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QUESTION 1
According to the Basel Committee's principles on customer due diligence, a bank should:

A. maintain systems to detect suspicious transactions based on a customer's velocity and volume patterns.
B. refuse to conduct ongoing business with a customer who fails to provide proper identification documentation.
C. obtain the information to establish the identity of a customer, beneficial owners, and any person acting on behalf of the customer,
D. file a suspicious activity report when there is reason to believe the bank is being used for criminal activity.

Answer: C
Explanation:
According to the Basel Committee's principles on customer due diligence, banks must obtain the necessary information to establish the identity of their customers, beneficial owners, and any persons acting on behalf of their customers. This includes verifying the identity of the customer and the beneficial owners and assessing the customer's risk profile. Additionally, banks must conduct ongoing due diligence to ensure that the customer does not give rise to suspicions of money laundering or terrorist financing.

QUESTION 2
Which transaction monitoring processes would alert a bank for red flag activity?

A. A client who does not typically make extravagant credit card purchases books an airline ticket on a travel website.
B. The company has a name that is similar to that of a company whose directors are named on the bank's internal blacklist.
C. A client makes a prepayment on their credit card and a week later makes multiple cash withdrawals using an automated teller machine (ATM) in a foreign country.
D. A charity account receives multiple electronic transfers and then sends a wire transfer to a higher-risk country.

Answer: D
Explanation:
This is a red flag of money laundering or terrorist financing that involves the use of non-profit organizations (NPOs) as conduits for illicit funds. NPOs may be vulnerable to abuse by criminals who exploit their legitimate activities, reputation, and access to funds and resources. A transaction monitoring process that would alert a bank for this red flag activity is to analyze the source, destination, frequency, and purpose of the funds transferred to and from the charity account, and to compare them with the expected profile and activity of the NPO. If the bank detects any inconsistency, discrepancy, or deviation from the norm, it should raise an alert and conduct further investigation.

QUESTION 3
A company is endorsing the execution of terrorism through different activities, such as developing content for pro-terrorist television messages, encouraging the support of terrorist activities via the web, advertising the use of cryptocurrencies, and paying producers and reporters for television and web messaging. What specific action should be considered financing of terrorism?

A. Encouraging supportive web messages
B. Paying producers and reporters for television and web messaging

C. Developing pro-terrorist content
D. Advertising the use of cryptocurrencies

Answer: B
Explanation:
Financing terrorism generally refers to providing money or other support, such as personnel or technology, to terrorist activities. This can include providing funds to terrorist networks, providing services to support terrorist operations, and providing resources to support terrorist activities. In this case, paying producers and reporters for television and web messaging would be considered financing of terrorism, as it is providing support for terrorist activities.

QUESTION 4
The Chief Compliance Officer (CCO) of a financial institution has been asked by a manufacturing customer reliant upon imported raw materials if there will be repercussions to his business following the weak assessment of the recent publicly issued Financial Action Task Force (FATF) Mutual Evaluation Report (MER). How should the CCO respond?

A. Delayed processing of cross-border transfer of funds between countries may occur due to increased scrutiny to determine the legitimacy of each transfer.
B. Citing inaccurate content of the MER. the president of the country has called upon the FATF to publicly withdraw the MER and commission an independent review of findings.
C. Mandate termination of all cross-border trading until evidence can be provided to show an improved position of compliance for the weaknesses stated in the MER.
D. Negative consequences will not occur because the manufacturing customer has been trading with reputable countries and suppliers for many years without incident.

Answer: A
Explanation:
The CCO should advise the manufacturing customer that increased scrutiny of cross-border transfers may lead to delays and caution them to ensure that all necessary documentation is provided in order to facilitate a timely transfer. Additionally, the CCO should recommend that the customer contact the FATF to discuss the possibility of an independent review of the findings, as well as other options to mitigate the potential negative consequences.

QUESTION 5
Which is a key aspect of the first EU Directive on Money Laundering?

A. IT expanded the definition of criminal activity to all serious crimes.
B. It defined money laundering as a separate crime.
C. It established drug trafficking as a predicate offense of money laundering.
D. It extended the scope beyond drug-related crimes.

Answer: A
Explanation:
IT expanded the definition of criminal activity to all serious crimes. The first EU Directive on Money Laundering, adopted in 1990, was the first major international agreement to combat money laundering. It expanded the definition of criminal activity to all serious crimes and established drug trafficking as a predicate offense of money laundering. The Directive also extended the scope of money laundering beyond drug-related crimes, making it applicable to all serious crimes. This was a major step forward in the fight against money laundering, as it made it easier for law enforcement to investigate and prosecute money laundering cases.

QUESTION 6
What should an employee do after witnessing suspicious activity from a coworker?

A. Request that the coworker provide justification for their actions.
B. Escalate to the company's conflict line or compliance department.
C. Request help from colleagues in determining that the best course of action.
D. Discuss the suspicious activity with your supervisor.

Answer: B
Explanation:
An employee who witnesses suspicious activity from a coworker should not confront the coworker or discuss the activity with their supervisor. Instead, they should report the activity to their employer's conflict line or compliance department, who can investigate the matter and take the appropriate action. It is important to remember that employees are legally obligated to report any suspicious activity they witness.

QUESTION 7
An oil exploration company based in France does business with oil refineries in Iran, which is subject to comprehensive Office of Foreign Assets Control (OFAC) sanctions. What type of OFAC sanctions should be imposed against the French company?

A. Sectoral
B. Country-based
C. Secondary
D. List-based

Answer: C

QUESTION 8
Which is true about Financial Action Task Force (FATF)-Style Regional Bodies (FSRBs)?

A. FSRBs set standards for their member countries that supplement FATF's standards.
B. Tools used by FRSBs include training measures and mutual evaluations of its members.
C. AFATF-member country cannot also be a member of an FSRB.
D. To be a member of an FSRB, a country must have enacted AML and Anti-Terrorist Financing laws.

Answer: B
Explanation:
FSRBs are regional bodies that work with FATF to promote the implementation of AML and CFT standards. FSRBs are made up of member countries that have agreed to work together to combat money laundering and the financing of terrorism. The tools used by FSRBs to promote the implementation of AML and CFT standards include training measures, mutual evaluations of its members, technical assistance, and the sharing of information. FSRBs may also adopt recommendations and best practices based on the FATF's 40 Recommendations.

QUESTION 9
When considering sharing information across the institution or within the same jurisdiction, what is the key legal issue that poses challenges to sharing customer-related information?

A. Data protection and privacy laws
B. Consumer protection laws
C. Conflicting AML regulations
D. Technological inconsistencies and challenges

Answer: A
Explanation:
When considering sharing information across the institution or within the same jurisdiction, the key legal issue that poses challenges to sharing customer-related information is data protection and privacy laws. Data protection and privacy laws exist in most countries and can vary significantly from jurisdiction to jurisdiction. These laws place restrictions on how customer data can be used, shared, and stored, and can limit the ability of financial institutions to share customer-related information with each other. Additionally, these laws may also require financial institutions to take additional steps to ensure the protection of customer data.

QUESTION 10
Which does the USA PATRIOT Act stipulate for foreign banks concerning correspondent banking?

A. US banks that maintain correspondent accounts for foreign banks must keep identification records of foreign bank owners with 50% or more ownership in the bank
B. A subpoena issued to a foreign bank that maintains a correspondent account in the US can require the bank to submit any records except for records in a foreign jurisdiction.
C. The US federal banking agency can require foreign banks to produce records or information related to any account opened in the US or other countries.
D. Illicit funds deposited with a foreign bank can be seized by the US government by confiscating the same amount of funds deposited in a correspondent account in the US.

Answer: D
Explanation:
The USA PATRIOT Act stipulates that US banks that maintain correspondent accounts for foreign banks must keep identification records of foreign bank owners with 50% or more ownership in the bank. This ensures that the US government can track the flow of funds through the correspondent accounts and prevent money laundering and terrorist financing. Additionally, the US federal banking agency can require foreign banks to produce records or information related to any account opened in the US or other countries. This allows the agency to monitor the activities of foreign banks and ensure compliance with US regulations.

QUESTION 11
Typical events to identify and investigate potential AML activities include: (Select Three.)

A. blocked transactions involving individuals included in the Office of Foreign Assets Control Specially Designated Nationals and Blocked Persons List.
B. internal tips from employees of the bank about potential suspicious activity.
C. alerts triggered by the automated AML monitoring system.
D. subpoenas requesting information for civil cases.
E. requests from law enforcement agencies.
F. accounts going to dormant status.

Answer: ABC
Explanation:
Typical events to identify and investigate potential AML activities include: A) blocked transactions

involving individuals included in the Office of Foreign Assets Control Specially Designated Nationals and Blocked Persons List; B) internal tips from employees of the bank about potential suspicious activity; and C) alerts triggered by the automated AML monitoring system. Blocked transactions are those which involve individuals included on the Specially Designated Nationals and Blocked Persons List ?this is a list maintained by the Office of Foreign Assets Control of individuals who are subject to economic or trade sanctions, or who may be involved in money laundering or terrorist activities. Internal tips are those which are provided by employees of the bank who may have observed suspicious activity, or have reason to believe that certain transactions or activities may be related to potential money laundering. Alerts triggered by the automated AML monitoring system are those which are generated by the banks systems and processes which are designed to detect potential money laundering.

QUESTION 12
When a financial institution is requested to provide data and information to a law enforcement agency for matters related to financing of terrorism, assistance:

A. can be refused on the grounds of tipping-off.
B. cannot be refused on the grounds of tipping-off.
C. can be refused on the grounds of bank secrecy.
D. cannot be refused on the grounds of bank secrecy.

Answer: D

QUESTION 13
Why should a financial institution (FI) require an update of its AML risk assessment?

A. To identify risk considerations for sharing information based on FI changes
B. To ensure an accurate reflection of the FI's money laundering and other illicit financial activity risks
C. To satisfy law enforcement when reporting suspicious activity
D. To ensure the FI's alignment with the board-approved strategic plan

Answer: B
Explanation:
A financial institution should regularly update its AML risk assessment in order to ensure that the results of the assessment are accurate and reflect the current money laundering and other illicit financial activity risks that the institution may face. This helps to ensure the institution has a comprehensive understanding of the risks associated with its activities and can implement adequate controls and procedures as necessary.

QUESTION 14
Which are key objectives of the Egmont Group? (Select Two.)

A. Setting international standards that aim to prevent
B. AML Providing a platform for the secure exchange of financial intelligence
C. Serving as a prudential regulator for global financial institutions
D. Serving as an authoritative body in the field of anti-corruption
E. Serving as a united body of financial intelligence units across the world

Answer: AE
Explanation:

The Egmont Group is an international body of Financial Intelligence Units (FIUs) from around the world. Its primary purpose is to serve as a forum for FIUs to exchange information, and it also sets international standards for AML/CFT measures. Additionally, the Egmont Group does not serve as a prudential regulator for global financial institutions or as an authoritative body in the field of anti-corruption.

QUESTION 15
Which of the following employee behaviors would not trigger an AML red flag?

A. An employee lives a lavish lifestyle that could not be supported by his or her salary.
B. An employee is involved in an excessive number of unresolved exceptions.
C. An employee uses company resources to further private interests.
D. An employee generates high earnings on investments made on the stock market.

Answer: D
Explanation:
While this behavior may warrant scrutiny in certain circumstances, it is not inherently suspicious or indicative of money laundering. In contrast, the other behaviors listed (living beyond one's means, excessive unresolved exceptions, and using company resources for personal gain) may suggest that an employee is engaging in or facilitating money laundering activity.

QUESTION 16
When assessing and managing money laundering risks while operating in foreign jurisdictions different from that of the head office, an effective AML monitoring program should:

A. provide all foreign jurisdiction reports to the head office for approval.
B. be tailored to the higher of standards between the jurisdictions.
C. be consistent with the head office audits.
D. conform to the foreign jurisdiction policies to align with the head office policies.

Answer: D
Explanation:
When assessing and managing money laundering risks while operating in foreign jurisdictions different from that of the head office, an effective AML monitoring program should conform to the foreign jurisdiction policies to align with the head office policies. This ensures that the organization's AML/CFT risk management remains consistent across all jurisdictions, while allowing local compliance staff to assess and manage the risks specific to their jurisdiction. Additionally, the program should be tailored to the higher of standards between the jurisdictions, and should be consistent with the head office audits. Providing all foreign jurisdiction reports to the head office for approval is not necessary, as long as the program is consistent with the head office policies.

QUESTION 17
When using virtual assets such as Bitcoin to finance terrorism, which tactic may be used to ensure that the virtual assets are not easily seized by law enforcement?

A. Using self-hosted wallets to create many different donation addresses that are updated continuously
B. Posting donation addresses that are linked to accounts at centralized virtual asset service providers
C. Using the same donation address across multiple donation campaigns and media types

D. Forming relationships with virtual asset service providers that have strong KYC processes in place to avoid suspicion

Answer: A
Explanation:
Using self-hosted wallets, or wallets that are stored on the user's computer, is one of the tactics that may be used to finance terrorism with virtual assets such as Bitcoin. By creating many different donation addresses that are updated continuously, law enforcement will have a harder time tracing transactions. It is also important to note that using the same donation address across multiple donation campaigns and media types, as well as forming relationships with virtual asset service providers that have strong KYC processes in place, can draw attention from law enforcement and should be avoided.

QUESTION 18
Which is an extraterritorial function of Office of Foreign Assets Control sanctions?

A. Interrupting the Ell's economic and financial relations with third countries
B. Implementing targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions
C. Prohibiting transactions and requiring the blocking of assets of designated persons and organizations
D. Requiring all appropriate elements of the financial services industry to report potential money laundering

Answer: C
Explanation:
The Office of Foreign Assets Control (OFAC) sanctions are extraterritorial in nature, meaning that they apply beyond the national borders of the United States. OFAC sanctions are intended to restrict transactions and the movement of assets between the U.S. and designated persons and organizations. These sanctions are imposed to disrupt the economic and financial relations between foreign countries and designated persons, organizations, or countries. These sanctions include prohibiting transactions, requiring the blocking of assets, and implementing targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions.

QUESTION 19
According to the Financial Action Task Force, which action must a financial institution take to fulfill customer due diligence obligations?

A. Secure a written declaration from the customer confirming the source of the funds.
B. Obtain information on the intended nature of the banking relationship.
C. Identify shareholders listed on the stock exchange of corporate entities holding fifty percent of the shares.
D. Verify the customer is not on any sanction lists.

Answer: D
Explanation:
A financial institution must take certain steps to fulfill its customer due diligence (CDD) obligations. These steps include verifying the customer's identity, understanding the customer's business, and assessing the customer's risk profile. Additionally, the financial institution must verify that the customer is not on any sanction lists, such as the OFAC Specially Designated Nationals list. This step is important to ensure that the financial institution is not doing business with any individuals or entities that are subject to economic sanctions. Other steps include

obtaining information on the intended nature of the banking relationship, securing a written declaration from the customer confirming the source of the funds, and identifying shareholders listed on the stock exchange of corporate entities holding fifty percent of the shares.

QUESTION 20
Who bears the ultimate responsibility for approving a financial institution's relationship with a politically exposed person?

A. Relationship manager
B. Enhanced due diligence compliance officer
C. OKYC analyst
D. Senior management

Answer: D
Explanation:
Senior management bears the ultimate responsibility for approving a financial institution's relationship with a politically exposed person (PEP). The institution must ensure that appropriate measures are taken to manage the risks associated with a PEP, including conducting enhanced due diligence and applying appropriate mitigating measures. The relationship manager and the OKYC analyst may identify the risks associated with the PEP and recommend mitigating measures, but it is ultimately the responsibility of senior management to approve the relationship and ensure that the appropriate measures are taken. The enhanced due diligence compliance officer is responsible for ensuring that all due diligence requirements are met.

QUESTION 21
What are the three basic functions of a national financial intelligence unit?

A. Compile, assess, monitor
B. Train, share, collect
C. Investigate, report, record
D. Receive, analysis, disseminate

Answer: D
Explanation:
A National Financial Intelligence Unit (FIU) has three primary functions: receiving, analyzing, and disseminating information related to suspicious financial activities. The FIU's main focus is to identify and investigate suspicious activities, such as money laundering, terrorist financing, and other financial crimes. The FIU also works with other organizations and agencies to develop effective and efficient financial crime prevention strategies. The FIU is tasked with developing an effective system for receiving, analyzing, and disseminating information related to suspicious financial activities. The information collected is then used to identify, investigate, and prosecute financial crimes.

QUESTION 22
Which risks are involved in a correspondent banking client's ownership and management structure? (Select Two.)

A. Regularity of board meetings
B. Size of the management structure
C. Status as a state, publicly, or privately held entity
D. Length of time since the last Wolfsberg Group review

E. Transparency of the ownership structure

Answer: CE
Explanation:
When dealing with correspondent banking clients, banks must evaluate the ownership and management structure of the client in order to assess the risks associated with the relationship. The status of the entity as a state, publicly, or privately held entity, as well as the transparency of the ownership structure, are important factors to consider when assessing these risks. Banks should also take into account the size of the management structure, the regularity of board meetings, and the length of time since the last Wolfsberg Group review in order to determine the risk associated with the correspondent banking relationship.

QUESTION 23
In its paper. Customer Due Diligence for Banks, the Basel Committee on Banking Supervision identified which risks on banking institutions as a result of an inadequate KYC program?

A. Outsourcing, legal, concentration, reputational
B. Security, information, local, operational
C. Legal, reputational, operational, concentration
D. Credit, operational, market, concentration

Answer: C
Explanation:
The Basel Committee on Banking Supervision identified four risks to banking institutions as a result of an inadequate KYC program: legal, reputational, operational, and concentration. Legal risks include the potential for fines or sanctions for non-compliance with applicable laws and regulations. Reputational risks include the loss of customer confidence due to the institution's involvement in illicit activities. Operational risks include the potential for fraudulent or suspicious activity to go undetected. Finally, concentration risks involve the potential for a single customer or group of related customers to dominate the institution's operations.

QUESTION 24
Which regulatory bodies cooperate when dealing with cross-border suspicious or unusual financial activity investigations?

A. European Commissions
B. Financial Intelligence Units
C. Wolfsberg Groups
D. Financial Action Task Forces

Answer: B
Explanation:
Financial Intelligence Units (FIUs) are the primary channels for sharing financial intelligence both within countries and across borders. FIUs cooperate with each other and other relevant law enforcement, regulatory, or intelligence agencies in the fight against money laundering, terrorism financing, and other financial crimes.

QUESTION 25
A US casino customer has won 55,518 USD. The customer goes to the casino cashier cage to execute some transactions. Which ^transactions are an indicator of money laundering? (Select Two.)

A. The customer transfers 100.000 USD to another personal bank account located outside the customer's resident country,
B. The customer requests the cashing out of the winnings in checks under 10.000 USD.
C. The customer transfers all the winnings to another personal bank account located outside the customer's resident country.
D. The customer requests the cashing out of the winnings in a single check.
E. The customer transfers 50.000 USD to another personal bank account located in the customer's resident country.

Answer: AB
Explanation:
These options involve transferring funds to another country, which could indicate cross-border movement of illicit funds, and cashing out winnings in checks under 10,000 USD, which could indicate structuring to avoid reporting thresholds. The other options do not seem as suspicious or relevant to money laundering.

QUESTION 26
A new business opened an account at a bank. After a month of activity, the account is referred to AML Investigations for potential human trafficking activity. Which red flags most likely triggered the referral? (Select Two.)

A. Trade in large volumes conducted with countries that are part of the diamond pipeline
B. Several cash deposits along the country's border that are quickly withdrawn by third parties _ Multiple purchases of virtual currency at or just below the reporting threshold
C. Several lodging and food payments made on the same day at unusual hours for a business
D. Conducting the businesses transactions online without visiting a branch

Answer: BC
Explanation:
The red flags that most likely triggered the referral are:
Red flag B suggests possible structuring activity, where individuals are trying to avoid currency transaction reporting requirements by depositing and withdrawing cash in amounts below the reporting threshold. This activity is often associated with money laundering and could indicate human trafficking activity.
Red flag C suggests unusual activity that may be indicative of human trafficking, such as lodging and food payments made at unusual hours or in unusual patterns. This type of activity could indicate that the business is being used as a front for human trafficking or that the individuals involved in the trafficking are using the business to facilitate their activities.

QUESTION 27
Who meets the standard to perform the AML audit? (Select Two.)

A. An internal auditor with a family member employed in the AML department
B. An internal auditor with the requisite knowledge and expertise of AML
C. A consultant previously employed in the AML department within the past 2 years
D. Qualified bank staff if not involved in the AML function being tested
E. A consultant with limited knowledge and experience in AML but many years of internal audit experience

Answer: BD
Explanation:

An internal auditor with the requisite knowledge and expertise of AML: An internal auditor with sufficient knowledge and expertise in AML regulations and compliance requirements can perform the AML audit.
Qualified bank staff if not involved in the AML function being tested: Qualified bank staff who are not involved in the AML function being audited can perform the AML audit.

QUESTION 28
Which is a characteristic of the Financial Action Task Force (FATF) 40 recommendations?

A. They enable FATF's active engagement in law enforcement matters, investigations, or prosecutions.
B. They are automatically transposed into local law across the EU member states and the US.
C. They provide a list of mandatory requirements for an effective AML regulatory framework.
D. They comprise global standards for countering money laundering, recognized by government bodies across the world.

Answer: D
Explanation:
The characteristic of the Financial Action Task Force (FATF) 40 recommendations is that they comprise global standards for countering money laundering, recognized by government bodies across the world. The FATF 40 recommendations provide a comprehensive framework of measures that countries should implement to combat money laundering and terrorist financing. The recommendations are not mandatory, but are widely recognized and followed by countries across the globe. The recommendations cover a range of areas, including customer due diligence, record-keeping, suspicious activity reporting, and international cooperation.

QUESTION 29
An example of an external factor that will affect an organization's AML risk is:

A. acceptance of new customer types.
B. political system changes in a specific jurisdiction.
C. introduction of a new product which will be offered to a wide range of clients.
D. introduction of mobile banking for all clients.

Answer: B
Explanation:
Political system changes can have an impact on an organization's AML risk as they can affect the legal and regulatory framework in which the organization operates. For example, changes to the laws or regulations related to AML, or changes in the way in which the government enforces AML regulations, can have an impact on the organization's AML risk by increasing or decreasing the likelihood of it being exposed to AML risk. In addition, changes in the political environment or political stability in a specific jurisdiction can also affect the organization's AML risk.

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