

## RESPONSE TO CONSULTATION PAPER

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<b>Consultation topic:</b>	Consultation Paper on FI-FI Information-Sharing Platform for AML/CFT
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<b>Confidentiality</b>	
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**General comments:**

The Association of Independent Wealth Managers (“AIWM”) represents the interests of its ordinary members, external asset managers and multi-family offices (hereafter jointly referred to as “EAMs”) in Singapore.

We strongly support the efforts of the Monetary Authority of Singapore (hereafter referred to as the “Authority”) to prevent money laundering, including proliferation financing, and terrorism financing. Strong AML/CFT measures contribute to the reputation of and trust in Singapore’s thriving financial centre. This is crucial for the wealth management carried out by our members.

**Question 1: MAS seeks feedback on the proposed framework to strengthen the FI-FI information sharing paradigm and the measures to safeguard the interests of legitimate customers.**

The exchange of information among financial institutions on higher risk relevant persons and behaviour strengthens Singapore’s AML/CFT efforts. We therefore welcome this initiative for such exchange of information among financial institutions under the auspices of the Authority.

Smaller financial institutions, such as EAMs, will also need to have the opportunity to participate in this exchange of information. Excluding them will increase their exposure and may lead to money laundering or terrorism financing cases that could damage the reputation of the entire financial centre. Moreover, their exclusion may instigate other financial institutions to treat them as a higher risk and implement additional safeguards that impede collaboration among the financial institutions. These additional obstacles may weaken the small financial institutions and, ultimately, Singapore’s wealth management sector of which they are a vital pillar.

To the same extent as a strong AML/CFT framework contributes to the reputation of and trust in the financial centre of Singapore, strong safeguards of the customers are fundamental to this trust and reputation. Their privacy is of material interest to most high-net-worth individuals. Legitimate customers should not be unnecessarily exposed. We therefore also support the proposed measures to safeguard the interests of legitimate customers in the exchange of information among financial institutions, namely that information may only be shared in specified situations, i.e. when specified thresholds are met, and only to the extent that information is relevant in the specific situation. The information shared in COSMIC must remain limited to relevant information to safeguard the interests of legitimate customers and the operability of the platform. The regulations will need to be very clear on the thresholds. At the same time, access to information must

be restricted on a “need to know” basis to a few designated individuals in compliance, risk management, and management.

The Authority may consider allowing for Providing information in COSMIC only when the financial institution has filed a suspicious transaction report (STR).

**Question 2: MAS seeks feedback and welcomes suggestions to enhance the proposed three modes of information sharing, i.e. Request, Provide and Alert, to better support FIs’ detection and assessment of potential illicit actors.**

The proposed tiered approach acts as adequate safeguard to customers while allowing financial institutions to obtain and share necessary information to effectively combat money laundering and terrorism financing. We support this tiered approach with increasing thresholds for the disclosure of customer information.

In case of a request, the “initiating financial institution or any of its officers may, when making a request [...], disclose any risk information as may be relevant to the request made to the disclosing financial institution.” (sec. X7(3) Annex B). The initiating financial institution has no obligation to disclose the information. We propose that the initiating financial institution has an obligation to disclose the risk information as an additional safeguard to ensure that the basis for the request is sufficient, but without an obligation by the disclosing financial institution to assess this, and to enable the disclosing financial institution to conduct a risk assessment themselves. The proposed statutory provisions should clarify that the disclosing financial institution has no obligation to ascertain that the request is justified. At the same time, the disclosing financial institution should have a right to withhold information of which it is confident that it is not relevant to the request. The Authority may consider further clarifying this beyond the proposed sec. X7(4) of Annex B.

Sec. Y8(2)(a) of Annex B will place a great burden on initiating financial institutions for “Provide”. To ensure that the risk information is disclosed to “any prescribed financial institution that has the same relevant party where the initiating financial institution knows or should have known that the relevant party that is the subject of the disclosure is also a relevant party of the other prescribed financial institution” will require an extensive search of the initiating financial institution’s records. For example, the initiating financial institution may need to check on all accounts where an individual is the account holder, a person authorised to act on behalf of the customer, or the beneficial owner and search the transactions of all these accounts for indications of associated entities, possibly even extending to records before the obligation was introduced, to find connections to other prescribed financial institutions. Large financial institutions will certainly struggle to meet such requirement. For small financial institutions, it will be impossible to conduct the required research. We therefore advocate for the Authority to limit the extent of the

“provide” obligation to relevant financial institutions involved in the transaction triggering the provision of the risk information. The disclosure to further financial institutions should not be an obligation but a possibility where the initiating financial institution is aware of common relevant parties.

Financial institutions will be required to disclose information for Request, Provide and Alert in a timely manner that is to be specified in regulations (para. 4.12(b) of the Consultation Paper). Given their limited resources overall, small financial institutions, such as EAMs, will have limited resources to reply to Requests, or Provide information, or produce Alerts. While we recognise that a timely exchange of information facilitates AML/CFT measures in the ecosystem, we request the Authority to implement an adequate timeframe that does not jeopardise small financial institutions’ services to their customers.

Similar to the initial financial institutions participating in COSMIC, other financial institutions should also have a two-step implementation of the requirements for information sharing in COSMIC. Other financial institutions will encounter essentially the same challenges to comply with the requirements for the disclosure of information while safeguarding their customers’ legitimate confidentiality.

**Question 3: MAS seeks comments on the proposed legislative amendments, to permit the disclosure of risk information on COSMIC for AML/CFT purposes only, and to require FIs to put in place measures to safeguard the confidentiality and appropriate use of the shared risk information.**

We strongly support safeguards of information shared on COSMIC: the restriction of their use for AML/CFT purposes only as well as the limited access to this information. As mentioned previously, privacy is of material interest to most high-net-worth individuals. Legitimate customers should not be unnecessarily exposed. The confidentiality of their information must be safeguarded in their interest and the interest of the financial centre Singapore.

The Consultation Paper highlights technology risk management measures to safeguard access to COSMIC (para. 4.4 of the Consultation Paper). The Authority may impose requirements on the prescribed financial institutions concerning their participation on the platform (sec. X3 Annex B). While it is in the interest of EAMs to participate in COSMIC, small financial institutions, such as EAMs, have limited resources to safeguard their technology and their technological access to the platform. We therefore welcome the option of a web-based user interface as proposed in the Consultation Paper (para. 8.2 of the Consultation Paper) to grant them access.

**Question 4: MAS seeks comments on whether the proposed statutory protection adequately covers FIs against undue legal risks arising from disclosing information via COSMIC.**

We support and concur with the proposed provisions to exclude civil liability of financial institutions that have disclosed information in COSMIC with reasonable care and in good faith.

**Question 5: MAS seeks comments on the scenarios and related conditions that have to be met before an FI may share COSMIC platform information with local and overseas affiliates of FIs, and third parties.**

Due to their limited size and resources, small financial institutions, such as EAMs, frequently outsource functions such as compliance and internal audit. Sec. X11 of Annex B and Part II of the X11 Schedule to Annex B allow for the access of outsourced compliance service providers. The disclosure of the Authorities directions for access to and disclosure of information in COSMIC under sec. X4(3) of Annex B should be aligned for their sharing with outsourced compliance service providers. Moreover, we advocate to explicitly allow for the sharing of information with internal audit where it is outsourced. The sharing with outsourced internal audit is crucial to their control and assurance.

**Question 6: MAS seeks feedback on introducing a requirement for FIs to put in place a process for reviewing customer relationships prior to exit, which would include providing the customer adequate opportunity to explain the activity or behaviour assessed to be suspicious.**

We support the further clarification that financial institutions should not exit customer relationships without due reason. The reliability of business relations with their financial institutions is a crucial factor for customers that contributes to the trust in Singapore's financial centre.

At the same time, the Authority may consider providing additional guidance to distinguish the required opportunity for the customer to address the financial institution's concerns versus the prohibited "tipping off".