

Financial Intelligence Unit Quarterly Report

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March 2017

The Transaction Reporting Authority is Tonga's Financial Intelligence Unit (FIU) responsible for administering the requirements of the Money Laundering and Proceeds of Crime Act. Amongst other anti-money laundering related functions, the FIU is responsible for receiving, analyzing and dissemination of suspicious reports. The unit is also responsible for the supervision of financial institutions and cash dealers in accordance with their obligations under the law.

Financial institutions and cash dealers (reporting entities) are required by law to;

- 1- Know their customers through employing of due diligence process that would identify and verify the identity of their customers,
- 2- Report suspicious transactions to the FIU,
- 3- Implement an internal compliance regime to comply with their obligations,
- 4- Establish and maintain customer records.

During the March 2017 quarter, the FIU received the following reports and carried out the following functions:

1. Number of reports received

Type of reports filed	January 2017	February 2017	March 2017	Total
Suspicious Transaction Reports (STRs)	2	1	1	4
Currency Transaction Reports (CTRs) ¹	663	550	649	1,862
Border Currency Reports (BCRs) ²	5	6	8	19

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

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

The FIU received 4 STRs this quarter from its reporting entities. Reporting of STR is a statutory requirement for all financial institutions and cash dealers. The number of CTRs reported varied over the months totaling to 1,862 reports in this quarter. The BCRs reported by Customs increased over the months totaling to 19 reports. The FIU retain information obtained in these reports to assist in its analyses function.

2. STR analysis

STR by type	Jan-17	Feb-17	Mar-17	Total
Unusual significant transactions	0	1	1	2
Using personal accounts for business purpose	2	0	0	2
Possible avoidance of Exchange Control requirements	0	0	0	0
Scams	0	0	0	0
Other	0	0	0	0

Analysis of the 4 STRs received, 2 reports were unusual significant transactions that were inconsistent with the customers' known background or the purpose of the transactions was unclear. The other

2 reports were related to the usage of personal account for conducting of business transactions.

3. Number of STRs disseminated

Following analysis of the 4 STRs received, 3 of the reports were referred back to the

Law Enforcement Agencies	Jan-17	Feb-17	Mar-17	Total
Police	0	1	0	1
Customs & Revenue	0	1	0	1
Other (reporting entity)	2	0	1	3

reporting entity to complete due diligence on these persons of interest and to require opening of a business account for business transactions. One report was disseminated to Customs & Revenue for further investigations due to tax related suspicious indicators noted on the report. A copy of the same report was also disseminated to Police.

4. CTRs data analysis

	Jan-17 (TOP\$M)	Feb-17 (TOP\$M)	Mar-17 (TOP\$M)	TOTALs (TOP\$M)
Inwards	8.5	7.24	8.4	24.14
Outwards	6.14	5.58	5.6	17.32
Transaction purpose				
Business	5.07	5.49	4.54	15.1
Personal	9.57	7.33	9.46	26.36
Transaction type				
TT	1.66	1.83	1.83	5.32
Cash	9.11	7.34	8.48	24.93
Cheque	1.9	2.34	1.99	6.23
Cash/Cheque	0.08	0.09	0.05	0.22
Other	1.89	1.22	1.65	4.76

From the 1,826 reports received this quarter, majority of the report volume were for inwards transactions which are classified into cash, cheque and other deposits and also including inward TTs. Cash continues to be the dominant type of transactions reported over the months followed

by the use of cheques and TTs.

5. BCRs data analysis

The FIU received 19 BCRs this quarter from Customs & Revenue. Majority of the reports were for outbound funds across the

	Jan-17 (TOP\$M)	Feb-17 (TOP\$M)	Mar-17 (TOP\$M)	TOTALs (TOP\$M)
Inbound	0	0.02	0.13	0.15
Outbound	3.6	2.44	1.8	7.84
Purpose of funds				
Business	3.56	2.41	1.79	7.76
Personal	0.04	0.05	0.14	0.23

border. These outbound funds were mostly shipments of currencies for currency conversion companies and banks, and a very few for individual travellers. Majority of these outbound funds received prior approval of the Reserve Bank before transporting across the border. Funds were seized from travellers with no proper approval in place. Inbound funds carried across the border were mostly for individual travellers returning or visiting Tonga.

6. Other AML Efforts

The FIU conducted its first biannual training for the year on AML/CFT requirements to all its reporting entities in February 2017. The training focused on enhancing the understanding of all reporting institutions on the obligation to identify and report suspicious activities. This was also an opportunity to provide feedback to its reporting entities on the reports submitted by them.

To complete the annual compliance check, the FIU together with the Financial Institutions, Non-Banks Division conducted compliance visits to 13 authorized foreign exchange dealers commencing in October 2016. The visits were to verify compliance of these entities with their licensing conditions which also includes AML/CFT related requirements. These compliance visits were completed by the end of the year and reports were compiled in the beginning of 2017. The findings of these visits were generally compliant with spot checks being conducted to riskier entities in March 2017 to follow up on issues of concerns identified in the annual compliance check.

These compliance checks were also aimed at keeping authorized foreign exchange dealers in compliant with their licensing conditions including anti-money laundering requirements due to the rising concerns of de-risking. In particular, the FIU shared compliance reports of its reporting entities with one of the banks, with the endorsement of relevant foreign exchange dealers, to assist in its review of its banking relationship with its foreign exchange dealer customers. This was part of the efforts to assure the banks that foreign exchange dealers are also being actively supervised and are in compliance with AML/CFT requirements and thereby to support the banks' decision to retain their bank accounts.

The FIU contributed to the review of the Reserve Bank's Corporate Plan for 2017-19. The unit contributes to the first strategic priority of the bank in setting a platform for Tonga becoming a high growth economy through the prevention of money laundering. For this calendar year, the FIU has a total of 17 targets to achieve. The unit's targets are aimed at effectively supervising its reporting entities, ensuring a well-informed regime and to comply with global AML/CFT related requirements.

7. Events

- February 8th 2017, AML/CFT Training to banks and foreign exchange dealers (Suspicious Transaction Reporting)
- 6th – 10th March 2017, Quarterly Spot checks to foreign exchange dealers
- 30th March – 5th April 2017, Review of Reserve Bank's Corporate Plan 2017/19
- 29th May – 2nd June 2017, Completion of Tonga's National Risk Assessment
- 5th -9th June 2017, World Bank Mission on De-risking
- June 2017, Quarterly Spot checks to foreign exchange dealers
- 17th – 21st July 2017, 20th Asia Pacific Group on Money Laundering Annual Meeting, Colombo Sri Lanka
- July 2017, AML/CFT Training to banks and foreign exchange dealers
- September 2017, Quarterly Spot checks to foreign exchange dealers
- October- December 2017, Annual Compliance checks of foreign exchange dealers