



Australian Government

**Australian Transaction Reports
and Analysis Centre**

**Scenario Series
for
Mutual Societies Industry
(Credit Unions, Building Societies, Etc.)**

**“Crescendo Credit Union”
Retail Services**

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Scenario Title: “Crescendo Credit Union” - Retail Services

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Introduction

1. Purpose

The Australian Transaction Reports and Analysis Centre (AUSTRAC) has developed this series of Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) scenarios for use by a reporting entity in the education and training of the reporting entity's staff members.

The scenarios provide a resource for individual and group education and training within the entity. AUSTRAC's Education Policy is to support the development of an informed and knowledgeable community supporting a voluntary compliance culture.

A reporting entity is encouraged to contact AUSTRAC to explore additional educational support as per the AUSTRAC Education Policy.

A reporting entity must determine its staff training needs as part of its obligation to establish and manage an AML/CTF program. The scenarios are intended as a discretionary educational resource that reporting entities can use; the scenarios alone do not constitute a complete training program.

Disclaimer:

The information contained in this document is intended only to provide a summary and general overview on these matters. The scenario is not intended to comprehensively present an AML/CTF situation nor does it constitute legal advice. AUSTRAC may from time to time amend the AML/CTF Rules and this may impact on the form and content of the scenario, and the way in which the lessons of the scenario can be applied. The Commonwealth accepts no liability for any loss suffered as a result of reliance on this publication. AUSTRAC recommends that reporting entities should obtain their own legal and/or technical advice on matters arising from AML/CTF Act or the published Rules tailored to the reporting entity's specific circumstances prior to making any decisions. The information contained in this scenario is current as at the version date of this document (which appears below).

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2. Scope and structure of the scenario

The scenario is an educational resource that a reporting entity (RE) or a designated business group (DBG) can use to examine key AML/CTF issues within the context of its particular business and money laundering and terrorism financing (ML/TF) risk environments.

The scenario is designed to be used and customised within the RE for the purposes of its own education and training initiatives.

The scenario uses hypothetical stories for the purpose of developing awareness, knowledge and capabilities in AML/CTF practice. The background stories do not reflect references to actual organisations or individuals.

As an educational tool the scenario is divided into five sections:

- a list of key AML/CTF issues that the scenario addresses in the background story
- the background story that provides the core of the training activity
- a suggested educational methodology by which the scenario can be used
- training tips for conducting the scenario, and
- references

3. Explanatory Notes

The scenario is intended for use by a wide range of REs, and therefore not all of the scenario's key AML/CTF issues need to be addressed in conducting the scenario. Similarly not all aspects of the learning methodology or the training tips need to be applied. A RE should determine the learning outcomes and the means of achieving these based on what they consider relevant to their operations.

The AML/CTF issues are listed at the start of the scenario to assist educators and trainers to select a scenario that meets their needs.

The layout of the scenario is designed to allow educators and trainers to separate the sections as an aid to distributing the sections in a class as part of a structured learning activity.

A scenario is not a typology. A scenario is not factual, although it is inspired by experience of actual events. Its purpose as an educational tool is to develop both individual and group awareness and knowledge of AML/CTF practices, and as an exercise for staff in different functions to practice working together on the overall AML/CTF effort.

Scenario Title: “Crescendo Credit Union” - Retail Services

1. *Key AML/CTF Issues*

- Creating staff awareness of the timetable by which obligations under the AML/CTF Act start to apply during the staggered implementation
- Defining critical points in the relationship between the credit union and the customer after the specific AML/CTF obligations come into effect
- Developing the decision criteria for staff to take specific actions at the points in the relationship when changes in the relationship occur

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2. *Background Story*

Steve Beethoven is a customer who has operated a savings account with *Crescendo Credit Union* since 1985.

In early 2008, Steve made an application for a housing loan of \$250,000.00 repayable over 25 years to purchase a property that is suitable for a growing family. The information provided by Steve reveals that he has the capacity to repay more than the required minimum monthly repayment and he indicates that he would like to pay as much as he can afford to enable him to redraw funds as and when improvements are made to the home.

The loan is approved and the home purchase occurs.

During the first six months, single monthly repayments of the same value are received. In the next three months multiple deposits of varying amounts and from several different sources are made to the loan account. Steve Beethoven subsequently redraws all the available funds in cash. During the next four months the volume, value and originating sources of the deposits increase and a further redraw request is made but this time Steve also asks about how he can remit funds from his account at Crescendo directly to a foreign country, wanting to pay to a third party, a Julio Wagner in Portugal.

3. *Educational Methodology*

This scenario is explored as a case study. The case study can use a single study team to develop answers to the case questions, or can be set up as a number of teams so that answers can be compared and discussed amongst the teams.

It is also recommended that the case study is progressively revealed to the teams to consider and discuss whether the application for a loan is consistent with normal business practice or whether the application for the loan was 'unusual' or suspect.

Teams should note that until the variations in the repayment and redraw practices start to appear it can be considered to represent normal business practice, and that there is nothing that would tend to identify it as unusual. The case analysis then follows to explore what will alert a staff member to a change in the AML/CTF risk.

Question 1

What are the ML/TF indicators (red flags) that Crescendo's staff should have identified in Steve Beethoven's case?

Answer 1

A set of conditions that should signal to the staff member that they need to take some action on the matter, should be considered as an **indicator** or **set of indicators**. In some parts of the financial services industries such indicators are referred to as "red flags".

Indicators in customer identification: the indicators could be the set of deficient or non-existent information to identify, verify and authenticate the customer's identity. It is important to note that whilst the indicators could trigger a need for some corrective action, it does not necessarily follow that indicators signal money laundering or terrorism financing. An indicator of missing information could simply mean that an identification of a legitimate customer was not properly completed.

Indicators in transaction patterns: an indicator could be the initiation of third party payments to a loan account where such activity was not anticipated by the information provided in the loan application. This type of indicator is being aware of when the actual transaction activity is different from the expected activity.

Indicators in non-typical product use: an indicator could be a request to remit funds to a foreign third party when redraws from housing loans are generally for domestically related purposes. When the customer had indicated a plan to fund home improvements using the redraw facility, does the inquiry about remittance of funds overseas match with the expectation that tradesmen and materials are being sourced domestically? This type of indicator is being aware of when an action deviates from the typical practices of the customer base. It doesn't mean that any one customer cannot do something differently, but it should alert the credit union's staff to ask the question.

It should be emphasised that "indicators" do not necessarily signify money laundering or financing of terrorism. What "indicators" do is alert the reporting entity to undertake appropriate enquiries.

Question 2

The AML/CTF Act is being implemented in a staggered implementation. What obligations under the AML/CTF Act and AML/CTF Rules will start to apply during the course of Steve Beethoven's case?

Answer 2

- Risk assessment as a result of a change in the relationship
- Retention of documents
- Additional Know Your Customer (KYC)
- Suspicious matter reporting
- Proscribed persons and entities name matching (DFAT list) in relation to third party beneficiary.

Question 3

At what points in the Crescendo Credit Union/Steve Beethoven relationship do AML/CTF obligations apply?

Answer 3

Before approving the loan the credit union should have implemented systems to assess the ML/TF risk, and if there was a change in the ML/TF risk to have undertaken additional KYC.

If these actions had occurred before 12 December 2008 the credit union had an obligation under the FTR Act to consider if a Suspect Transaction Report (SUSTR) should be submitted when the deposit pattern changed without obvious explanation. From 12 December 2008 *ongoing due diligence* and *suspicious matter reporting* obligations under the AML/CTF Act comes into effect.

Associated with the obligations to assess ML/TF risks and to provide transaction reporting are also obligations for retaining records:

- If applicable customer identification occurs
- If a customer completes a loan application and hands it to the credit union, and
- Account/signatory information for at least 7 years from the end of the customer relationship, i.e. 7 years after an account is closed or the signatory stops being a signatory.

Additional Information: *In relation to the obligation to check the beneficiary name against the DFAT list, this obligation came into force on 6 July 2002 under the Suppression of the Financing of Terrorism Act 2002.*

Additional Information: *In this scenario, an investigation may have also revealed that in 1991 when the FTR Act account signatory identification*

obligations came into force, the customer was “grandfathered” under the FTR Regulations 1990 - Regulation 4.1. (i) which means the 36 month existing customer provision was applied. It may also be the case that the customer was not satisfactorily identified when the relationship commenced in 1985. The issue here is whether the credit union should have undertaken customer identification and verification processes at the time the loan account was established. Obviously the answer will depend on the current risk assessment.

Case Activity

A new team member has joined your team. What are the most important things that a new team member needs to know about changing customer behaviour and relationships and how this affects ML/TF risks?

Take 5 minutes to develop a training session for a new team member joining your team in your organisation. Your training session should only take 2-minutes to give.

Use this short activity to allow a study team to put its learning into its own words, and to imagine applying it in the situation of its own workplace.

The trainer can use this activity to check understanding of the underlying AML/CTF obligations as they apply to the study teams.

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Case Worksheet –

For distribution to the case study group or groups

Question 1

What are the ML/TF indicators that Crescendo's staff should have identified in Steve Beethoven's case?

Question 2

The AML/CTF Act is being implemented in a staggered implementation. What obligations under the AML/CTF Act will start to apply during the course of Steve Beethoven's case?

Question 3

At what points in the Crescendo Credit Union/Steve Beethoven relationship do AML/CTF obligations apply?

Case Activity

A new team member is joining your team. What are the most important things your new team member needs to know about changing customer behaviour and relationships and how this affects ML/TF risks?

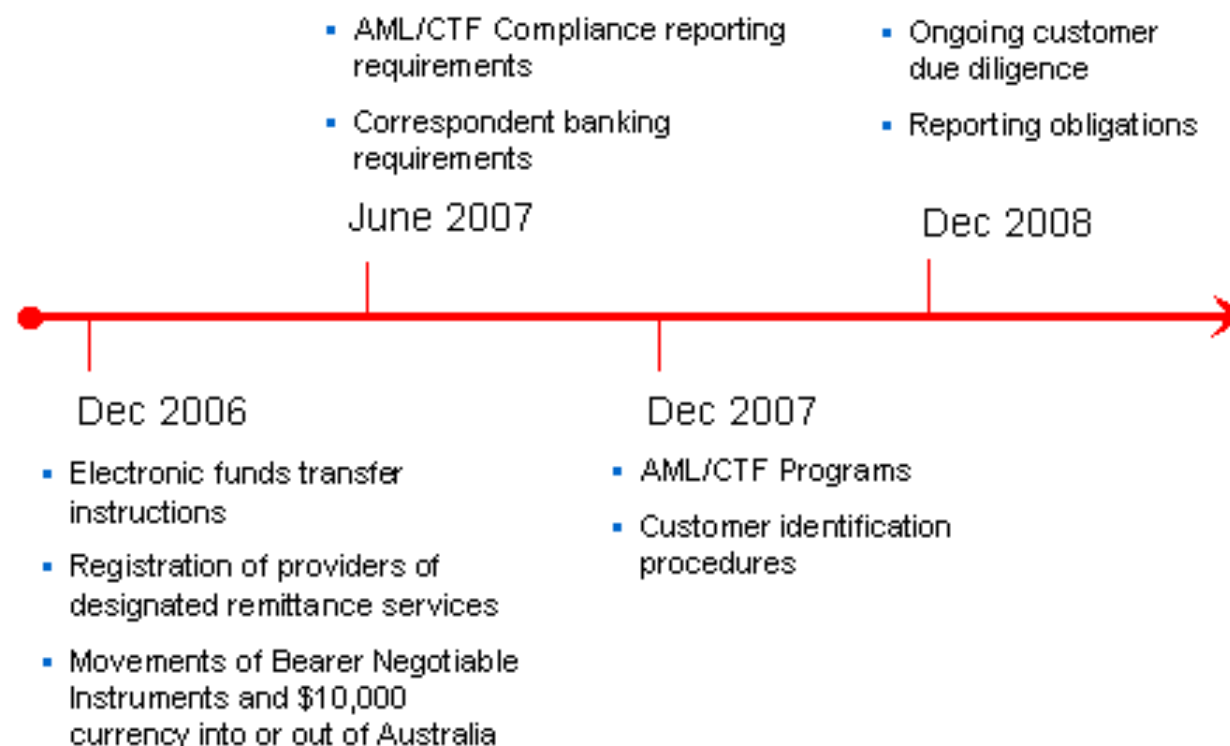
Take 5 minutes to develop a training session for a new team member joining your team in your organisation. Your training session should only take 2-minutes to give.

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Case Handout –

For distribution to the case study group or groups

AML/CTF Implementation of Key Deliverables



4. Training Tips

Learning Audience

This case study can be customised to address different levels of learning audiences.

- For example staff at an operational level can provide answers demonstrating their understanding of the AML/CTF Act and how they meet their obligations in their work involving direct customer contact.
- Managers of work systems can provide answers that show how the AML/CTF systems that have been put in place would have responded to the issues in the case.
- Executive and board managers can provide answers that show how the AML/CTF governance systems that have been put into place would have responded to the issues in the case.

Practical suggestions

Answering a series of specific questions about the case

The questions that are asked at the end of the case study are designed to guide the analysis of the case. To complete this kind of analysis, work through the following steps.

Read the case study and the set questions

- Read the case, highlight or underline the main points and think about the main issues.
- Read the questions, note key words and phrases, and understand what each question is asking you to do.
- Read the case again and make notes about the information that is relevant to the key words and phrases in each question.

Identify the issues

- Identify the main problems and issues in relation to the set questions. In this case it is relating new obligations under the AML/CTF Act as these take effect in a staggered implementation, and understanding the practical effects on managing the relationship between the customer and the credit union.
- Think about what information is missing from the case. Participants will need to have information about the AML/CTF staggered implementation and the main KYC provisions of the legislation.

Group Discussion

Participants use their notes on the key words or phrases in the question to brainstorm answers to the case. In discussion participants can use both their experience and references to AML/CTF resources to support their answers to the questions.

Identify solutions to work-related problems

After the discussion, plan to apply new concepts or practices in the workplace, specifically to meet the RE's AML/CTF obligations.

Timeframes

Allow 40-60 minutes for a group analysis of the questions and a group discussion of the answers, leading to a planning discussion on applying the answers to the case into the workplace.

5. References

The AML/CTF Act and AML/CTF Rules relate to the issues covered by the scenario. The Act is accessible from the AUSTRAC Website at:

http://www.austrac.gov.au/aml_ctf.html

The Rules are accessible from the AUSTRAC Website at:

http://www.austrac.gov.au/aml_ctf_rules.html

The use of case studies in education and training is associated with the educational methodology of 'problem based learning' or PBL. The Department of Education, Science and Technology provides a well-laid out 'case study' that shows and explains the steps in conducting and assessing the outcomes of a case study at:

http://www.nrs.dest.gov.au/cases/b_goulborn/develop.htm