

Table 6.3. DNFBP Supervisory activity

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|--------------------------------------|---------------------------|--|---|---|--|
| Full scope onsite inspections | 10 x Lawyers (FIED & MBC) | 5 x Onshore TCSPs (FIED & CCM) 1 x Casino (FIED) 6 x Labuan TCSPs (LFSA) | 3 x Onshore TCSPs (FIED & CCM) 1 x Labuan TCSPs (LFSA) | 5 x Onshore TCSPs (FIED & CCM) 6 x Labuan TCSPs (LFSA) | 1 x Casino (FIED) 14 x Labuan TCSPs (LFSA) 10 x Lawyers (FIED & MBC) |

Table 6.3. DNFBP Supervisory activity (continued)

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---------------------------------------|--|---|--|---|---|
| Internal Audit for AML/CFT | 1 x Casino 1 x Lembaga Tabung Haji | 1 x Casino 1 x Lembaga Tabung Haji | 1 x Casino 1 x Lembaga Tabung Haji | 1 x Casino 1 x Lembaga Tabung Haji 35 x Labuan TCSPs (LFSA) | 1 x Casino 1 x Lembaga Tabung Haji 36 x Labuan TCSPs (LFSA) |
| Self-Assessment questionnaires | | 2 x industry groups: - Lawyers - Onshore TCSP | 3 x industry groups: - Lawyers - Jewellers - Labuan TCSPs | 1 x industry groups: - Lawyers | 1 x industry group: - Lawyers |

6.14. BNM regulates the majority of RIs in Malaysia and has four departments responsible for supervision, including the DNFBP supervisory team in FIED. The assessment team is satisfied that the available resources, skills and experience of the supervisory personnel and the tools available to them to conduct off and onsite supervision provides a sound basis for supervision which targets ML/TF risk, with the exception of the resources available for DNFBP supervision beyond the casino. Details of supervisory staff numbers are in the table above. BNM dedicates a significant budget to the ongoing development of its supervisory staff, reflecting best practice.

6.15. BNM has sought to undertake sufficient AML/CFT supervision across those sectors identified as having the higher risks, particularly banking, MSBs (MVTs and money changers) and the casino. This has included onsite examinations of branches located in high risk areas, such as border town and areas with particular ML/TF risks. Further, BNM supervisors conduct onsite supervision of domestic bank branches and subsidiaries outside Malaysia. BNM's focus on high risk entities is complemented by thematic inspections to assess specific areas prioritised by supervisors.

6.16. BNM has adopted a Supervisory Risk-Based Framework (SuRF) to assess the safety and soundness of licensed FIs. This enables BNM to evaluate an institutions risk profile, quality of risk management processes, governance, compliance and financial condition. SuRF allows BNM to focus attention and efforts on areas or activities of higher risks. It also allows a consistent assessment of ML/TF risks across various entities, including an assessment of the risks arising from all activities or entities within a financial group (subsidiaries and branches), both domestic and foreign. BNM uses a dedicated AML/CFT Supervisory Framework to complement SuRF, which provides greater detail in the assessment of ML/TF risks. The intensity and frequency of the ML/TF assessment is based on several factors, such as the size and complexity of the institution, type of customers, products, geographical exposures and channel of deliveries.

6.17. BNM supervisors also conduct thematic assessment on AML/CFT, which complement the ongoing supervisory reviews conducted under SuRF. Thematic assessments are carried out simultaneously across an industry and are focused on a specific area. For instance, in 2007 the thematic assessments focused on AML/CFT policies and procedures, and in 2010 the focus was on the oversight by senior management and the board of directors. Based on the outcomes of previous assessments and the need to assess the effectiveness of AML/CFT preventive measures implemented by FI's, thematic assessments conducted in 2013 focused on the implementation of preventative measures, including the effectiveness of CDD, reporting of STRs and controls implemented, particularly at the frontline level. Results of thematic assessments are used as inputs for FIED's review of AML/CFT policies and the assessment of ML/TF sectoral risks in the NRA.

6.18. BNM demonstrated a structured and open approach to its oversight of foreign branches and subsidiaries supported by close engagement with the respective foreign supervisory counterparts, particularly in Singapore, Thailand, Indonesia, Cambodia and Hong Kong, China. BNM frequently meets with and shares inspection reports with foreign regulators to remain current on risk factors and risk mitigation outcomes. The depth of implementation of the requirements of group compliance adds to effectiveness. Malaysia

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demonstrated that supervisors enforce group policies and procedures of foreign branches and subsidiaries, including instructions to follow the more stringent requirements in respect of home and host country. BNM also adopts an open approach to its oversight of locally incorporated foreign banks through close engagement with the respective home supervisors.

6.19. BNM is cooperating well with its regional counterparts, which is crucial given the strong presence of Malaysian banks operating in emerging markets within the ASEAN region. It is important for BNM to maintain this support and cooperation given the risk and context.

6.20. BNM has applied a great deal of resources to reform and supervise the MSB (MVTs and money changers) sector due to ML/TF risks identified over a number of years. Results from the large-scale reforms to the MSB sector demonstrate that MSBs have improved governance and compliance, though challenges remain and the supervisor is cognizant of the fact. BNM has conducted a very large number of onsite assessments during the previous five years with 157 in 2013 and 212 in 2014. Greater supervisory attention has been given to higher risk licensees (e.g. licensees located at border town and areas susceptible to ML/TF risk), and to licensees not due for renewal in order to gauge their implementation. AML/CFT assessment is also the key focus areas for Branch/Merger and Agent/Principal thematic examinations. The current focus is on the areas of governance, record keeping, internal controls, and compliance with other regulatory requirements.

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6.21. BNM and other authorities demonstrated a range of priority actions to identify and act against illegal MSB activity in Malaysia which adds to compliance. This has included BNM –FIED conducted onsite surveillance visits to 409 companies (not registered as MSBs) between 2012 and September 2014, of which 68 were found to be conducting illegal MSB activities, which were subjected to enforcement actions. As at the end of September 2014, 11 cases had been charged and convicted; 10 cases were in the process of prosecution and 47 cases were at various stages of investigation.

6.22. In relation to DNFBP FIED, as the DNFBP AML/CFT regulator (for all except Labuan TCSPs) applies a risk-based approach towards its supervision of approximately 26 000 DNFBP RIs. Annual supervisory planning determines the targets for supervision activity based on the inherent sectoral ML/TF risk rating from the 2013 NRA, LEA inputs, responses to offsite supervision (questionnaires), previous supervision findings, complaints and the availability of supervisory resources within FIED and the relevant regulatory/licensing authorities. Analysis of these factors drives on site examinations, offshore surveillance, internal audits, regular engagement or the conduct of awareness/training sessions.

6.23. In relative terms the levels of FIED's supervision of DNFBP sectors are lower than for FIs, with the exception of the casino, taking into account FIED only has 15 staff. While the FIED supervisory staff are professional and well trained with extensive experience, the existing strength of staff cannot fully engage the entire DNFBP sectors. FIED has conducted full-scope and thematic AML/CFT onsite examinations of the casino, onshore and Labuan trust companies, selected law firms and jewellers. Offsite surveillance of lawyers, jewellers and non-bank financial institutions is conducted through analysis of self-assessment questionnaires and internal audit reports.

6.24. Despite the gaps with the MoF market entry controls on casino management, FIED has prioritized the AML/CFT supervision of the casino, in keeping with its findings on risk. FIED demonstrated that it applies various regulatory tools to target casino supervision and has complemented full scope audits with thematic reviews, with the most recent inspections guided by particular risk parameters.

6.25. The SC utilises a risk-based supervisory approach through its Risk Profiling Framework to determine supervisory priorities. Its risk-based capabilities have been further strengthened with the introduction of Risk-Focused Supervisory Framework (RSF). RSF facilitates the in-depth risk assessment of ML/TF risks posed to RIs and assesses whether adequate control are in place to mitigate such risks. SC undertakes sufficient AML/CFT supervision of its RIs identified as having the higher risks. SC make use of range of offsite and onsite tools like desk reviews, supervisory engagements, self-assessment questionnaires and onsite examination to assess the adequacy of risk mitigation measures being applied by RIs. The statistics show that supervisory activity has increased during the last year with matching enforcement actions taken by SC. As with BNM, SC has applied significant resources to ensure adequate numbers of well-trained supervisory staff (65 in total) are available.

6.26. During the period 2011 to 2014, SC conducted 77 supervisory visits on stockbroking and derivative broking companies and took administrative action for AML/CFT failings in 8 cases. SC also conducted 107 supervisory visits to fund management and/or unit trust management companies during the same period. SC examinations including a number of return visits and visits to branch offices, including follow-up supervisory visits in cases of compliance failures. In relation to offsite supervision, in 2014, for example, SC conducted nine desktop reviews and submission of self-assessment questionnaires by 134 RIs.

6.27. SC's AML/CFT supervision included a suitable range of interventions, including systems and transaction testing and interviewing of key staff responsible for the broking and fund management business, for implementing AML/CFT policies and processes and controls. SC identified weaknesses with CDD implementation and client risk assessment as key deficiencies and these areas formed the basis for follow-up inspections and continuing engagement on application of enhanced due diligence measures.

6.28. LFSAs have put in place the Risk-Based Supervisory Framework (RBSF) which is being steadily implemented and enhanced. Under the RBSF, compliance with regulations and legal requirements is incorporated into the risk management and control function. Banking, insurance and capital market entities are subject to AML/CFT regulation and supervision in line with the respective core principles. Full supervision of the Labuan TCSP sector took place in 2008. LFSAs' supervision is beginning to bear results in protecting the relevant sectors with an increase in onsite visits. While Labuan's share of the Malaysian financial sector is small overall, it is felt that supervisory activity is relatively low, albeit increasing. This is reflected in lower number of onsite reviews of Labuan FIs and relatively few sanctions applied. LFSAs are supervising 284 FIs (including 43 banks, 46 Reinsurance and 81 brokers) along with 36 trust companies (DNFBP) and has 16 supervisory staff. It should be noted that all LFSAs supervision (on and offsite) of banks, reinsurance and brokers is done jointly with BNM, which adds to effectiveness. The assessment team considered supervision reports and it is clear that results of LFSAs' supervision are increasingly robust.

6.29. In 2011 and 2012 CCM and BNM collaborated to conduct joint AML/CFT onsite examinations of eight onshore TCSPs. CCM conducts compliance monitoring of onshore TCSPs with the primary aim of ensuring compliance with lodgment of annual returns, while FIED covered AML/CFT obligations.

6.30. SRBs have important roles in relation to market entry, guidance, training and outreach and elements of offsite supervision of their respective DNFBP sectors. The core supervisory functions are conducted by the FIED, which relies on the support of SRBs in conducting self-assessment exercises on respective DNFBP sectors. To date FIED have collaborated with the Bar Council and the Federation of Goldsmith and Jewellers to assist with distribution and submission of self-assessment questionnaires on AML/CFT compliance.

(c) Remedial actions and sanctions for non-compliance with AML/CFT requirements

6.31. Supervisors take a graduated approach to promoting and enforcing remedial actions to address deficiencies identified through offsite and onsite inspection. This focus on remedial measures through engagement with the supervised sectors followed by sanctions in cases of persistent failures or inattention to remedial actions is sound. Malaysia was able to demonstrate a cross section of remedial interventions leading to improvements with risk-based implementation from RIs.

6.32. In cases of remedial actions failing or gross violations, supervisors make use of a range of civil and criminal sanctions available in AMLTFA as well as under sectoral legislation. The recent amendments in AMLTFA have enhanced monetary penalties for different violations which are likely to create additional deterrence for RIs. Financial sanctions can include administrative fines or a 'compound' provision under AMLTFA and other laws whereby criminal matters are settled outside the judicial process by way of a DPP approved fine (50% of the maximum fine for an offence) in the case of a breach of a regulatory offence. Compound is not offered for every offence and many factors are taken into consideration prior to offering of compound such as the nature of offence, the behaviour of the person committing the offence etc. The legal framework allows the compound to be coupled with other sanctions.

6.33. BNM has imposed significant fines through compounding. SC has imposed some monetary fines. LFSAs have taken mix of enforcement action including issuance of supervisory letters and engagements. Overall,

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regulated sectors are quite mindful of sanctions. The following table provides details of supervisory actions and sanctions for violations.

Table 6.4. Remedial actions and sanctions for AML/CFT – Financial Institutions

| Types of actions | 2011-2012 | | | | 2013 | | | | 2014 | | | |
|---|---------------------|---------|----|------|---------------------|---------|----|------|---------------------|---------|----|------|
| | BNM bank/ insurance | BNM-MSB | SC | LFSA | BNM bank/ insurance | BNM-MSB | SC | LFSA | BNM bank/ insurance | BNM-MSB | SC | LFSA |
| Supervisory letters | 37 | 0 | 33 | 4 | 45 | 132 | 25 | 17 | 13 | 299 | 14 | 18 |
| Reprimand/ warning | | | 2 | | | | | | | | | |
| Directive | 10 | | 1 | | | | 1 | | | | - | 11 |
| Compound* | 3 | 27 | - | - | 2 | 55 | - | - | 11 | 62 | - | - |
| Administrative Fines/Penalties | NA | NA | 2 | - | - | | 3 | - | - | - | - | - |
| Show cause for revocation/ non-renewal | - | 97 | - | - | - | 4 | - | - | - | 22 | | 8 |
| Revocation of licence/ non-renewal of licence | - | 72 | - | - | - | 4 | - | - | - | 22 | - | 1 |
| Removal of director | - | - | - | - | - | - | - | 2 | - | - | - | - |
| Prosecution | - | 36 | - | - | - | 11 | - | - | - | 17 | - | - |

Table 6.5. Fines issued to Financial Institutions via compounding of offences

| Sector | Item | 2011-2012 | 2013 | 2014 |
|------------------------------|-------------------------------|--------------------------------|------------------------------|----------------------------------|
| Banking and Insurance - AMLA | No of institutions | | 3* | 2# |
| | No of cases | | 4 | 2 |
| | No of offences (total) | | 104 | 2 |
| | Value of compound (RM) | 1 040 000 (USD 310 698) | 625 000 (USD 186 718) | 4 370 000 (USD 1 305 530) |

Table 6.5. Fines issued to Financial Institutions via compounding of offences (continued)

| Sector | Item | 2011-2012 | 2013 | 2014 |
|-----------------------|------------------------------------|------------------------------------|--------------------------------------|--------------------------------|
| MSBs – AMLA | AMLA | | | |
| | No of institutions | 7 | 8 | 2 |
| | No of cases | 7 | 8 | 2 |
| | No of offences (total) | 110 | 106 | 223 |
| | Breakdown | | | |
| | Section 13 on record keeping | 7 (110) | 8 (106) | 2 (223) |
| | Value of compound (RM) | 110 000 (USD 32 862) | 106 000 (USD 31 667) | 62 000 (USD 18 522) |
| MSBs – MCA and MBSA | Other laws | | | |
| | No of cases | 14 | 49 | 60 |
| | No of offences | 14 | 50 | 60 |
| | Value of compound (RM) | 169 500 (USD 50 638) | 628 000 (USD 187 614) | 94 000 (USD 28 082) |
| TOTAL BNM (RM) | 1 319 500 (USD 394 198) | 1 359 000 (USD 405 999) | 4 526 000 (USD 1 352 135) | |

6.34. The vast majority of breaches compounded in banking and insurance related to submission of CTRs, implementation of CDD obligations, risk profiling and processes for identifying and reporting suspicion. Amongst the range of other uncommon breaches was one case of tipping off. For MSBs (MVTs and money changers) the breaches related to record keeping and failure to report audited reports.

Table 6.6. Remedial actions and sanctions for DNFBPs

| | 2009 - 2010 | 2011 | 2012 | 2013 | 2014 |
|--------------------|--|-----------------------------|--------------------------------|------|---------------------------------|
| Supervisory letter | 1 - casino in 2009 | 5 – trust co. 1 - casino | 3 – trust co. 5 - jewellers | - | 1 – casino 14 – Labuan TCSPs |
| Directive | 1 – casino in 2009 10 – lawyers in 2010 | - | - | - | - |
| Compound | - | 2 – law firms | - | - | - |

6.35. As explained in the preceding paragraph, BNM has focussed more on corrective actions where irregularities were not of serious nature. However, serious violations/ offences were dealt with compounding of fines. SC has imposed some fines for violations of AML/ CFT requirements. The fine imposed by SC have been not less than RM 150 000 (USD 44 812) and more than RM 275 000 (USD 82 156) which appear to be proportionate and dissuasive. However, there is no information about LFSA taking such actions to support the proportionality and dissuasiveness of sanctions.

6.36. For the most serious breaches BNM has prosecuting offences and/or revoked licenses. This has been confined to the MSB (MVTS and money changers) sector.

Box 6.1. Case study: Improved compliance through relicensing and supervision of the MSB sector

Company B was a licensed remitter with 26 branches throughout Malaysia. During the relicensing exercise in 2012 and 2013, Company B's licence was renewed for only a short tenure (six months) due to deficiencies identified with governance, its AML/CFT program and controls and risk management.

BNM issued supervisory letters to highlight the gaps and gave specific timeframes to address the issues. BNM engaged with Company B's board and management to set expectations and monitor progress. Supervision activity confirmed the company had taken extensive measures to address the gaps in its governance and operations, which included a change of CEO, allocating more resources to compliance functions and strengthening its internal controls and risk management procedures.

As compliance was verified through ongoing monitoring by BNM, licensing intervals were steadily increased (six months, then one year, then two years).

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(d) *Impact of supervisory action on compliance*

6.37. BNM and SC have noted marked improvement in AML/CFT compliance as a result of enhanced engagement and supervisory reviews. The positive results are seen through recent onsite inspections and feedback from the private sector. BNM's supervision activity has identified significant improvements, particularly in relation to greater oversight and understanding by the board and senior management on ML/TF risks and the implementation of more comprehensive policies and procedures, enhanced monitoring, and strengthened compliance functions (including increased staff resources, investment in IT systems, structured training). In addition the numbers and quality of STRs have improved (see case study in box 6.2 below). BNM noted the demonstrable results with the MSB (MVTS and money changers) reforms and subsequent improvement in compliance. The remedial actions and continued engagement has resulted in an enhanced level of understanding the obligations and improved compliance. All MSBs have shifted to systems-based operations which have increased their ability to analyse transactions and customers more accurately.

Box 6.2. Case study: Supervisory response to weaknesses in ongoing CDD (BNM)

While conducting an AML/CFT review of a bank in 2013 BNM supervisors identified inadequacies in controls for ongoing transaction monitoring. The bank reviewed only the 10 - 20 largest monthly transactions generated from exception reports and failed to capture trade facilities and credit cards transactions. Reviews conducted by the bank focused on historical transactions without sufficient understanding of the customers' profile.

BNM supervisors sampled account records of customers from high risk countries and identified failures to conduct ongoing CDD to examine and verify the economic background and purpose of transactions performed by 93 customers. Supervisors' sampling of branches referring suspicious activity to management revealed weaknesses in applying processes to justify management not reporting STRs.

BNM issued a supervisory letter to the board and senior management to highlight, among other things, lapses in the transaction monitoring process and required the bank to implement an automated

transaction monitoring system, given the high volume of transactions and customer base, by March 2014.

A compound notice of RM 940 000 (USD 280 823) was issued against the bank for failure to conduct ongoing CDD on high risk customers and for non-submission of STRs. The bank responded to the issues highlighted and reviewed its entire AML/CFT processes and controls (including automated transaction monitoring) and increased the trained personnel to manage ML/FT risks.

6.38. SC has also noted a marked reduction in AML/CFT breaches by stockbroking, derivative broking companies, unit trust management companies and fund managers through comparison of violations booked in 2012 and 2013 examinations. SC has demonstrated through case studies how RIs were engaged, which finally resulted in rectification of deficiencies.

6.39. LFSAs supervision has established that the competence of compliance officers has improved. This is reflected in increase in the number of STR reported as well closer engagement with the regulator.

6.40. Supervisory action, in particular outreach by supervisors and regulators reflect a strong effort to create awareness and engage the RIs by BNM, SC and LFSAs.

6.41. However, impacts amongst the DNFBP sectors are far lighter, with the recent exception of the casino and Labuan TCSPs. Those two sectors have demonstrated significant progress in their risk mitigation settings, allocation of resources and the structured approach to AML/CFT. For other DNFBP sectors, the supervisory interventions outlined above, coupled with the strong focus on outreach have not yet generated great progress on compliance with risk-sensitive implementation. The impact of offsite and onsite engagement is undermined by a shortage of supervisory staff in BNM FIED for DNFBP supervision. The low level of supervisory activity has not resulted in greatly increased understanding and compliance amongst DNFBPs.

(e) Promoting a clear understanding of ML/TF risks and AML/CFT obligations

6.42. BNM, LFSAs and SC continue to create awareness and provide guidance and feedback as necessary, but more needs to be done as reflected in IO4. Various channels are used to interact with the regulated sectors including annual conference, periodic meeting with compliance officers and focused group meetings to discuss and sort out regulatory issues. These mechanisms appear to be working well to rectify irregularities and improve understanding of AML/CFT requirements. In addition to regular offsite and onsite engagement with FIs, BNM also conducts an annual AML/CFT conference, organises an annual International Conference Financial Crime and Terrorist Financing (in collaboration with the CONG and Asian Institute of Finance), issues various guidance through FINS and BNM's internet platform, engages regularly with the CONG on AML/CFT related matters and arranges bilateral meetings with FIs to discuss specific issues.

6.43. Further, BNM is a partner in joint supervisory work with SC and LFSAs, which is generally working well, although there are instances of apparent divergence between regulators which creates difficulty for RIs. The continuing close coordination amongst the three regulators and adjustments in the MoUs between regulators and the Financial Working Group under the NCC to address such instances should overcome such complaints if similar feedback persists in future.

6.44. For MSBs (MVTs and money changers), BNM has conducted five communication sessions to socialize and provide clarifications on AML/CFT requirements. BNM has collaborated with the industry association to support its efforts in enhancing compliance and professionalism. 16 training workshop were conducted between February and March 2014, particularly for the compliance officers and staff to ensure a clear understanding of AML/CFT requirements.

6.45. Over the period 2011 to 2014 BNM undertook a wide range of supervisory outreach activities to DNFBP industry associations and directly including over 1 500 DNFBPs in total.



Table 6.7. BNM Outreach from 2011 to 2014

| 2011 | 2012 | 2013 | 2014 |
|--|---|--|--|
| <ul style="list-style-type: none"> •1 session - with 260 lawyers (<i>with MBC</i>) •1 session with 50 company secretaries (<i>with MAICSA</i>) | <ul style="list-style-type: none"> •1 session - 281 lawyers (<i>with MBC</i>) •1 session - 305 company secretaries (<i>with MAICSA</i>) •5 sessions - 187 precious metals/stones dealers (<i>with FGJAM</i>) •1 session - 4 estate agents (<i>with BVAEA</i>) •1 session - Lembaga Tabung Haji •4 sessions – 293 moneylenders | Focus group sessions with selected SROs / industry associations ahead of the issuance of revised Sector 5 Guidelines <ul style="list-style-type: none"> •1 session with Malaysian Building Society Berhad •1 session – 36 Labuan TCSPs (<i>via LFSA</i>) | <ul style="list-style-type: none"> •1 session - 300+ estate agents (<i>with BVAEA</i>) •1 session - 120 lawyers (<i>via MBC</i>) •1 session - 120 accountants (<i>via MIA</i>) •1 session - 120 company secretaries (<i>via CCM, MAICSA, MACS</i>) •1 session – 30 Labuan TCSPs (<i>via LFSA</i>) |

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6.46. SC's efforts show increasing levels of AML/CFT understanding by RIs in order to mitigate their risks. SC regularly updates information on electronic platforms and has issued publications for enhancing AML/CFT understanding of the regulated sector. In addition to regular offsite/ onsite engagements with the industry, SC conducted a series of engagement session between 2010-2014 as follows:

- Dialogue with CEOs and/or compliance officers on AML/CFT;
- Engagement with Association of Stockbroking Companies Malaysia (ASCM) on compliance and AML/CFT;
- Engagement with Malaysian Investment Banking Association (MIBA) on compliance and AML/CFT; and
- Sharing AML/CFT examination findings/updates with compliance officers.

6.47. LFSA has arranged yearly engagement session for compliance officers since 2012. In addition, engagement sessions were conducted throughout 2014 with the Associations for Labuan International Insurance Associations (LIIA), Labuan Investment Banks Group (LIBG), Associations of Labuan Banks (ALB), and also Association of Labuan Trust Companies (ALTC). From 2012 to 2014, there were five sessions held with ALB, seven with LIIA and five with LIBG. These awareness sessions were in addition to regular supervisory reviews and follow up engagement.

Overall conclusions on Immediate Outcome 3

6.48. Malaysia has a well-developed supervisory framework for the financial sector and generally demonstrated that supervisory actions have made a positive impact on market entry and compliance with the targeted implementation of AML/CFT controls. The mechanism of licensing and preventing the market entry of criminals is largely sound and the regulators are mindful of ML/TF risks.

6.49. All regulators apply a risk-based approach to supervision and assessors note that given the risks in the banking sector, BNM's approach is the most developed. Both SC and LFSA have moved to a model of risk-based approaches, although LFSA has needs to make further progress in the application of it approach.

6.50. The skills, experience and expertise of supervisory staff and the number of staff and tools available to supervisors to conduct surveillance and supervision are strong and support a deepening risk-based approach to supervision. This is reflected in the intensity and frequency of supervisory interventions across the key sectors.

6.51. MSBs relicensing exercise and focused supervision serve to mitigate many of the risks in the sector. MSBs high-risk status in NRA has prompted the supervisor to engage the sector on a continuous basis, which is work in progress. Future results of offsite/ onsite supervisory reviews will determine the effectiveness of these measures.

6.52. While the Labuan financial sector represents 6.6% of Malaysian financial sector assets, it is felt that supervisory activity is relatively low. This is reflected in proportionally by lower numbers of offsite/ onsite reviews of Labuan FIs and in the associated applications of sanctions.

6.53. The DNFBP sectors, with the exception of the casino are under-supervised for AML/CFT compliance due mainly to a shortage of AML/ CFT supervisory staff in FIED, although risk-based approaches and cooperation with SRBs is allowing for steps to mitigate risks in the high-risk DNFBP sectors. The scope of onsite supervision of Labuan TCSPs in 2014 is a strong development. The fit and proper controls for casino management have visible gaps which could be a potential ML/TF risk, but FIED's increasingly risk-sensitive supervision is ensuring the risks are being mitigated.

6.54. Despite the risk-based supervision taking place, there is a need to do more to ensure that FIs and DNFbps deepen their understanding of risk and risk mitigation measures and implement their AML/CFT obligations using a risk-based approach. Supervisory interventions have further to go to ensure RIs take a truly risk based approach to AML/CFT implementation.

6.55. **Overall, Malaysia has achieved a substantial level of effectiveness for Immediate Outcome 3.**

6.4 Recommendations on Supervision

- Unincorporated dealers in precious metals /stones in East Malaysia should be regulated.
- Licensing and fit & proper requirements for the casino should be improved, including carrying out background checks on major shareholders for domestic and overseas operations as well as management and operators.
- Extend fit and proper controls and enhance AML/CFT oversight to junket operators.
- MSBs reforms should continue including the focus on ML/ TF risks in licensed entities along with identification and prosecution of illegal operators, preferably with the assistance of area police in all parts of the country.
- Malaysia should strengthen and deepen their understanding of risk in each DNFBP sector.
- Malaysia should strengthen oversight of the DNFBP sectors, including onsite inspection and enforcement based on the identified risks.
- SRBs should be engaged for enhanced AML/ CFT role in their respective professions, including at least for offsite inspections.
- Consider empowering CCM to undertake AML/CFT onsite inspection of trust companies and company secretaries under its purview to share the load with BNM.
- BNM should review the resourcing of its FIED DNFBP supervisory function to ensure it has adequate systems and resources to effectively supervise DNFbps on a risk sensitive basis.
- LFSA should enhance their engagements and supervisory reviews of the regulated sectors on a risk-sensitive basis.

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- LFSA should respond to regulatory violations with proportionate and dissuasive sanctions.
- All supervisors should deepen their approaches to ensure RIs take a truly risk based approach to AML/CFT implementation.

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Recommendation 26 - Regulation and Supervision of FIs

a6.1. Malaysia was rated largely compliant with former R.23 in the 2007 MER due to gaps in the effectiveness of implementation of monitoring and supervision by BNM and LFSA and certain AMLA requirements and guidelines not yet invoked for some categories of NBFIs.

a6.2. **Criterion 26.1** - BNM, LFSA and SC are the primary financial sector supervisory authorities. In addition, Bursa Malaysia supervises its participants (stock broking and derivatives broking companies) under ss.11 and 21 of the CMSA. These bodies are responsible to regulate and supervise compliance by FIs with Malaysia's AML/CFT requirements under sector-specific legislation and guidelines. Section 21 of AMLA enables supervisory authorities to monitor compliance by RIs with AML/ CFT obligations. Section 25 empowers BNM to authorize any examiner to perform AML/CFT examinations of any RIs which are not subject to examination by the BNM supervision department.

a6.3. **Criterion 26.2** - Banking, insurance and investment banking are clearly defined as licensed businesses under the FSA and Islamic banking, takaful, international Islamic banking and international takaful business under the IFSA. The conduct of business without a license is prohibited under s.8 of the FSA and IFSA. The FSA and IFSA also prohibit use of the word 'bank', 'insurance/assurance', 'Islamic bank', 'takaful/ Islamic insurance/Islamic assurance' by persons other than the persons authorized to do the respective business except with the prior written approval of BNM. Further, sections 20(1)(b) of the FSA and 18(1) (c) of the IFSA empowers the Minister, to revoke a licence, among others, if an entity has not commenced business within a period specified by the Minister of Finance. These provisions, combined with Malaysia's onsite examinations, ensure that a physical presence is maintained for all licensed institutions and they do carry on licensed business, prohibiting shell banks to operate in Malaysia.

a6.4. The LFSSA and LIFSSA have specific provisions to carry out securities, banking, investment, or insurance business, whether conventional or Islamic, under a license to be issued by the LFSA. Shell banks are not allowed in Labuan IBFC. Sections 88 and 89 of the LFSSA provide that no person other than licensed Labuan banks shall, without the written consent of the LFSA, assume or use the words "licensed Labuan Bank" or any derivative of such works.

a6.5. For capital market activities, s.58 and s.59 of the CMSA provides that no person is permitted to carry on a business in any of the regulated activities set out under Schedule 2 of the CMSA, unless it holds a Capital Market Services Licence (CMSL) or is a registered person to carry out the regulated activities under s.76 and s.76A of the CMSA. Section 76 of the CMSA deems certain entities such as licensed banks and Islamic banks to be registered persons for the purposes of carrying out certain regulated activities under the capital market sectors. These registered persons are allowed to carry out regulated activities as specified under Schedule 4 of the CMSA.

a6.6. FIs engaged in money services business are subject to licensing requirements under ss.4, 5, 6 and 7 of the MSBA. 'Money services business' means money changing business, remittance business or wholesale currency business. Section 4(1) of the Act stipulates that no person shall carry on a money services business without a license issued under this Act.

a6.7. Other FIs which are either licensed, approved or registered under relevant laws are subject to AML/ CFT supervision by the FIU (BNM). Entities engaged in pawn broking, money lending, postal financial services, issuing of e-money, Tabung Haji and factoring etc. may constitute only a small part of the overall size of the financial sector but undertake a wide range of activities.

a6.8. **Criterion 26.3** - Section 21(1)(a) of the AMLA empowers the relevant supervisory authority of a RI to adopt the necessary measures to prevent any person who is not suitable from controlling or participating, directly or indirectly, in the directorship, management or operation of the RI. In addition, the sector specific

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laws have detailed provisions to prevent the entry of undesirable persons in RIs as significant shareholders, controllers, directors, chief executives etc.

a6.9. Approval of BNM is required for any persons to hold five percent or more interested in the shares of a licensed person. BNM policy document on shareholder suitability issued on 8 October 2014 gives full effect to Schedule 6 of the FSA. The policy document contains legally binding standards that must be observed by shareholders of licensed persons under FSA and IFSA and details on factors of consideration in assessing shareholder suitability. These include the character and integrity of the shareholder, including for body corporate, its reputation for operating in a manner consistent with the standards of good governance and integrity.

a6.10. Sections 55 and 60 of the FSA and ss.64 and 69 of the IFSA provide fit and proper requirements for appointment of chairman, director, chief executive officer or senior officer of an authorized person or operator of a designated payment system including probity, personal integrity, financial integrity and reputation. The consideration of any record of criminal activities or adverse regulatory judgments is required.

a6.11. Section 6 of the MSBA requires fit and proper requirements for a substantial shareholder, director, controller, chief executive officer or manager of an MSB (MVTs and money changers).

a6.12. RIs supervised by LFSA are required under s.4 of the LFSSA and LIFSSA to ensure that their directors, principal officers and trust officers remain fit and proper persons throughout their appointment in a licensed entity. LFSA performs assessment on applicants by conducting financial and securities vetting from relevant authorities and seeking information from other financial supervisors. As per information provided by Malaysia, the fit and proper requirements cover the persons in control, including shareholders.

a6.13. For RIs regulated by the SC, CEOs and directors of CMSL holders are subject to the fit and proper requirements provided under chapter 4 of the SC's Licensing Handbook. Also, ss.64 and 65 of the CMSA provide grounds to refuse to grant a CMSL where the applicant or its directors, CEO, managers or controllers have been convicted of an offence involving fraud, dishonesty or violence.

a6.14. **Criterion 26.4** - In line with Principle 29 of the Core Principles for Effective Banking Supervision and the IAIS Insurance Core Principle 22 BNM has a mechanism to ensure that FIs have adequate policies and processes, including CDD rules to promote high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities. This includes the prevention and detection of criminal activity, and reporting of such suspected activities to the appropriate authorities.

a6.15. BNM has adopted a Supervisory Risk-Based Framework (SuRF) to assess the safety and soundness of licensed FIs. This is achieved by evaluating an institution's risk profile, risk management processes, compliance with applicable laws and regulations, and financial condition. SuRF is applicable to core principle institutions supervised by BNM. The SuRF allows BNM to pay attention to areas that are deemed to pose a higher ML/FT risk and to allocate resources accordingly. This approach is applied on a consolidated basis for all material activities/entities within a financial group including cross border activities (e.g. overseas branches, subsidiaries and off-shore operations), and other significant entities within the group (e.g. assets management companies and subsidiaries that provide financial services).

a6.16. LFSA utilizes its Risk-Based Supervisory Framework (RBSF) in determining and assessing the risks Labuan FIs are exposed to. It allows focusing supervisory attention on areas that are deemed to pose higher ML/FT risk and to allocate resources accordingly. Under the RBSF, compliance with regulations and legal requirements is incorporated as part of the risk management and control function. Banking, insurance and capital market entities are subject to AML/CFT regulation and supervision in line with the respective core principles. There are no significant financial groups for which LFSA may need consolidated supervision.

a6.17. The SC follows a risk-based supervisory approach for each type of market intermediary. Prior to the introduction of the RSF, risk profiling framework was used to prioritise SC supervisory work. SC supervisors identify ML/TF risks and assess the adequacy of control functions via annual self-assessment questionnaires

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received from market intermediaries and a regulatory risk assessment conducted by the SC during its supervisory visit.

a6.18. MSBs (MVTs and money changers) are supervised by BNM under ss.48 to 50 of the MSBA.

a6.19. **Criterion 26.5** - BNM follows a risk-based approach to supervisory reviews. Timing and intensity of reviews is informed by risk scoping, including the findings of the NRA and sectoral reviews. Periodic reviews are conducted on an annual basis. Thematic reviews are conducted once every three years across the banking industry while ad-hoc reviews are conducted as part of a consolidated supervision audit for overseas subsidiaries/branches, of FIs. LFSAs conduct thematic examinations based on an overall risk assessment in addition to routine full scope examinations. Prior to the introduction of the Risk-Focused Supervisory Framework, SC follows an annual offsite and onsite supervisory plan on the basis of risk profiling. Based on the findings of assessments and reviews, appropriate supervisory interventions are initiated. Certain FIs were clearly determined as high-risk e.g. banks, money remitters and money changers and some as medium-risk like unit trust managers/ fund managers.

a6.20. **Criterion 26.6** - BNM, LFSAs and SC follow a risk-based approach for the timing and intensity of AML/CFT supervision. Risk profiles of RIs and groups are reviewed periodically and when there is any development with the potential of creating risks, e.g. at the time of undertaking new activities or introducing new products, opening of new branches or subsidiaries and changes in group structure etc.

a6.21. **Malaysia is rated compliant with R.26.**

Recommendation 27: Powers of Supervisors

a6.22. Malaysia was rated largely compliant with former R.29 in the 2007 MER which noted that there was limited implementation of AMLA powers by BNM over NBFIs, and constraints on the powers of LFSAs to access customer specific information under the off-shore banking law.

a6.23. **Criterion 27.1** - BNM, LFSAs and SC have responsibility and powers to regulate and supervise AML/CFT compliance under sector-specific legislation and guidelines. Section 21 of AMLTFA empowers each supervisory authority to monitor AML/CFT compliance of RIs under its supervisory ambit.

a6.24. Section 48 of the FSA and s.58 of the IFSA compel RIs to comply with the BNM prudential standards to prevent FIs from being used for criminal activities. Section 5 of the Central Banking Act 2009 empowers supervisors to regulate and supervise FIs that are subjected to laws enforced by BNM. BNM supervises MSBs under the powers conferred on it by s.48 of the MSBA.

a6.25. LFSAs derive its supervisory powers from s.4(1)(a) of the LFSAA to administer and enforce provisions of the Act and the laws specified in the schedule. LFSAs have issued necessary standards and guidelines on AML/CFT to protect its institutions from being used for criminal activities.

a6.26. SC has the power to supervise and monitor its RIs under s.15(1)(m) and 16 of the Securities Commission Act 1993, in addition to s.21(1)(b) of the AMLA. SC has also issued the necessary guidelines for entities regulated by it to ensure compliance with AML/CFT requirements.

a6.27. Non-prudentially regulated smaller entities are registered under respective laws but supervised for AML/CFT by BNM.

a6.28. **Criterion 27.2** - BNM is authorized to conduct inspections of its regulated entities under s.146 of the FSA, s.158 of the IFSA, s.85 of the DFIA and s.48 of the MSBA. It can also examine the books or other documents, accounts and transactions of a prescribed institution and any of its offices in or outside Malaysia. Section 21(1) (b), ss.25-26 of AMLTFA also empower BNM to conduct inspections of RIs including their officers, directors and controllers.

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a6.29. LFSA is authorized to conduct inspections of Labuan FIs under s.177(1) of the LFSSA, s.138(1) of the LFSSA and ss.28C and 28E of the LFSAA.

a6.30. SC has the power to examine the books and documents, accounts and transactions of an RI under s.126(1) of SCA. Bursa Malaysia performs certain regulatory functions including supervision of its participants under ss.11 and 21 of the CMSA. Rule 14.02 of Bursa Securities and Rule 515.1A of Bursa Derivatives provide powers to Bursa Malaysia to conduct onsite inspections of stock broking and derivatives broking companies.

a6.31. **Criterion 27.3** - BNM can access information required for inspection purposes pursuant to s.147 of the FSA, s.159 of the IFSA and s.50 of the MSBA. During the ordinary course of business, BNM has the power to seek any information or document pursuant to s.143 of the FSA and s.155 of the IFSA. S. 50 of the MSBA allows BNM access to document, information etc. of licensee, MSB agent and others. It is noted that s.132(1) of the FSA and 144(1) prohibits the Minister or BNM to enquire into the affairs or accounts of customers of authorized persons. S. 132(2) of the FSA and 144(2) of the IFSA specifically allows BNM to inquire into the affairs or accounts of customers for purposes of performing its functions under the FSA and IFSA.

a6.32. BNM maintains that there is no difficulty in compelling production of record since s.132(2) of the FSA and s.144(2) of the IFSA provides that the prohibition does not apply when BNM exercises its powers or functions under the FSA, IFSA or s.47 of the CBA. Therefore, exercise of supervisory powers is outside the purview of the said prohibition.

a6.33. Section 34 of the MSBA affords authority to compel the production of information from MSBs. This specifically empowers BNM to require any licensee or any person to submit such information or document as BNM may specify, and failure to comply with any requirements specified is subject to penalties under the law.

a6.34. Under s.28B of the LFSAA, LFSA can seek any information relating to the identity, affairs, account or particulars of any customer of an offshore financial institution or any corporation related to the offshore financial institution, or a nominee or beneficiary.

a6.35. SC has the power to compel production of any documents or records for examination. For routine demands of information, SC can invoke s.152 (1) of the SCA requiring any person to disclose such information as the Commission may specify in the notice for administration of the securities laws. Prima facie, there does not appear to be any restriction on customer related records. This has been reconfirmed by Malaysia that powers under s.152 extend to AML/ CFT issues. It was reconfirmed by Malaysia that powers under s.152 extend to AML/CFT issues.

a6.36. **Criterion 27.4** - In addition to having a range of enforcement powers under AMLA, BNM is empowered under s.234 of the FSA and s.245 of the IFSA to take action against any breach of provisions of the Act, any regulations made under the Act, any order or direction issued under the Act and any standards and requirements. BNM can issue an order in writing requiring compliance, impose monetary penalties, reprimand in writing the person in breach or require the person to issue a public statement of the breach, require the financial institution to take necessary steps to mitigate the effect of such a breach or remedy the breach including making restitution to people affected by the breach. Section 162 of the FSA and s.174 of the IFSA provides the power for removal of directors, chief executive officers or senior officers in the event of a breach of any provisions in the FSA and IFSA. Section 20 of the FSA and s.18 of the IFSA provide grounds for BNM to revoke a financial institution's license in the event of non-compliance with any provisions in the FSA and IFSA.

a6.37. Section 75(1) of the MSBA provides BNM with powers to take administrative action for contraventions of the act. A range of actions are available to BNM up to the power to revoke the license of MSBs for various contraventions.

a6.38. LFSA can impose administrative sanctions under s.36G of the LFSAA against any Labuan entity which fails to comply with the requirements of the law. The amount of administrative penalties for each offence ranges from RM 500 (USD 149) to RM 10 000 (USD 2 987). In addition, LFSA can take enforcement action under s.193 of the LFSSA and s.153 of the LIFSSA. Section 167(b)(x) of the LFSSA and s.124(b)(x) of the LIFSSA empower LFSA to revoke the license or registration of a Labuan financial institution.

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a6.39. The SC is empowered to take enforcement action under ss.354355-356 of the CMSA which include disciplinary and financial sanctions. SC can also apply to the court for an appropriate order. The power of the SC also includes actions under s.72(2)(a)(i) and (iii) of the CMSA, including revocation or suspension of the reporting institution's license.

a6.40. **Malaysia is rated compliant with R.27.**

Recommendation 28 – Regulation and supervision of DNFBPs

a6.41. Malaysia was rated partially compliant with former R.24 in the 2007 MER as there were weaknesses in effectiveness of compliance monitoring and an absence of onsite examinations; inadequate resources for effective supervision of entities under the responsibility of the BNM FIU; and absence of AML/CFT requirements for dealers in precious metals and stones.

Casinos

a6.42. **Criterion 28.1** - BNM has issued AML/CFT Guidelines covering casinos. The casino is subject to AML/CFT regulation and supervision by BNM under AMLA and the Ministry of Finance (MoF) for licensing and business operations.

a6.43. **Criterion 28.1(a)** - The casino is licensed by the MoF under s.27A of the Common Gaming House Act, 1953. The casino's licence is valid for 3 months and is renewable subject to terms and conditions that are specified in the licence. Revocation of the licence is also carried out by the Minister under this Act. Under s.21 of the AMLA, the licensing authority of a casino, on recommendation from BNM, can revoke or suspend a licence if a casino has been convicted of an offence under the Act. Genting Casino has successfully renewed its licence for more than 40 years.

a6.44. **Criterion 28.1(b)** - Section 21 of the AMLA states that supervisory authorities (BNM) can adopt measures to prevent or avoid unsuitable persons from controlling or participating directly or indirectly in the directorship, management or operation of a casino. This provision does not cover specifically ownership, including beneficial ownership, of a casino. Malaysia states that the terms and conditions imposed by the MoF in approving the casino license specifies that the licensee shall not cater for, assist, employ or associate with, either socially or in business affairs, persons of notorious or unsavoury reputation or who have previous convictions, or persons who are associated with or support subversive movements. These terms, however, do not relate to the obligation of the MoF to ensure that those owning, managing or otherwise controlling a casino are not themselves criminal or associates of criminals. Under its broad licensing power, MoF would have the authority to issue controls over fitness and propriety of licensees and those managing and operating the casino.

a6.45. **Criterion 28.1(c)** - BNM is the designated supervisory authority and conducts off and onsite inspections. Under s.21 of the AMLA BNM may examine and supervise casinos and verify through examinations adherence with the compliance program requirements established under s.19 of the Act. Compliance program under s.19 (1) are broad enough to address CDD measures and are not limited to the provisions of 19(2) that states that such programmes shall include know your employee procedures, employee training and internal audit function..

a6.46. Additional powers of compliance enforcement and examination are granted under s.22 and s.25 to examine the affairs of casinos. While s.22(2) requires BNM to apply to the Magistrates Court to obtain an order to enforce compliance, s.22(3) empowers BNM, as the competent authority, to issue orders directly to any reporting institution with specific instructions to comply with the reporting obligations. Failure to comply with such directive orders is considered a criminal offence. BNM, with the consent of the Public Prosecutor, may also compound a RI which fails to comply with any reporting obligation. Imposition of a compound does not involve any court process. Broad powers of investigation by the competent authority for suspected breaches of the Act by DNFBPs are contained in Part V of the Act. In practice BNM is supervising the full range of CDD and other AML/CFT requirements with the exception of licensing fit and proper measures.

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DNFBPs other than casinos

a6.47. **Criterion 28.2** - The designated AML/CFT supervisory authority for these DNFBPs is BNM, which has issued guidelines covering all of these activities. In addition, the LFSA has issued guidelines in respect of the trust company sector in Labuan. The gap in coverage of dealers in precious metals and stones discussed at R.22 is relevant to this criterion.

a6.48. **Criterion 28.3** - Analysis for 28.1 refers. Section 21 of the AML/ATFA provides powers to the BNM to supervise compliance programs as well as s.22 and s.25 of the Act. Investigation powers to the competent authorities for breaches of the Act are provided under Part V of the Act. The gap in coverage of dealers in precious metals and stones is relevant to this criterion.

a6.49. **Criterion 28.4(a)** - BNM's powers to monitor AML/CFT compliance are established under ss.21, 22 and 25 of the AMLA. There are broad powers of examination of DNFBPs. Powers of investigation for breaches of the Act are contained in Part V of the Act.

a6.50. **Criterion 28.4(b)** - Under s.21 of the AMLA BNM can adopt measures to prevent unfit persons from controlling or participating in the directorship, management or operation of DNFBPs, including those persons who interest in one third or more of its voting shares or who have the power to cause to be appointed a majority of directors or the power to make a decision, or cause a decision to be made, in respect of its business or administration. Neither the BNM nor the various sector licensing bodies for DNFBPs have utilised Section 21 to implement market entry fit and proper controls for DNFBPs.

a6.51. The various professional authorisation, licensing or registration bodies for some of the DNFBPs have certain authorization, licensing or registration criteria as established in their respective regulatory or legal frameworks. These are:

Table A6.1. Professional authorisation, licensing or registration bodies for DNFBPs

| DNFBPs | Professional Body | Legal / Regulatory Framework | Registration / Licensing |
|---|--|---|--|
| Real estate agents | BVAEA | Section 10 of the VAEAA 1981 | Board of Valuers, Appraisers & Estate Agents (BVAEA) |
| Lawyers | Malaysian Bar Council (MBC) | S. 29 of the Legal Profession Act 1976 | MBC issued 'Sijil Annual' is a pre-requisite for lawyers' practicing certificate by High Court Registrar |
| Notaries | AGC | Section 3 of the Notaries Public Act 1959 (NPA) | The AG, upon consultation with MBC (for Peninsula Malaysia) and the State AGs (for Sabah and Sarawak) |
| Accountants | (MIA) | Ss 6 & 13 of the Accountants Act 1967 | Malaysian Institute of Accountants regulates the accountancy profession; and maintains a register of accountants |
| Onshore trust companies | CCM | Section 3 of Trust Companies Act 1949 | trust companies must apply to the registrar to be registered |
| Company service providers (company secretaries) | CCM | Section 139A of the Companies Act 1965 | Advocates Association of Sarawak, MBC, MIA, MICPA, MAICSA, MACS, Sabah Lawyers Association, or CCM. |
| Offshore trust companies | LFSA | Section 60 of the LFSS Act 2010 | Labuan trust company business must be licensed by the LFSA. |
| Dealers in precious metals / stones | No specific licensing or registration body. BNM works closely with the largest industry association for the sector with over 1,600 members, i.e.: Federation of Goldsmith & Jewellers Associations of Malaysia (FGJAM) | | |

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Sector specific fit and proper requirements

a6.52. *Real Estate Agents:* Section 22A of the Valuers, Appraisers & Estate Agents Act 1981 (VAEAA) provides that a person may only be registered with the BVAEA as an estate agent who is fit and proper. This covers age, character and background, including convictions for fraud, dishonesty or moral turpitude in the last 5 years); and not having issued false statements or documents; dishonestly concealed material facts; furnished false information; or be an undischarged bankrupt.

a6.53. *Lawyers:* Section 11 of the Legal Profession Act 1976 (LPA) governs admittance on fit and proper grounds including: age; academic qualifications; good character; absence of criminal convictions in any country which render one unfit to be a lawyer (examples of fraud or dishonesty); an undischarged bankrupt; disbarment, disqualification as a lawyer in any other country.

a6.54. *Notaries:* Section 3 of the NPA provides that the Attorney General may, upon consultation with MBC (for Peninsula Malaysia) and the State AGs (for Sabah and Sarawak) appoints fit and proper persons to be notaries public. Only qualified practicing lawyers may be appointed as notaries public.

a6.55. *Accountants:* Section 14 of the Accountants Act 1967 governs MIA admittance on fit and proper grounds. This provides an informal and subjective approach rather than a defined and statutory approach to fitness and propriety.

a6.56. *Onshore Trust Companies:* Section 3 of the TCA 1949 provides that only a public company incorporated in Malaysia under the CA 1965 may apply to be registered as a trust company. Basic criteria for registration are provided in s.3, such as directors having been appointed in accordance with the articles of the company, however none of these criteria deals with fitness and propriety. Registration guidelines have been issued by the CCM but these do not supersede the Act and, and do not add to fit and proper measures. Sections 16(3A) and 124(4) of the TCA require each person who intends to incorporate a company or be appointed as a director of a company to lodge with the CCM a statutory declaration declaring that he is not an undischarged bankrupt, and has not been imprisoned for any offence inside or outside Malaysia in connection with the promotion, formation or management of a corporation; involving fraud or dishonesty punishable with three months' imprisonment or more; or for breach of fiduciary duties. These basic requirements cover some criminals but not the wider concept of criminal referred to in 28.4(b).

a6.57. *Company secretaries (onshore):* Section 139B of the CA 1965 provides that the Registrar (CCM) may only grant or renew a licence if, after consideration of the character, qualification and experience of the applicant, and the interest of the public if the applicant is fit and proper. Section 139C of the CA 1965 provides for disqualification company secretaries who are an undischarged bankrupt or have been convicted in Malaysia or in any other country of an offence involving fraud or dishonesty punishable on conviction with imprisonment for three months or more.

a6.58. Eight bodies, including CCM, register company secretaries in Malaysia. The active members for each of them are: CCM (2 778), MIA (5 566), the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) (2 568), the Malaysian Bar Council (1,108), the MACS (592), the Advocates' Association of Sarawak (197), the Sabah Law Association (135), the Malaysian Institute of Certified Public Accountants (MICPA) (117). The company secretaries registered by the bodies referred to above have such registration as an additional facet of the activities for which they are primarily registered or regulated. They are subject to the standards outlined above, although it is not clear to what extent these bodies are supervisory authorities for the purposes of s.21 of the AMLA. Many company secretaries therefore do not appear to be subject to statutory provisions which prevent criminals from utilising DNFBPs.

a6.59. It does not appear that beneficial owners or all holders of a significant controlling interest in an onshore trust company or holders of management functions have been subject to fit and proper checks by the CCM. The background of shareholders and directors of onshore trust companies is checked by the CCM by, for example, liaising with LEA including the MACC. The CCM obtains a report on the chief executive's financial standing and a police report on the chief executive. The CCM also checks whether persons applying for registration as company secretary have been convicted either inside or outside Malaysia; its checks include

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obtaining information from other authorities. The evaluation team is uncertain whether such checks have been applied to all company secretaries registered by the CCM.

a6.60. *Offshore Trust Companies:* Section 61(2)(d) of the LFSSA 2010 requires directors and officers responsible for a Labuan trust company to be fit and proper. The criteria for fitness and propriety contained in s.4 of this law include integrity, competence, soundness of judgement, financial standing, whether or not the person is a bankrupt, whether the person has been convicted of a criminal offence where the penalty imposed is imprisonment of one year or more and criteria specified in guidelines issued by the LFSA. However, there are no legal provisions for holders or beneficial owners of significant or controlling interests in a TCSP to be subject to fit and proper.

a6.61. *Dealers in Precious Metals and Stones:* There are no sector specific fit and proper requirements for this sector because a licensing authority has not been designated as yet.

a6.62. **Criterion 28.4 (c)** - AMLA provides for fines and/or imprisonment for failure by DNFBPs to comply with the various requirements of the Act and the guidelines. Also see R.35.

a6.63. **Criterion 28.5** - The BNM FIED and LFSA have implemented a risk-based approach to supervision of DNFBPs. BNM conducted a sectoral risk assessment of DNFBPs in 2011 which formed the basis for the allocation of supervisory resources and activities, primarily for the frequency of inspections. The high level risk-based approach is reflected in the establishment of priorities for particular sectors, such as the casino sector which is rated as high risk and which receives considerable supervisory focus. The 2013 NRA provides a further basis for strengthening the risk-based approach to supervision. The LFSA has formed views on the level of risks associated with each Labuan sector and priorities for supervision. The LFSA uses a risk-based approach to set priorities for supervision of individual licensees within the trust company sector.

Weighting and Conclusion

a6.64. There are certain gaps in market entry controls over some DNFBPs.

a6.65. **Malaysia is rated largely compliant with R.28.**

Recommendation 34 – Guidance and feedback

a6.66. Malaysia was rated largely compliant for previous R.25 in the 2007 MER. It found that the professional associations should be encouraged to update their AML/CFT guidance for members to reflect changes in the AMLA legislation, BNM and LFSA guidelines.

a6.67. **Criterion 34.1** - Regulators' updated AML/CFT guidelines include both enforceable regulatory obligations and clearly marked unenforceable guidance points. BNM revised their previous guidelines in 2009 and again in 2013 for the different types of FIs and DNFBPs under their supervision, i.e. banking and deposit-taking institutions (Sector 1), insurance and takaful (Sector 2), money services businesses (Sector 3), electronic money and non-affiliated charge and credit card providers (Sector 4), and DNFBPs and other non-financial sectors (Sector 5). Similarly, LFSA revised its guidelines in 30 December 2013 for banking, insurance, capital market and other business and trust companies, and conducted six outreach sessions in 2014. The SC issued guidelines in January 2014. The latest set of supervisors' guidelines incorporate the revised FATF Recommendations.

a6.68. Regulators supplement their guidelines with conferences, bilateral engagements, and circulation of questionnaires, web page information and ongoing dialogue. For example, SC has launched a web page for updates, examples of suspicious transactions, frequently asked questions and other sources of information to assist RIs in detecting and reporting suspicious transactions. Additional specific guidance material would benefit RIs' understanding of their obligations and the specific risks they face. Specific topics where additional guidance would be beneficial include terrorism financing, sectorial red flags for suspicious transactions and dealing with complex company structures with opaque controlling interests.

a6.69. **Malaysia is largely compliant with R.34.**

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Recommendation 35 – Sanctions

a6.70. Malaysia was rated LC with R.17 in its 2007 MER, with implementation rather than technical issues affecting the rating.

a6.71. **Criterion 35.1** - While the AMLA, guidelines and other relevant legislation contains sanctions for failure, there are some elements that are not proportionate or dissuasive. The general sanction available is a fine of up to RM1 million plus compounding up to 50% the value of the sanction, which may not be dissuasive. This covers CDD, compliance programs, STR reporting and the like. Some key AMLA obligations have stronger penalties as set out below.

a6.72. For R.6, s.66D(4) of AMLA provides for the RM 3 million plus five years imprisonment for persons who contravene obligations to implement the targeted financial sanctions.

a6.73. In connection with the prohibitions against disclosure of STRs and related information, under ss.14A(1) and (2) of AMLA, breaches are an offence and on conviction is a fine of up to RM3 million or imprisonment for up to five years or both are available. The same penalties apply under s.17(4) of AMLA for breaches of s.17 (retention of records) and s.18(6) for breaches of s.18 (opening of account or conducting business relationship, transaction or activity in fictitious, false or incorrect name).

a6.74. Sanctions under the AMLA apply to the institutions and staff. Section 22 allows BNM to obtain an order against any or all of the officers or employees of an RI to be sanctioned on such terms as the Court deems necessary to enforce compliance. Under s.22(4) an officer of a RI who fails to take all reasonable steps to ensure the RI's compliance with obligations under Part IV commits an offence and on conviction is liable to a fine of up to RM1 million or imprisonment for up to 3 years or both. An additional fine is available to RM 3 000 (USD 896) each day during which the offence continues to be committed.

a6.75. Section 92 of AMLA empowers BNM, with consent of the Public Prosecutor, to compound any offence under the AMLA or under regulations made under AMLA, by accepting from the person reasonably suspected of having committed the offence such amount not exceeding 50% of the amount of the maximum fine for that offence. Compounding allows for an administrative penalty to be payable by the offender as an alternative to prosecution.

a6.76. The analysis and findings at 28.4(c) also apply here.

a6.77. BNM, SC and LFSa are able to apply the administrative enforcement powers available to them under their regulatory acts to enforce non-compliance with AML/CFT obligations. In the case of BNM significantly higher penalties for failure to implement those obligations are available (fines up to RM 5 million). In the case of both LFSa and SC the regulatory fines do not add further persuasiveness as the fines are not up to the level available under the AMLA.

a6.78. Section 21(2) of the AMLA empowers the licensing authority of a RI, upon the recommendation of BNM, to revoke or suspend the RI's licence if it has been convicted of an offence under the AMLA. The various statutory schemes available to BNM, SC, LFSa, CCM, RoS and other authorities provide a range of sanctions to revoke or curtail licenses and impose conditions for failures to apply AML/CFT controls.

a6.79. While there is a range of administrative penalties for revoking registration or curtailing certain activities, the range of financial penalties available to NPO regulators is not proportionate or dissuasive (see R. 8).

a6.80. **Criterion 35.2** - AMLA contains appropriate sanctions where relevant to the individual (for example, tipping-off) and where relevant to the institution s.66E(5) sets out that an institution which fails to comply with guidelines issued to it commits an offence and shall on conviction be liable for a fine of up to RM1 million. Section 87(1) sets out that when an offence is committed by a body corporate or an association of persons, a person who is the director, controller, officer, or partner, or person who is concerned with the management of its affairs is deemed to have committed the offence, unless it was committed without consent. Furthermore,

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under s.87(2) an individual may be prosecuted for an offence when the body corporate or association has not been convicted.

a6.81. **Malaysia is rated largely compliant with R.35.**



Table of Acronyms

| | |
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| AGC | Attorney General's Chambers |
| ALB | Association of Labuan Banks |
| ALTC | Association of Labuan Trust Companies |
| AML/CFT | Anti-Money Laundering and Counter Financing of Terrorism |
| AMLA | Anti-Money Laundering and Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 |
| AMLA | Regulations -Anti-Money Laundering and Anti-Terrorism Financing (Reporting Obligations) Regulations 2006 |
| AMLDD | Anti-Money Laundering Division (IRB) |
| APG | Asia/Pacific Group on Money Laundering |
| ARIN-AP | Asset Recovery Interagency Network – Asia Pacific |
| ASC | Association of Stockbroking Companies Malaysia |
| ASEAN | Association of Southeast Asian Nations |
| BHEUU | Legal Affairs Division, Prime Minister's Department |
| BNI | bearer negotiable instrument |
| BNM | Bank Negara Malaysia |
| BO | beneficial owner |
| BVAEA | Board of Valuers, Appraisers and Estate Agents Malaysia |
| CA | Companies Act 1965 |
| CADS | cash declaration system (BNM FIED database) |
| CBA | Central Bank of Malaysia Act 2009 |
| CCID | Commercial Crime Investigation Department, Royal Malaysian Police |
| CCM | Companies Commission of Malaysia (also known as SSM) |
| CID | Crime Investigation Division, Royal Malaysian Police |
| CLBG | Companies Limited by Guarantee |
| CONG | Compliance Officers Networking Group |
| CMSA | Capital Market and Services Act 2012 |
| CMSL | Capital Market Services Licence |
| CPC | Criminal Procedure Code |
| CT | counter terrorism |
| CTR | cash threshold report |
| DDFOPA | Dangerous Drugs (Forfeiture of Property) Act 1988 |
| DFI | development financial institution |
| DNFBPs | designated non-financial businesses and professions |
| DPP | Deputy Public Prosecutor |
| DTA | double taxation agreement |
| EA | Extradition Act 1992 |

TABLE OF ACRONYMS

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| Egmont | The Egmont Group of Financial Intelligence Units |
| ETP | Economic Transformation Programme |
| FGJAM | Federation of Goldsmiths and Jewellers Associations of Malaysia |
| FI | financial institution |
| FIED | Financial Intelligence and Enforcement Division (The FIU) |
| FINS | FIED's online reporting system allowing two way secure communication with RIs |
| FSA | Financial Services Act 2013 |
| GIFCS | The Group of International Finance Centre Supervisors |
| GTP | Government Transformation Programme |
| IBC | International Business Company |
| IBFC | International Business and Finance Centre |
| IC | Identity Card |
| IFC | International Financial Centre |
| IFSA | Islamic Financial Services Act 2013 |
| INTERPOL | International Criminal Police Organisation |
| IOSCO | International Organisation of Securities Commissions |
| IRB | Inland Revenue Board |
| ISA | Internal Security Act 1960 |
| ISIL | Islamic State of Iraq and the Levant |
| ISP | Interim Strategic Plan |
| ITA | Income Tax Act 1967 |
| JAT | Jemaah Anshorut Tauhid |
| Jl | Jemaah Islamiyah |
| LCA | Labuan Companies Act 1990 |
| LEA | Law Enforcement Agency |
| LFSA | Labuan Financial Services Authority |
| LFSAA | Labuan Financial Services Authority Act 2010 |
| LFSSA | Labuan Financial Services and Securities Act 2010 |
| LIBG | Labuan Investment Banks Group |
| LIIA | Labuan International Insurance Associations |
| LIFSA | Labuan Islamic Financial Services Act 2010LLP – Limited Liability Partnership |
| LLPA | Limited Liability Partnership Act 2012 |
| LLPLLPA | Labuan Limited Partnerships and Limited Liability Partnerships Act 2010 LTA - Labuan Trust Act 1996 |
| LTCA | Labuan Trust Companies Act 1990 |
| LTTE | Liberation Tigers of Tamil Ealam |
| MACC | Malaysian Anti-Corruption Commission |
| MACCA | Malaysian Anti-Corruption Commission Act 2009 |
| MACMA | Mutual Assistance in Criminal Matters Act 2003 |

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| MACS | Malaysian Association of Company Secretaries |
| MAICSA | Malaysian Institute of Chartered Secretaries and Administrators |
| MBC | Malaysian Bar Council |
| MDIC | Malaysia Deposit Insurance Corporation Act 2011 |
| MDTCC | Ministry of Domestic Trade, Cooperatives and Consumerism |
| MER | Mutual Evaluation Report |
| MIA | Malaysian Institute of Accountants |
| MIBA | Malaysian Investment Banking Association |
| MICPA | Malaysia Institute of Public Accountants |
| MITI | Ministry of International Trade and Industry |
| ML/TF | Money Laundering and Terrorism Financing |
| MoF | Ministry of Finance |
| MOFA | Ministry of Foreign Affairs |
| MMoU | Multilateral Memorandum of Understanding |
| MSB | money services business (comprising MVTs and money changers) |
| MVTs | money or value transfer service |
| NCC | National Co-ordination Committee to Counter Money Laundering |
| NCID | Narcotics Crime Investigation Department, Royal Malaysian Police |
| NPO | non-profit organisation |
| NRA | national risk assessment |
| NTP | National Transformation Policy |
| OGBS | Offshore Group of Banking Supervisors (now GIFCS) |
| PEP | politically exposed person |
| PF | proliferation financing |
| RBA | risk-based approach |
| RSF | Risk-Based Supervisory Framework |
| RI | reporting institutions |
| RM | Malaysian Ringgit |
| RMC | Royal Malaysian Customs Department |
| RMP | Royal Malaysia Police |
| RMP AMLA Unit | Anti-Money Laundering Unit, Royal Malaysian Police |
| RoS | Registrar of Societies |
| SA | Societies Act 1966 |
| SB | Special Branch, Royal Malaysian Police |
| SC | Securities Commission of Malaysia |
| SCA | Securities Commission Act 1993 |
| SCONPO | Sub-Committee on Non-Profit Organisations |
| SOP | standard operating procedure |

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| SOSMA | Security Offences (Special Measures) Act 2012 |
| SRB | self-regulatory body |
| SRO | self-regulatory organisation |
| STA | Strategic Trace Act 2010 |
| STS | Strategic Trade Secretariat |
| SuRF | Supervisory Risk-Based Framework |
| TA | Trustee Act 1949 |
| TC | technical compliance |
| TCA | Trust Companies Act 1949 |
| TCSP | trust and company service provider |
| TF | terrorist financing |
| TFS | targeted financial sanctions |
| TIA | Trustee (Incorporation) Act 1952 |
| TIEA | Tax Information Exchange Agreement |
| UBO | ultimate beneficial owner |
| UNSCR | United Nations Security Council Resolution |
| VAEAA | Valuers Appraisers and Estate Agents Act 1981 |
| WCO | World Customs Organisation |
| WMD | weapons of mass destruction |