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## RED FLAG INDICATORS FOR ACCOUNTANTS

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The Accountants are subject to AML/CFT obligations when, on behalf of or for a client, they prepare for or engage in a financial transaction in relation to the following activities:

- buying and selling of real estate;
- managing of client money, securities or other assets;
- management of bank, savings or securities accounts;
- organization of contributions for the creation, operation or management of companies;
- creation, operation or management of legal persons or arrangements, and buying and selling of business entities.

Accountants are also subject to AML/CFT obligations when they are acting as a Trust and Company Service provider by preparing for or engaging in financial activities in relation to the following:

- acting as a formation agent of legal persons;
- acting as (or arranging for another person to act as) a director or secretary of a company, a partner of a partnership, or a similar position in relation to other legal persons;
- providing a registered office, business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement;
- acting as (or arranging for another person to act as) a trustee of a trust or performing the equivalent function for another form of legal arrangement;
- acting as (or arranging for another person to act as) a nominee shareholder for another person.

The Accountants providing the above mentioned services are required to promptly report Suspicious Transaction Report (STR) Under Section 7(1) of AML Act 2010 which states that for transaction conducted or attempted, at their counter or through such accountant if it knows, suspects or has reason to suspect that the transaction or a pattern of transactions of which the transaction:

(a) involves funds derived from illegal activities or is intended or conducted in order to hide or disguise proceeds of crime;

(b) is designed to evade any requirements of this section

(c) has no apparent lawful purpose after examining the available facts, including the background and possible purpose of the transaction; or

(d) involves financing of terrorism, including fund collected, provided, used or meant for, or otherwise linked or related to, terrorism, terrorist acts or organizations and individuals concerned with terrorism.

In order to identify a suspicion that could be indicative of Money Laundering (ML) or Terrorism Financing (TF), FMU has prepared the red flags indicators that are specially intended as an aid for Accountants. These red flags may appear suspicious on their own; however, it may be considered that a single red flag would not be a clear indicator of potential ML / TF activity. However, a combination of these red flags, in addition to analysis of overall financial activity and client profile may indicate a potential ML / TF activity.

**Red Flags for Client Behavior:**

- Complex corporate structure where complexity does not seem to be warranted or relevant to its business activities.
- Political exposed client who is linked to negative news / crime or any client who is family member or close associate of such political exposed person.
- Client has relations with companies with nominee shareholders or bearer shares or has links with shell companies which are based at foreign jurisdiction
- Client linked to negative news or crime (named in a news report on a crime committed or is under Law Enforcement investigation/inquiry).
- The client or any of its associated person / entity found positive match while screening against UN Security Council Resolutions (UNSCRs).
- Client who asks for short-cuts and unexplained speed in completing the transaction or unnecessary keen about AML/CFT reporting requirements.
- Client is overly secretive or evasive (e.g. of who the beneficial owner is, or the source of funds) or provides fabricated records.
- Unexplained delegation of authority by the client through the use of powers of attorney.
- Client is actively avoiding personal contact without any plausible reason.
- Client or transaction is from a country or jurisdiction in relation to which the FATF has called for countermeasures or enhanced client due diligence measures or jurisdiction known to have inadequate measures to prevent money laundering and the financing of terrorism.
- Client owns assets located abroad, not declared in the tax return.
- Client who obtains loan from unidentified parties.

- Company is invoiced by organizations located at any offshore jurisdiction that does not have adequate money laundering laws and is known for highly secretive banking and corporate tax haven.
- Company records consistently reflect sales at less than cost, thus putting the company into a loss position, but the company continues without reasonable explanation of the continued loss.
- Company has a long period of inactivity following incorporation, followed by a sudden and unexplained increase in financial activities.
- Company showing high turnovers in its account but do not have physical presence / apparent commercial activities.
- Company is registered at an address that is also listed against numerous other companies or legal arrangements, indicating the use of mailbox service.
- Company beneficial owners, shareholders or directors are also listed as beneficial owners, shareholders or directors in multiple other companies.
- Clients who offer to pay unusually high levels of fees for services that would not ordinarily warrant such a premium.
- Clients who change their means of payment frequently for transactions at the last minute and without justification (or with suspect justification).
- Situations where advice on the setting up of legal arrangements (trusts/waqf) may be misused to obscure ownership or real economic purpose or where the legal arrangement holds the shares of a company.
- Client or transaction is from country or jurisdiction in relation to which the FATF has called for countermeasures or enhanced client due diligence measures or jurisdiction known to have inadequate measures to prevent money laundering and the financing of terrorism.

**Red Flags for Transactional Pattern:**

- Complex or unusual transactions, possibly with unrelated parties.
- Unauthorized or improperly recorded transactions; inadequate audit trails.
- Instructions to an accountant from the client to conduct transactions without legitimate or economic reason or when such transactions are conducted by the client itself.
- Client makes large payments to subsidiaries or other entities within the group that do not appear within normal course of business.

- Client makes payments to other companies with similar or identical directors, shareholders or beneficial owners without any plausible reason.
- Apparent, structuring / splitting of transactions to avoid AML/CFT reporting thresholds requirements.
- Client is making unusual payments in cash which does not commensurate with business activities.
- Unusually high value transactions in relation to what might reasonably be expected of clients with a similar profile.
- Client is conducting loss making transactions where the loss is avoidable or an absence of documentation to support the client's story, previous transactions or company activities.
- Transfers of goods that are inherently difficult to value (e.g. jewels, precious stones, objects of art or antiques, virtual assets), where this is not common for the type of clients, transaction, or with accountant's normal course of business.
- Transactions using untraceable payment methods, including bearer instruments or new payment methods.
- Transactions that appear to be routing, with outgoing and incoming transactions similar in size sent and received from the same parties.
- Transactions where there is lack of information or explanations, or where explanations are unsatisfactory or transactions which are undervalued.

**Disclaimer:**

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