

# Maintaining Financial Integrity

Malaysia is committed to preventing the abuse of financial services to facilitate crimes and terrorism. For this purpose, a robust anti-money laundering and countering financing of terrorism (AML/CFT) regime is in place to respond to the constantly evolving risks and vulnerabilities.

The Bank, as the competent authority under the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLA 2001), serves as the country's Financial Intelligence Unit (FIU), that is responsible for analysing reports submitted by reporting institutions consisting of financial institutions, designated non-financial businesses and professions (DNFBPs)<sup>1</sup> and non-bank financial institutions (NBFIs)<sup>2</sup>. The financial intelligence collected is then disseminated to relevant law enforcement agencies (LEAs) to support investigations and enforcement action. We also conduct AML/CFT supervisory and enforcement activities on reporting institutions that we supervise.

The Bank also acts as secretariat to the National Coordination Committee to Counter Money Laundering (NCC), the body responsible for coordinating, implementing and monitoring the development of the national AML/CFT initiatives. The NCC comprises representatives from 16 ministries and government agencies.

<sup>1</sup> Includes casino, lawyers, accountants, dealers in precious metals or precious stones, gaming business, pawnbrokers, trust companies and registered estate agents, company secretaries and moneylenders.

<sup>2</sup> Includes credit corporations, leasing and factoring businesses and postal financial services.

## Strengthening the AML/CFT framework

In 2019, the Bank undertook several steps to further enhance Malaysia's AML/CFT framework.

In January 2019, the threshold for cash transaction reporting for certain reporting institutions<sup>3</sup> was revised from RM50,000 to RM25,000. The lowering of this cash threshold reporting (CTR) obligation improves the collection of data to support better identification of money laundering and terrorism financing (ML/TF) risks associated with the use of cash. This in turn allows for the generation of more insightful and actionable financial intelligence to support relevant LEAs in their investigations of crimes such as fraud, tax evasion and corruption.

Reporting institutions play an important role as the first line of defence to prevent the financial system from being used to facilitate crimes and terrorist activities. For this purpose, a regulatory framework is in place to clarify the responsibilities of financial institutions, DNFBPs and NBFIs in managing ML/TF risks, including their obligations to comply with targeted financial sanctions<sup>4</sup> requirements. During the year, we conducted a comprehensive review of the AML/CFT regulatory framework. This review was intended to bring Malaysia's regulatory framework for AML/CFT in line with new international standards and best practices, while also streamlining requirements across different sectors of reporting institutions. An exposure draft was published to seek industry and public feedback in September 2019, which culminated in the finalisation of the policy in December 2019<sup>5</sup> and the requirements taking

<sup>3</sup> Banks, investment banks, Islamic banks, Bank Kerjasama Rakyat Malaysia Berhad, Bank Simpanan Nasional, Lembaga Tabung Haji and companies licensed to carry on gaming businesses under the Common Gaming Houses Act 1953.

<sup>4</sup> Targeted financial sanctions are obligations imposed on reporting institutions to comply with terrorism financing, proliferation financing and other United Nations Security Council sanctions regimes.

<sup>5</sup> Anti-Money Laundering, Countering Financing of Terrorism and Targeted Financial Sanctions (AML/CFT and TFS) for the financial institutions, DNFBPs and NBFIs.

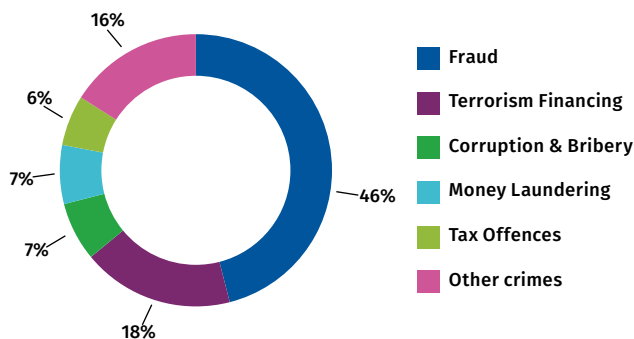
effect in January 2020. In addition to strengthening requirements in relation to targeted financial sanctions on terrorism financing and proliferation financing and other sanctions regimes by the United Nations, the revised policy framework provides for a more risk and principles-based approach to managing ML/TF risks. For example, reporting institutions may adopt a more risk-sensitive approach in conducting customer due diligence (CDD), including to adopt new technologies to verify the identity of customers.

## Sharing of financial intelligence and supporting law enforcement

A key responsibility of the Bank as Malaysia’s FIU is to collect, analyse and disseminate information on suspected ML/TF offences and other serious crimes.

Reporting institutions are obliged to file a suspicious transaction report (STR) to the Bank when they have reasonable grounds to suspect a transaction to be unusual or related to criminal activities. In 2019, we received 113,353 STRs, a 30 percent increase from 87,034 received in 2018. This points towards greater awareness among reporting institutions of their roles as the first line of defence in helping to combat financial crimes. This information, along with other reports submitted by reporting institutions (e.g. CTR) were assessed, with the resulting intelligence disclosed to domestic LEAs and foreign FIUs to support their investigations and prosecutions. In 2019, 75 percent of disclosures were made on high risk crimes<sup>6</sup> and the breakdown is as follows;

**Chart 1: Percentage of disclosures by high risk crimes**



<sup>6</sup> As identified in the 2017 National Risk Assessment. The National Risk Assessment (NRA) is an assessment conducted every three years on Malaysia’s exposure to prevailing crimes (domestic and foreign) and vulnerabilities of various sectors to money laundering and terrorism financing risks.

Of these disclosures, 46 percent were on fraud, 18 percent on terrorism financing, 7 percent on corruption and bribery, 7 percent on money laundering, 6 percent on tax offences and the remaining 16 percent were related to other crimes. We also used the intelligence obtained to develop case studies ‘typologies’ illustrating common methods and current trends used in criminal activities, money laundering and terrorism financing. These studies are shared with reporting institutions to help them improve their risk detection capabilities.

Beyond the submission of STRs and CTRs, other arrangements have emerged in recent years to deepen collaboration and the sharing of information between the financial sectors and the LEA community in the fight against financial crimes and terrorism financing. Since 2017, close collaboration between the public and private sectors has led to the arrest, prosecution and deportation of 22 individuals involved in terrorism financing and proliferation financing activities in the country. The Malaysia Financial Intelligence Network (MyFINet) was officially launched in November 2019 to take information sharing arrangement to the next level. MyFINet comprises members from the Royal Malaysia Police, Malaysian Anti-Corruption Commission, Royal Malaysian Customs Department and the Securities Commission Malaysia, as well as several participating financial institutions. The main purpose of MyFINet is to facilitate a more systematic intelligence sharing on specific crimes and current topical issues between LEAs and financial institutions in managing significant threats to the nation.

Criminals, terrorists and those who abet them are quick to exploit weak links in the international financial system. For this reason, we also work closely with counterparts in other countries. We share intelligence with our counterparts in 41 nations including Australia, Hong Kong SAR, Indonesia, Singapore, United Kingdom and the United States. In addition, we also accepted requests from the Attorney General’s Chambers (AGC) on requests for mutual legal assistance made by 21 foreign jurisdictions to assist and support ongoing investigations or criminal proceedings at foreign courts.

The Bank continues to strengthen and deepen relationships with our international counterparts and other stakeholders in the global fight against financial crimes. We actively participated in international organisations such as the Financial Action Task Force



*Governor Nor Shamsiah Yunus mentions the significant increase in CTR received, due to the threshold revision, has served as an additional insight for better quality disclosures to relevant LEAs. Her remarks were made during the launch of MyFINet at the 11th International Conference on Financial Crime and Terrorism Financing (IFCTF) 2019 on 5 November 2019.*

(FATF), the Asia/Pacific Group on Money Laundering (APG) and the Egmont Group of FIUs. Malaysia will also serve as the next APG Co-Chair 2020-2022 together with Australia. Malaysia is a member of the Financial Intelligence Consultative Group (FICG), a forum intended to improve the understanding of key regional terrorism financing risks and strengthen collaboration on mutually agreed transnational crime priorities. In 2019, we actively participated in several FICG projects, such as the Terrorism Financing Disruption Toolkit Project which provides a menu of policy options for FIUs to consider implementing in relation to terrorism financing disrupting strategies. We also co-led the Regional Threat Assessment on Transnational Laundering of Corruption Proceeds with Indonesia's FIU, Pusat Pelaporan dan Analisis Transaksi Keuangan to facilitate better understanding of cross-border laundering of corruption proceeds involving FICG countries, together with strategies to jointly combat them.

### Going forward

The Bank will continue with initiatives and measures to strengthen the integrity of the financial system. To prevent abuse of cash to support illicit activities, the NCC will be consulting the public on imposing a limit of RM50,000 on the usage of physical cash for transactions. Any amount in excess of the prescribed limit will have to be settled through traceable methods (e.g. cheques or electronic payments). As combating financial crime is a shared responsibility amongst many stakeholders, it is crucial that together we play our part in ensuring the integrity of the financial sector remains intact. We will also continue to keep abreast of international developments and trends to safeguard Malaysia's AML/CFT regime. This includes formulating strategies in response to emerging trends and threats while keeping pace with advancement in technologies.