

Newsletter on AML/CFT Developments No.1 of 2021

In this newsletter, we review actual case studies of lapses in AML/CFT controls.

Case 1 summarises a news story involving a precious stones and precious metals dealer. Case 2 is adapted from a Registry of Pawnbroker investigation into AMLCFT lapses by a pawnbroker.

Case 1

Poh Heng, a dealer in precious stones and precious metals was fined \$9,000 for failing to submit a cash transaction report (CTR) within 15 days for a single cash transaction exceeding \$20,000 under Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act.

Key Facts

- In Oct 2017, a customer went to a Poh Heng outlet and purchased two diamond bracelets, a necklace, a medallion, a chain, two pendants and an earring for **\$28,078**.
- While Poh Heng issued a separate receipt for each item, the purchases formed a single cash transaction.
- In spite of the large size of the payment, the customer paid in **cash** from his bag and pockets
- Investigations later revealed that the cash was from criminal proceeds (amounting to \$39.9 million) of a scheme by a criminal syndicate that defrauded SkillsFuture Singapore. The customer was revealed to be a key member of the syndicate.
- Poh Heng never submitted a cash transaction report (“CTR”) for the transaction.
- The Deputy Public Prosecutor has asked the court to impose a fine of at least \$10,000

Learning Points

- Suspicions should have been raised when the customer made such large purchases with **cash** that was readily available on him.
- When businesses do not make the transaction reports when they are required to, it is more difficult and less likely for authorities to detect transactions that involve criminal activity.
- While this case does not involve a licensee, licensees should nevertheless draw lessons from this case. Licensees must be on the lookout for customers who appear to have **intentionally split a single large transaction into smaller ones**. This may be done to avoid the reporting threshold.
- Under rule 6(4) of the Moneylenders (Prevention of Money Laundering and Financing of Terrorism Act) Rules 2009, where the moneylender suspects that 2 or more loans are or may be related, linked or the result of a deliberate restructuring of a single loan into smaller transaction, the moneylender must when aggregate and treat them as a single relevant loan. A moneylender which fails to perform customer due diligence for a relevant loan may be liable for a fine not exceeding \$100,000.

For more details on Case 1, you may refer to the article from The Straits Times published on 14 Aug 2020 [here](#).

Case 2

Key Facts

- Andy was the brother of Annie. Two years ago, while Annie was on a work trip in Europe, Andy was in need of money urgently. Andy took into his possession a diamond woman's necklace that he had gifted Annie previously and took it to pawn at 321 Pawnshop. Andy claimed that he could not contact Annie then and subsequently admitted to the Registry that he pawned the necklace without her permission.
- Andy was served by Thomas, a valuer at 321 Pawnshop.
- After returning to Singapore, Annie discovered that the necklace was missing and confronted Adrian. Adrian admitted to Annie that he had pawned the necklace. After finding out that the necklace had been pawned, Annie made no attempt to retrieve the necklace.
- When Thomas was asked what CDD measures were carried out when he first served Andy, he responded that he could not remember as the transaction took place many years ago. In addition, Thomas also did not document the CDD measures he carried out. However, Thomas claimed that he would perform CDD measures for every transaction and he would have done so for this transaction as well. Thomas maintained that the CDD measures he had carried out would include asking about the ownership, cost, and origin of the item. Thomas also stated that he would check the items against a database of stolen items identified by SPF.
- The necklace was eventually forfeited after Andy failed to redeem the necklace before the expiry of the redemption period.
- Annie eventually attempted to recover the necklace by purchasing the forfeited item from 321 Pawnshop. 321 Pawnshop offered to sell the necklace to Annie at a price of \$5,000. However, Annie did not have sufficient money and negotiated with 321 Pawnshop to hold on to the item. In return, she placed a deposit of \$3,000 and was given a receipt for the deposit. It was agreed that the necklace would be returned to her once she paid the remaining balance of \$2,000 within 3 months.
- A week later, Andy came back to 321 Pawnshop and paid the remaining balance of \$2,000. Even though he claimed that he was acting on behalf of Annie, he stated that Annie did not provide him with the receipt. After agreeing to return with the receipt in a week's time, 321 Pawnshop accepted Andy's payment and handed the necklace to Andy.
- Andy immediately approached another valuer, Timothy from 321 Pawnshop, to pawn the same necklace. Timothy, having just seen the first pawn transaction occurred, assumed that Andy owned the necklace and did not conduct a thorough CDD check as he should.
- Timothy accepted the pledge after checking the item against the database of stolen items.
- Andy did not return with the receipt. A few weeks later, Annie filed a police report disputing that she had given Andy permission to retrieve the necklace on her behalf and he had, in fact, stolen it. She also alleged that 321 Pawnshop had accepted a stolen item as pledge.
- A fine of \$3,000 was imposed on 321 Pawnshop for the offences committed in this case.

Learning Points

- Thomas, the first valuer, should have realised that there was a mismatch in customer profile and the design of the jewellery during the first pawn transaction. The design of the necklace would have indicated that it likely belonged to a female and was unlikely to belong to Andy, a male. This should have given Thomas reason to suspect money laundering or terrorism financing. He should then have probed Andy more on the beneficial owner of the item and

Andy might have given responses that further indicated something was amiss. Thomas should also have documented the CDD measures taken, which is a requirement under the Pawnbrokers Act. **Licensed moneylenders are also required** to document their CDD measures under the PMFTR.

- For an ongoing business relationship, licensees must conduct ongoing CDD measures to ensure that their records of the customer profile fit the customer present at their shop. In this case, Timothy, the second valuer, did not conduct a thorough CDD check during the second pawn transaction as he assumed that Andy had owned the necklace. Timothy could have enquired with the staff that allowed Andy to purchase the necklace after paying the balance. He should have detected that something was amiss when it was Andy, and not Annie who paid off the balance on the necklace without a receipt, and immediately proceeded to pawn it again.
- Licensees are reminded to conduct the necessary CDD measures even when they encounter “familiar” or “frequent” customers. Criminals may make use of this “familiarity” to exploit lax CDD procedures.