

PROTECTING YOUR SOCIETY AGAINST MONEY LAUNDERING & TERRORIST FINANCING



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Charities

REGISTRY OF SOCIETIES
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GLOSSARY OF ACRONYMS

AML:	Anti-money laundering
CDSA:	Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act
CFT:	Countering the financing of terrorism
FAQ:	Frequently Asked Question
FATF:	Financial Action Task Force
ML:	Money laundering
NPO:	Non-profit organization
NRA:	National Risk Assessment
ROS:	Registry of Societies
STR:	Suspicious Transaction Report
TF:	Terrorist Financing
TSOFA:	Terrorism (Suppression of Financing) Act

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INTRODUCTION

WHAT THIS GUIDANCE NOTE IS ABOUT

This guidance is aimed at societies, particularly NPOs¹ and meant to help societies familiarize themselves with how they may protect themselves from potential abuse related to terrorist activities or ML. It also provides examples of good practices that will safeguard societies from potential harm as well as what societies should do if they spot any suspicious transactions.

Although there have been no cases where there is evidence to prove that societies have been involved in supporting terrorist activities or ML, societies should be aware that such potential abuse cannot be tolerated.

BACKGROUND

WHAT IS ML AND TF

ML is the process by which proceeds from a criminal activity are disguised to conceal their illicit origins, such as drug trafficking or other criminal activities to make it appear legitimate.

On the other hand, **TF** is simply defined as financial support, in any form, of terrorism or of those who encourage, plan, or engage in terrorism.

¹ FATF's definition of NPO refers to a legal person or arrangement or organization that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of "good works".

THE LINK BETWEEN ML AND TF

ML and TF often display similar transactional features, mostly having to do with concealment and disguise. Though different, there is still a subtle relationship between ML and TF as the techniques used to launder money are essentially the same as those used to conceal the sources of, and uses for, TF. While ML is the process of concealing proceeds of crime, TF conceals the usage of funds for terrorist purposes. However, a significant difference between ML and TF would be that funds involved in TF can originate from both legal and illegal sources. Such legitimate sources may include donations to societies, that may in turn be used to support terrorist activities or terrorist organizations.

WHY IS THERE A NEED TO COMBAT ML AND TF

There are potentially devastating consequences that ML and TF may have on Singapore's economy and security. In an increasingly globalised economy, the impact of ML and TF may have far-reaching effects. Furthermore, with the expansion of both physical and electronic financial infrastructure, ML and TF activities are becoming more and more sophisticated and challenging to detect.

As funds can now move across borders more conveniently, it means that regulatory authorities and enforcement agencies within and across countries must be able to co-operate and co-ordinate effectively to address emerging risks. To help build and maintain Singapore's strong reputation as a well-regulated financial hub, everyone plays an important role in combating ML and TF.

INTERNATIONAL AND NATIONAL AML/CFT INITIATIVES

Overview of the FATF

The FATF is an inter-governmental body set up in 1989. The objectives of the FATF are to develop standards and promote effective implementation of legal, regulatory

and operational measures for combating ML, TF and financing of proliferation. The FATF has developed a series of recommendations that are recognized as the international standard for combating ML and TF, and financing of proliferation. The FATF monitors the progress of its members in implementing necessary measures to counter ML and TF, and promotes the adoption and implementation of appropriate measures globally. In collaboration with other international stakeholders, the FATF works to identify national-level vulnerabilities with the aim of protecting the international financial system from misuse. As a member of the FATF, Singapore has an obligation to implement these recommendations.

FATF's recommendations for NPOs

FATF's Recommendation 8 touches on combating the abuse of NPOs. NPOs play an important role in the global economy. They complement the activity of the governmental and business sectors in providing services, comfort and hope to the needy. Unfortunately, the NPO sector has been exploited by terrorist organizations to provide financial and logistical support, or otherwise support terrorist recruitments or terrorist operations. Recommendation 8 requires the regulators of NPOs to review the laws and legislations so that NPOs cannot be abused for TF. Countries should identify, prevent, and combat terrorist misuse of NPOs through a four-pronged approach:

1. Outreach to the NPO sector concerning TF issues
2. Supervision or monitoring of the NPO sector
3. Effective information gathering and investigation; and
4. Effective capacity to respond to international requests for information about an NPO of concern

These best practices, designed to prevent misuse of NPOs for TF should not unduly impede the work of NPOs, but rather protect the integrity of the NPO sector and its stakeholders.

AML/CFT LEGISLATION IN SINGAPORE

The CDSA and TSOFA are the primary legislations enacted to combat ML and TF in Singapore. The CDSA criminalises the laundering of proceeds derived from drug trafficking and other serious offences. Under the CDSA, it is mandatory for any person to lodge a STR if he knows or has reason to suspect that any property may be connected to a criminal activity. The failure to do so may constitute a criminal offence. Likewise, the TSOFA not only criminalises TF but also imposes a duty on everyone to provide information pertaining to TF to the police. The failure to do so may constitute a criminal offence. Under the TSOFA, any person shall lodge a STR if they have possession, custody or control of any property belonging to any terrorist or terrorist entity or if they have information about any transaction or proposed transaction in respect or any property belonging to any terrorist or terrorist entity.

SOCIETIES AND THEIR VULNERABILITIES TO TF

Why are Societies Vulnerable to Abuse by Terrorist Organizations?

The abuse of societies for terrorist purposes may take various forms, including exploiting society's funding, abusing society's assets, misusing society's name and status, and setting up a society for an illegal purpose. Although there has been no evidence that the societies in Singapore are exploited by terrorist organizations, they are still vulnerable due to the inherent risks related to fund raising, provision of services and other social/charitable activities. As societies are usually diverse in nature and reach out to all parts of the society, this extensive reach potentially includes terrorist organizations who may abuse them, through their services, the use of their property or through their trustees or even volunteers.

For societies that operate internationally, some of the areas in which they operate may have weak infrastructure and funds may be transferred through unregulated financial channels. This may result in suspicious transactions harder to detect. They may also operate in high risk areas and this increases the vulnerability to terrorist abuse. Terrorist organizations may take advantage of these characteristics of societies to

infiltrate the segment and misuse their funds and operations to cover for, or support, terrorist activities.

Q: How might TF affect SOCIETIES?

A: Although proven instances of societies being abused for TF purposes are rare, they do happen, as societies can be attractive vehicles to terrorist organizations. The vulnerabilities of an abuse are significant. In order to discharge their duties and responsibilities, trustees must take reasonable steps and implement measures to protect their societies from such abuse.

How Societies may be abused

The abuse of societies for terrorist purposes may range in various forms, given the diverse nature of the segment. Abuse might take place in the following ways:

Society's Funding-Raising – Individuals may act as fundraisers to raise funds in the name of a society to support terrorist purposes, with or without the knowledge of the society. Funds that are raised are diverted to support terrorism at some point, and may never reach the intended beneficiaries. A society might also be used to launder money or be used as a legitimate front to move funds from one place to another.

Use of Society's Resources – Individuals supporting terrorist organizations may work in the capacity of a staff in the society while using the society's assets to contact or meet with fellow terrorist representatives in high risk areas. This exploitation of communications network may be carried out with or without the knowledge of the societies.

Misuse of Society's Name – Societies may adopt a similar name, contact information and address to an already registered charity. However, this was done with the intention to mislead the public into the guise of donating for a charitable cause. The directing officials who are able to exercise influence over the operations of the society are ultimately linked to terrorist organizations.

Sham Societies – Terrorists may try to set up organizations as sham societies, by raising funds, promoting causes and carrying out activities in support of terrorism.

The following case studies² are real instances of societies in other countries that are abused for terrorist purposes:

CASE STUDY 1 – SHAM NPO

A bomb blast occurred at a religious boarding school being operated as an unregistered NPO. The ensuing investigation found that the school was being used by members of a terrorist group to recruit students for attacks against local police, prosecutors and judges and for the manufacture of homemade bombs. The director of the school was convicted of terrorism-related offences.

CASE STUDY 2 – NPO FUNDING

An NPO was raising funds supposedly for humanitarian relief in an area of conflict. The NPO used collection boxes outside religious institutions to solicit donations. The funds raised were held in a domestic bank account. The founder of the NPO is suspected of diverting the funds raised to facilitate terrorism rather than using them for the stated humanitarian activities. A law enforcement investigation resulted in the arrest of the founder of the NPO for terrorism facilitation offences. The case is still under investigation. While to-date there has been no conviction, USD 60,000 in collected funds were seized.

HOW SOCIETIES CAN BE PROTECTED AGAINST ABUSE FROM TF

ROS' Approach to Counter TF

ROS recognizes that certain attributes of societies present particular vulnerabilities that may be exploited by terrorists for the purpose of raising and moving funds. However, ROS is cognizant that while AML/CFT measures should be strengthened, it should not unduly impede the activities of societies, but rather protect the integrity of the society sector and its stakeholders.

To tackle the threat of terrorist abuse in the society sector, ROS has adopted the following approach:

² The case studies are extracted from the FATF Typologies Report “Risk of Terrorist Abuse in Non-Profit Organizations” published in June 2014.

- Conduct outreach to the society sector on AML/CFT requirements. This includes sharing of guidance notes and case studies at our website. Societies will also be invited to AML/TF conferences.
- Provide Code of Governance to make societies more effective by sharing recommended practices on how to effectively govern and manage societies and provide guidance to officer-bearers to help them carry out their duties and act in the interest of the members.
- Strengthen co-operation and partnerships with law regulators and enforcement agencies to ensure a proper investigation is carried out when allegations or suspicions are raised.

Red Flags/Suspicious Indicators of TF

To prevent terrorists from exploiting vulnerabilities of societies, it is crucial that societies have vigorous financial controls in place, and are transparent in their activities. It would also be good for societies to conduct regular reviews of their internal controls, policies and procedures, key programmes and events to protect themselves from actual or alleged abuse of fraud, ML or support for terrorism. The following checklist outlined below is not meant to be exhaustive, but it will help societies recognize possible TF red flags which might put them at risk of being abused by terrorists or other criminals:

- Are you clear about the sources of your donations and support?
- Do you know the background and affiliations of the society's office-bearers, employees, fund-raisers, volunteers and partners?
- Do you know if your society's name is being used to support a person or cause(s) which you are not familiar with?
- If your society is in partnership with another organization on projects, do you have a clear written agreement outlining the activities which will be undertaken and how they will be monitored and accounted for? Do you check that the agreements are adhered to?

Are the beneficiaries of your society designated as terrorists? Please refer to the Inter-Ministerial Committee – Terrorist Designation (IMC-TCD) for more information.

(<https://www.mha.gov.sg/what-we-do/managing-security-threats/countering-the-financing-of-terrorism>)

Potential Suspicious Activities Which May Indicate Terrorism Financing

Activity Inconsistent with the Society's Operations – financial transactions occur for which there appears to be no logical purpose or in which there appears to be no link between the stated activity of the organization and the parties in the transaction.

Fund Transfers – A large number of donations made via fund transfers ordered in small amounts in an apparent effort to avoid triggering identification or reporting requirements or foreign exchange transactions performed on behalf of donors or beneficiaries, followed by fund transfers to locations having no apparent connection with the donors or beneficiaries or to high risk areas.

Other Unusual Transactions – Multiple accounts used to collect and channel funds to a small number of beneficiaries, particularly in high risk areas or transactions involving foreign currency which are subsequently transferred to high risk areas within a short time frame.

- Do you have internal control systems with documented procedures for key processes, such as procurement and payment, revenue and receipts, and system for the delegation of authority and limits of approval?
- Are there measures in place to ensure proper segregation of duties and checks and balances, especially over financial matters such as the collection, handling of cash and the issuing of receipts?
- Are you aware of the CDSA (<https://sso.agc.gov.sg/Act/CDTOSCCBA1992>) and the TSOFA (<https://sso.agc.gov.sg/Act/TSFA2002>) and how to lodge a STR, if necessary?

How can Societies Protect Themselves

Strong Governance – Societies which have in place robust internal governance and vigorous financial management will be better safeguarded against all types of abuse.

Know Your Key Donors and Beneficiaries – Furthermore, societies should carry out proper due diligence on their key donors and beneficiaries. Resource permitting, societies should put in their best efforts to confirm the identity, credentials and good standing of the beneficiaries. Similarly, societies should confirm the identity of significant donors while respecting donor confidentiality.

Transactions Conducted Via Regulated Financial Channels – As far as possible, societies should also ensure that transactions are conducted via regulated financial channels to minimize any potential terrorist abuse while the funds are in transit.

Funds Applied in a Manner Consistent with the Society's Mission and Objects – Societies should always review its expenditure to ensure that funds are channeled towards causes which are congruent with their mission and objects. In the same breath, societies should not accept donations for purposes that are not consistent with the societies' missions and objects.

Report Suspicious Transactions to STRO – Societies should lodge a STR if there is a reasonable suspicion of ML or TF activity during the course of the society's administration or operations. Societies may refer to the FAQs below in relation to STRs.

Q1 When should a STR be lodged?

Under the CDSA, it is mandatory for any person to lodge a STR if he knows or has reason to suspect that any property may be connected to a criminal activity. The failure to do so may constitute a criminal offence.

ML is a problem of international proportion. In addition, terrorist attacks in countries and cities in many parts of the world have increased the focus of governments worldwide on countering terrorism and the financing of terrorism. As a financial hub, Singapore cannot rule out the possibility that our financial infrastructure may be

abused for such illegal activities. Therefore, there is a need to be constantly vigilant and report any suspicious financial transaction.

STRs provide useful information for the detection of criminal wrongdoings. There are instances in which information from STRs have helped prevent crime or stop existing criminal activities.

Q2 Who can lodge a STR?

Everyone can lodge a STR if, in the course of the person's business or employment, as well as the society administration or operations, he or she has:

- a. Reason to suspect that any property represents the proceeds of, or is connected to a criminal activity; or
- b. Possession, custody or control of property or information about any transaction (or proposed transaction) relating to any property belonging to terrorism or terrorist entity.

The identities of the STR lodger(s) are kept confidential.

Q3 How to lodge a STR?

You may do so in writing to:

Head, Suspicious Transaction Reporting Office

Commercial Affairs Department

391 New Bridge Road #06-701

Police Cantonment Complex Block D

Singapore 088762

A detailed account of the relevant facts and nature of the transaction, together with copies of the relevant supporting documents, if available and your name, NRIC/passport number, contact number and address should be provided as well.

Via web-based STRO Online Notices and Reporting platform (SONAR). If your company has a valid SONAR user account, your authorised officer may lodge an STR via SONAR. You may wish to email STRO@spf.gov.sg to find out if your organisation has a valid SONAR account.

Q4 Where can I obtain more information?

More information about AML/CFT can be obtained from

<https://www.mha.gov.sg/what-we-do/managing-security-threats/countering-the-financing-of-terrorism>

Singapore is a member of several international AML/CFT organizations. Membership in these organizations underscores Singapore's commitment to the fight against ML and TF. For more information about the International Anti- Money Laundering and Counter-Terrorism Financing Organizations, please visit the following websites:

- a. Financial Action Task Force (FATF) (<http://www.fatf-gafi.org/>);
- b. Asia / Pacific Group on Money Laundering (<http://www.apgml.org/>); and
- c. Egmont Group of Financial Intelligence Units (<http://www.egmontgroup.org/>)

Q: What is the difference between filing a Police Report and a STR?

A: A police report is an official document which initiates Police investigation when an offence is disclosed. You should make a police report when

- you are a victim of a crime or a crime has been committed;
- a person is missing;
- property is lost or found.

If the report reveals the commission of an offence, the Police will investigate the matter.

A STR provides information on suspicious transactions that one has encountered. This is usually lodged when a person has "reason to suspect" that property is linked to criminal conduct. It is considered as a provision of information and not a complaint of crime committed. It is largely left to STRO's discretion on the appropriate action to be taken.