

Financial Intelligence Unit

Quarterly Report

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The Financial Intelligence Unit (FIU) continued to carry out its functions as stipulated under the Money Laundering & Proceeds of Crime (MLPC) Act and Regulations. During the September 2017 quarter, the FIU received the following reports and carried out the following functions:

1. Number of reports received

Type of reports filed	Jul-17	May-17	Jun-17	Total Sep-17 QTR	Mar-17 QTR
Suspicious Transaction Reports (STRs)	1	0	6	7	2
Currency Transaction Reports (CTRs) ¹	590	822	715	2,127	2,273
Border Currency Reports (BCRs) ²	13	8	9	30	19

The FIU received 2 STRs this quarter from its reporting entities. The number of CTRs increased over the months totaling to 2,273 reports in the June 2017 quarter. There were 19 BCRs reported by the Ministry of Revenue & Customs this quarter. The FIU retained information obtained in these reports to assist in data analysis.

¹ CTRs reporting is for transaction equal to and above T\$10,000. Transactions include deposits and withdrawals in all types i.e. deposit, withdrawal, exchange of currency or other payment or transfer with the exemptions of government agencies and financial institutions transactions. Customers with established relationship with the reporting entity conducting transactions of that amount are also exempted if their background or business activities support the amount of the transaction.

² BCR reporting requires declaration at the border by any person entering or leaving the Kingdom with cash amounting to more than T\$10,000 or its equivalent in foreign currencies

2. STR analysis

STR by type	Jul-17	Aug-17	Sep-17	Total Sep-17 QTR	Jun-17 QTR
Unusual significant transactions	1	0	2	3	0
Large and rapid movement of funds	0	0	1	1	1
Using personal accounts for business purpose	0	0	1	1	1
Possible avoidance of Exchange Control requirements	0	0	1	1	0
Other	0	0	1	1	0
TOTAL	1	0	6	7	2

Out of the 7 reports filed this quarter, 1 was related to using of personal account for business purposes, 4 reports were related to unusual significant & large rapid movement transactions and 1 report was in relation to possible avoidance of Exchange Control

requirements. The remaining report was in relation to the possible misuse of an identification document.

The STRs more than tripled in numbers this quarter. The increase in number may be due to increase in financial activities this quarter as noted on the inward transactions reported on the CTR data. On the same period of the previous year, the FIU received 9 reports of which 5 reports were in relation to using of personal accounts for business transactions, 2 reports in relation to unusual significant transactions and 1 report relating to unexplained involvement of third party. Although the number of reports slightly differs, there is quite a difference in the suspicious indicators of reports being filed with 'using personal account for business transactions' being the dominant indicator in the previous year has decreased immensely this quarter. This year there is a spread of other indicators with 'unusual significant transactions' being the dominant type of STR reported in this quarter. This could be a result of reporting entities increased awareness and understanding of the different other indicators for identifying and reporting of STRs.

3. Number of STRs disseminated

Following the analysis of the 7 STRs, 4 reports were disseminated to the Ministry of Revenue & Customs for further investigations due to possible contravention of tax obligations. One of those 4 reports was also disseminated

to Police for further investigations. The remaining 3

Law Enforcement Agencies	Jul-17	Aug-17	Sep-17	Total Sep 17 QTR	Jun-17 QTR
Police	0	0	1	1	0
Customs & Revenue	0	0	4	4	2
Other (reporting entity)	1	0	2	3	1

reports were referred back to the reporting entity to complete due diligence on the person of interest as well as requiring these customers to use business accounts for their business related transactions. In the previous quarter, both reports were disseminated to the Ministry of Revenue & Customs and 1 report was also referred back to the reporting entity. In the September 2016 quarter, 6 of the 9 reports filed were disseminated to several law enforcement agencies including Police, the Immigration Department of the Ministry of Foreign Affairs, the Business Licensing Division of the Ministry of Commerce, Consumer, Trade, Innovation & Labour and the Ministry of Revenue & Customs. The remaining 3 reports were retained with FIU due to facts surrounding the reports and lack of evidence to support any suspicion that they are related to the commission of any serious crime or money laundering. These reports are filed for future references.

4. CTRs data analysis

	Jul-17 (TOP\$ M)	Aug-17 (TOP\$M)	Sep-17 (TOP\$M)	TOTALS Sept- 17 (TOP\$M)	Jun-17 QTR (TOP\$M)
Inwards ³	8.91	16.64	10.31	35.86	34.34
Outwards ⁴	4.94	4.07	4.82	13.83	16.52
Transaction purpose					
Business	5.92	9.60	6.96	22.48	25.13
Personal	7.93	11.11	8.17	27.21	25.73
Transaction type					
Telegraphic transfer (TT)	0.77	4.2	1.21	6.18	4.70
Cash	7.26	10.31	7.64	25.21	26.16
Cheque	3.44	2.63	3.09	9.16	9.98
Cash/Cheque	0.31	0.73	0.50	1.54	2.62
Other	2.07	2.84	2.69	7.60	7.40

This quarter the FIU received 2,127 CTRs. About \$36 million in total were for inward transactions and about \$14 million were for outward transactions of which were classified for purposes under business and personal related transactions. Personal transactions totalled to over \$27 million and over \$22 million for business purposed which is just a slight difference to the previous quarter's evenly distributed data. Cash continued to be the preferred type of transaction followed by the

³ Inward CTRs are all types of inward transactions to the reporting entity reported under 'Transaction type' for the purposes reported under 'Transaction purpose'.

⁴ Outward CTRs are all types of outward transactions from the reporting entity reported under 'Transaction type' for the purposes reported under 'Transaction purpose'.

use of cheques and TTs. Comparing with the previous quarter, total inwards transactions increased by \$1 million while outwards transactions decreased by almost \$3 million. The increase in inwards transactions was due to an increase in personal related transactions which were mostly noted on increase in TTs during the quarter. The use of cheques and cash decreased over the months which supported the decreasing trend of the outward transactions.

5. BCRs data analysis

The FIU received 30 BCRs this quarter from the Ministry of Revenue & Customs. Outbound funds continued to be the dominant BCRs. All of the outbound funds were shipment of currencies for financial institutions and were all approved by the Reserve Bank before transporting across the

Inbound funds	Jul-17 (TOP\$M)	Aug-17 (TOP\$M)	Sep-17 (TOP\$M)	TOTALS Sep-17 (TOP\$M)	Jun-17 QTR (TOP\$M)
Inbound	0.15	0	0.01	0.16	0.09
Outbound	3.78	3.06	3.22	10.06	11.98
Purpose of funds					
Business	4.39	3.02	2.92	10.33	10.91
Personal	0.15	0.04	0.31	0.5	0.03

were of individuals visiting or returning to Tonga. The number of reports almost doubled from the previous quarter

although the volume of funds decreased by almost \$2 million due to lesser amount of currencies being shipped. There were no suspicious activities noted on the BCRs submitted during the quarter.

6. AML/CFT Training

The FIU completed its second bi-annual training for the banks and foreign exchange dealers on the 17th and 18th August 2017. The training focused on enhancing the understanding of all reporting institutions on their obligations to adopt a risk based approach on customer due diligence. This was also an opportunity to provide feedback on the reports that have been submitted to the FIU.

In August 2017, the FIU also conducted initial AML Training to a newly established foreign exchange dealer SAV Money Transfer Ltd. The money remitter's license was granted in August 2017 to commence operation within three months from date of license grant. The training was provided to a couple of staff in its Tonga office. The small money transfer operates locally with remitting agents based in Melbourne, Australia and Auckland, New Zealand.

7. Quarterly Compliance Checks

Compliance checks to random Foreign Exchange Dealers have been completed as part of the FIU and the Non-Banks Division obligation to ensure the compliance of reporting entities with their licensing conditions including AML/CFT related requirements. The visits were conducted to 5 entities and is continuous on a quarterly basis. All these entities were generally compliant with the requirements of their license. This is the last round of quarterly checks in preparation for the annual compliance check of all Foreign Exchange Dealers scheduled for November- December 2017.

8. Information Sharing

The FIU have initiated communications with its counterparts in New Zealand and China in an attempt to explore opportunities to further its information source and to formalize exchanges of information with these two countries. This will enable the FIU to exchange information with the FIUs of China and New Zealand to assist in background checks of companies and individuals that are looking into investing in Tonga and to also assist in conducting due diligence checks of applicants for bank license. The FIU expects to receive draft Memorandum of Agreements/ Understandings from these two FIUs to progress with negotiation phase.

9. Events

- 17th – 21st July 2017, 20th Asia Pacific Group on Money Laundering Annual Meeting, Colombo Sri Lanka
- 17 -18th August 2017, AML/CFT Training to banks and foreign exchange dealers
- 26- 29th September 2017, Quarterly Spot checks to foreign exchange dealers