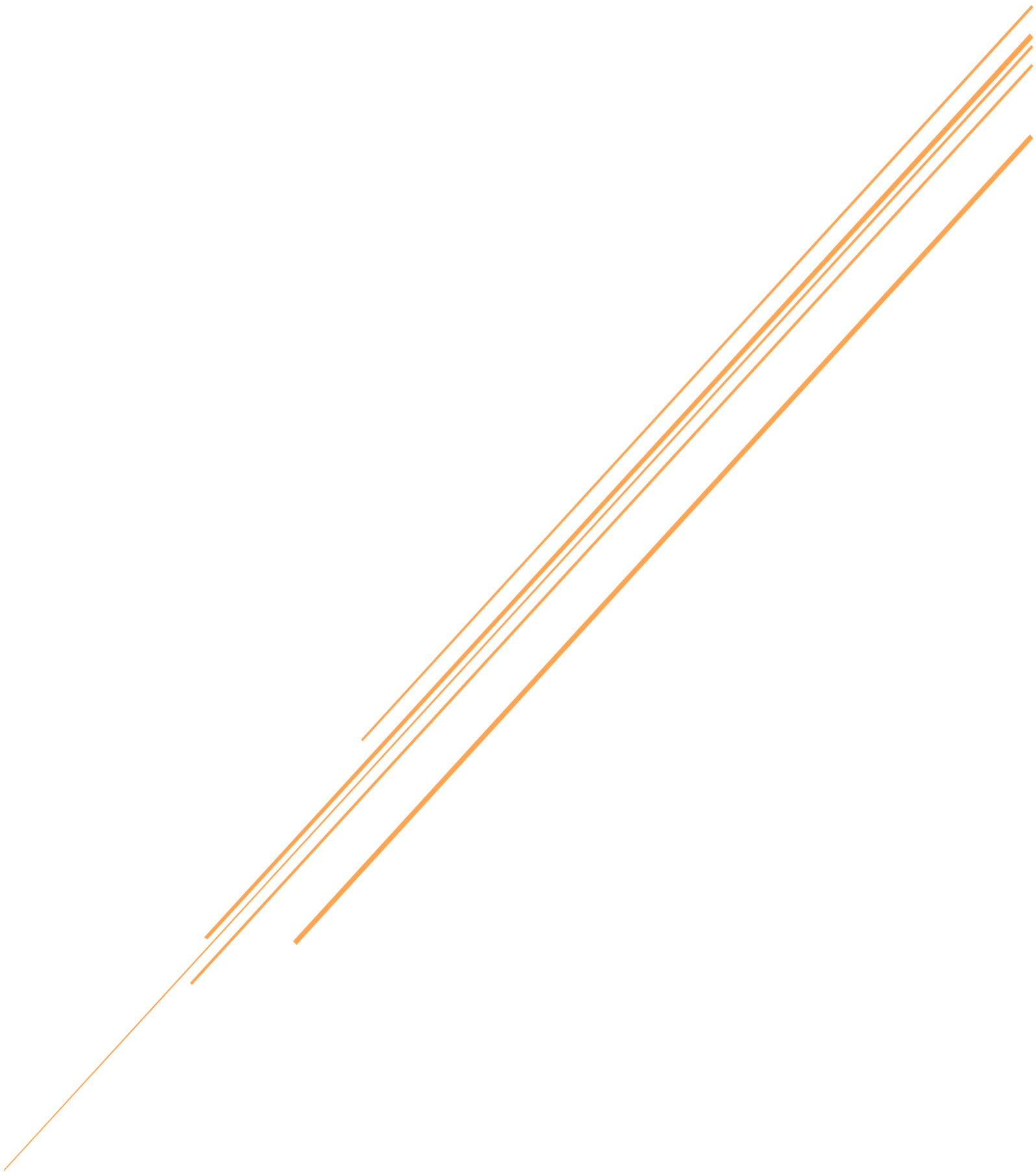


INDUSTRY BEST PRACTICE PAPER:
MANAGING MONEY LAUNDERING AND
TERRORISM FINANCING (“ML/TF”)
RISKS ASSOCIATED WITH COMPLEX
TRUST STRUCTURES



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Introduction

1. A trust is a legal relationship created by a settlor when the settlor's assets are placed under the ownership and control of a trustee for the benefit of a beneficiary (i.e. a discretionary trust or a fixed trust), or for a specified purpose (i.e. a purpose trust). In creating the trust, the settlor would transfer the legal title of the trust assets to the trustee that would hold and, in most instances, manage the assets for the benefit of the beneficiaries, in accordance with the terms of the trust deed. The focus of this paper is on express trusts, which are created by the settlor, usually in the form of a document (e.g. a written deed of trust).
2. In the wealth management space, trusts are typically set up by high net worth individuals ("HNWI") for succession planning, estate planning, asset protection and/or philanthropic purposes. While the majority of trusts are known to be established for legitimate reasons, the potential for misuse exists. Some trust structures could have layers of holding companies, which may be misused to obscure the link between illicit trust assets and their origin. The opacity of a trust structure would increase if the holding companies are incorporated in jurisdictions where adequate, accurate and up-to-date information on the companies is not readily available. Such trust structures may present heightened money laundering and terrorism financing ("ML/TF") risks, and could pose challenges to law enforcement agencies, regulators and AML/CFT¹-obligated entities, when they seek to ascertain the origin of the trust assets and beneficial owners² of the trust. More recently, to help combat the opacity of tax information of HNWI and their trust structures, reporting regimes such as Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) have been adopted internationally to help fight against tax evasion by HNWIs and protect the integrity of tax systems.
3. Noting the potential for the misuse of trusts³ and the Monetary Authority of Singapore's ("MAS") supervisory expectations in relation to complex trust structures⁴ (i.e. financial institutions should assess the ML/TF risks associated with such structures and apply appropriate risk mitigation measures), a Working Group ("WG")⁵ comprising industry participants (see Appendix A for details) was formed to provide additional guidance for licensed trust companies ("LTCs") dealing with cases involving complex trust structures.
4. The objectives of this best practice paper are to highlight a number of non-exhaustive case studies⁶ featuring commonly observed characteristics of complex trust structures that may give rise to associated ML/TF risks and relevant red flags, and the recommended best practices to mitigate such risks. This guidance does not impose additional legal requirements on LTCs and does not prescribe a one-size-fits-all approach. Instead, LTCs should draw reference from the best practices cited when designing their risk-based approach and risk mitigation measures. Fundamentally, the recommended best practices are to help LTCs guard against potential ML/TF risks in the course of providing trust business services by: (a) establishing a good upfront understanding of a complex trust structure; (b) obtaining assurance that the trust's assets are legitimate; and (c) ensuring that adequate information is available to identify unusual patterns/activities on an ongoing basis.
5. A complex trust structure would typically have one or more of the following non-exhaustive characteristics:
 - (i) Multiple intermediary ownership layers and/or multiple jurisdictions;
 - (ii) Corporate settlors, beneficiaries and/or protectors; and/or
 - (iii) Private trust companies.
6. LTCs should note that the complexity of a trust structure, in and of itself, is not an indicator of suspicion or ML/TF offences. LTCs should always seek to understand the purpose of the establishment of a trust and the rationale behind its structure, as well as identify and verify the identities of all trust relevant parties and their beneficial owners. This understanding should be part of the holistic assessment of ML/TF risks presented by the trust structure. LTCs should apply the appropriate risk mitigation and control measures commensurate with the level of complexity of the trust structure.
7. LTCs are encouraged to review and determine how they can incorporate the best practices set out in this guidance in their AML/CFT frameworks. In general, while this paper is intended for LTCs, other institutions, especially those that are dealing with trusts and/or complex structures, can consider adopting the applicable takeaways from this guidance in their AML/CFT frameworks.
8. LTCs should note that the case studies featured in this paper are non-exhaustive, and LTCs should continue to implement appropriate AML/CFT controls that are commensurate with the nature and complexity of their business. As part of its internal controls, an LTC should also document its assessment of its risk mitigation measures in relation to its ML/TF risks.

¹ Anti-Money Laundering and Countering the Financing of Terrorism.

² Beneficial owners is akin to Effective Controllers as defined in the MAS Notice TCA-N03.

³ There are other trust-like structures (e.g. fiducie, treuhand and fideicomiso), which would give rise to similar risk considerations.

⁴ [MAS' Jan 2019 "Guidance to Capital Markets Intermediaries on Enhancing AML/CFT Frameworks and Controls"](#)

⁵ The WG comprises representatives from a number of LTCs and professional intermediaries.

⁶ The non-exhaustive case studies were compiled by the WG, which did not disclose commercially-sensitive or client-identifying information in the process.

1 – Multiple intermediary ownership layers and/or multiple jurisdictions

9. A trust structure would generally be deemed to be a complex trust structure if it has:
- (i) Three or more intermediary ownership layers (which could include non-trustee managed entities) below the trust; or
 - (ii) Intermediary ownership layers (which could include non-trustee managed entities) below the trust spanning across three or more jurisdictions⁷, including higher-risk jurisdictions⁸.
10. The use of multiple intermediary ownership layers and/or multiple jurisdictions within a trust structure could be an attempt to conceal the true beneficial owner(s), move or shield the proceeds of crime and/or facilitate illegitimate activities. The ML/TF risks would be further heightened if an LTC is unable to pierce through the chain of ownership and control to identify the beneficial owner(s) and to ascertain if there is a reasonable rationale for the structure⁹.
11. Specifically, for Non-Trustee Managed Entities (“NTMEs”)¹⁰, an LTC may not have the legal standing to interfere with the affairs of the intermediary ownership layers (i.e. holding companies) per the terms set out in the trust deed nor oversight and access to information on the NTMEs (e.g. activities including jurisdictions the NTMEs operate in or deal with or changes in ownership/management). In this regard, the LTC should assess the reliability of information received and be alert to any red flags such as:
- (i) the settlor’s/directors’ reluctance in providing information/supporting documents.
 - (ii) discrepancies in the information received that may be inconsistent with the LTC’s knowledge of the client and reliable, independent sources of information.
12. Case Studies 1 to 3 contain recommended best practices which LTCs are encouraged to adopt when they encounter trust structures with multiple intermediary ownership layers and/or multiple jurisdictions.
13. LTCs are to be guided by their own policies and procedures on threshold ownership standards and apply the best practices in this paper in conjunction therewith.

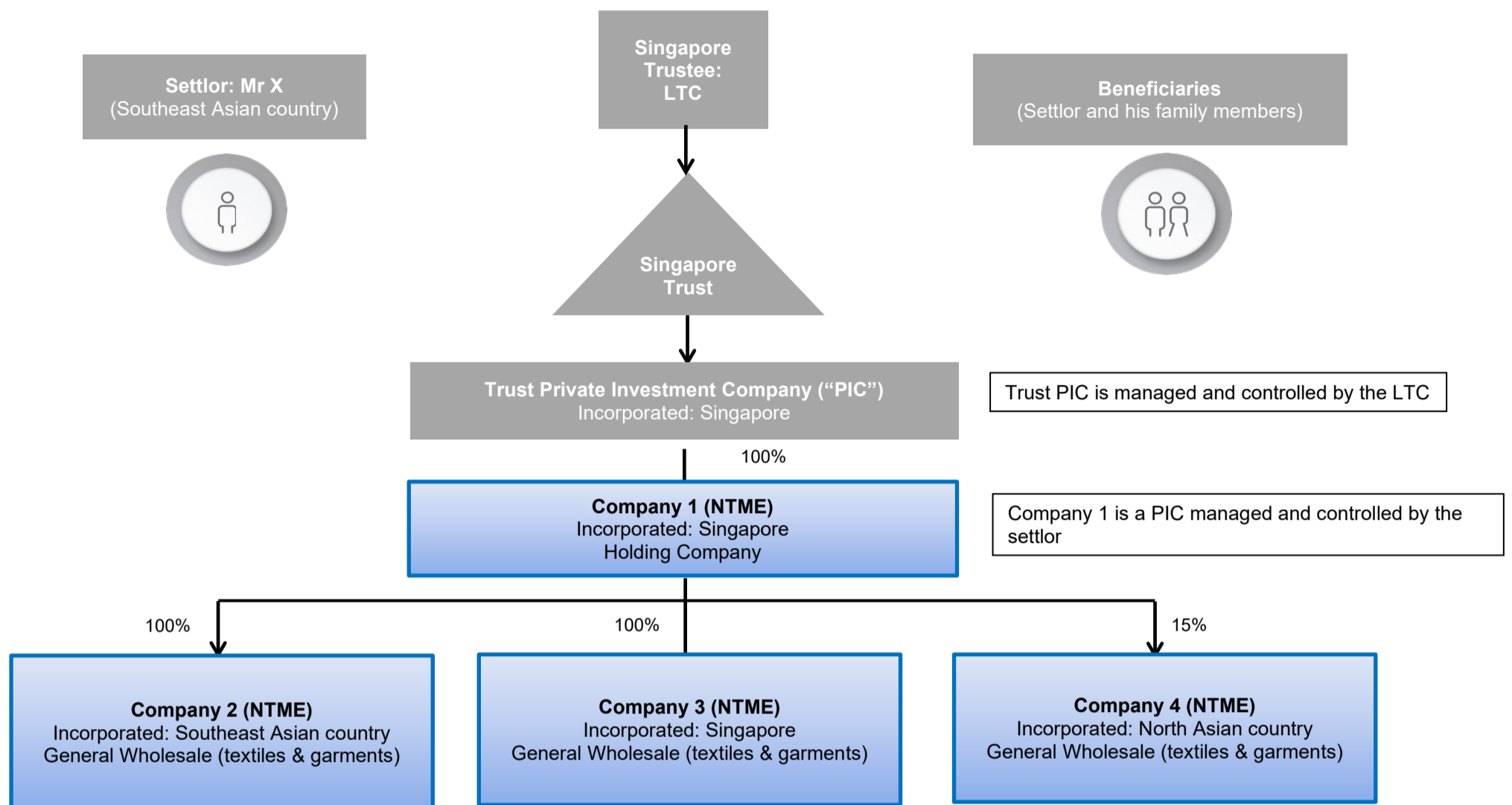
⁷ Including Singapore.

⁸ When assessing whether jurisdictions are higher risk, apart from the jurisdictions identified in the Financial Action Task Force’s Statement on High-Risk Jurisdictions subject to a Call for Action and Jurisdictions under Increased Monitoring list, an LTC should also consider jurisdictions with a significant level of corruption (using e.g. Transparency International’s Corruption Perceptions Index as reference), TF, serious tax crime or other financial crime.

⁹ As stated in paragraph 6.31 of the MAS Notice TCA-N03, where the trust company is unable to complete the measures as required by paragraphs 6, 7 and 8, it shall not commence or continue business contact with any trust relevant party. The trust company shall consider if the circumstances are suspicious so as to warrant the filing of an STR.

¹⁰ NTMEs are not managed by an LTC but are instead managed by the trust relevant parties or other parties (e.g. family members of the trust relevant parties, independent professional service providers, employees of the NTMEs), and can either be investment holding entities or operating business entities.

1 – Multiple intermediary ownership layers and/or multiple jurisdictions Case Study 1



14. The above is the intended trust structure that Mr. X has asked the LTC to set up. Based on the information provided to the LTC, Mr. X and his family members are nationals of and residents in a Southeast Asian country. Company 1 is a company incorporated in Singapore to act as a holding company for his general wholesale textiles and garments business in the Asian region. To expand into North Asia, Mr. X invested (via Company 1) in Company 4 in a North Asian country and currently holds a 15% interest in Company 4.
15. The LTC noted from its review of the constitutional documents of Company 4 that there are three other corporate shareholders (Company X, Company Y and Company Z) holding 28%, 28% and 29% interests respectively. These three corporate shareholders were incorporated in the same North Asian country as Company 4. Mr. X advised that the corporate shareholders are not willing to disclose the identities of their beneficial owners. He is unable to compel them to do so as Company 1 is a minority shareholder. Mr. X does not appear to have authority or control within Company 4 and could not provide further information on his co-shareholders.
16. Upon review of the audited consolidated financial statements of Company 1, the LTC noted that 60% of Company 1's income originated from Company 4 in the form of loan interest payments. Company 1 had granted a loan of US\$10 million to Company 4, which was 50% of Company 1's assets in its balance sheet, with the interest rate fixed at 10%.
17. Mr. X produced a loan agreement but could not provide commercial justifications for the substantial loan of US\$10 million. It was also not explained to the LTC why Company 4 was willing to pay such a high interest rate of 10% as compared to the standard market interest rate. Additionally, in the course of screening, the LTC noted adverse news on Company 4 which indicated that Company 4 may be under investigation for fraud and corruption.

Red Flags	<ul style="list-style-type: none"> • Unknown beneficial owners of Company 4. • Adverse news on Company 4 which indicated that Company 4 may be under investigation for fraud and corruption.
Best Practices	<p><u>At onboarding (i.e. before setting up the trust structure)</u></p> <ol style="list-style-type: none"> a) Understand the rationale behind, purpose of and intended activities of the structure in order to ascertain its overall legitimacy. b) Obtain detailed information on the profile, activities, and assets of Companies 1 to 4, including the type and size of assets. c) Identify and verify the identities of the directors, shareholders, and beneficial owners of Companies 1 to 4. d) For Company 4, identify its beneficial owners using reliable sources such as registry of companies, external credit report, external due diligence vendor report, etc. e) To ascertain legitimacy of underlying companies, obtain and review the constitutional documents of Companies 1 to 4 e.g. certificate of incorporation, certificate of incumbency, constitution, register of members, register of directors or perform alternative measures (if constitutional documents cannot be obtained). f) Screen the names of Companies 1 to 4, and their directors, shareholders and beneficial owners against commercial databases and the Internet (e.g. United Nations Security Council website) for sanctions hits, adverse news, etc. Investigate and escalate any positive matches in accordance with the LTC's AML/CFT framework, policies, and procedures. g) Obtain and review the audited consolidated financial statements of Company 1¹¹ (see Appendix B – Financial Statements Review Checklist*). h) Obtain and review financial statements of Companies 2 to 4 (i.e. the financial statements of the more material/higher-risk companies¹² should be obtained). i) Obtain and review management accounts if audited financial statements cannot be obtained. In such a situation, the LTC should assess the reliability of the management accounts and document its assessment, as well as why audited financial statements could not be obtained¹³. j) For the loan arrangement between Company 1 and Company 4, obtain supporting documents (e.g. correspondences on how the interest rate was determined, the purpose of the loan, documentation to support the arm's length nature of the transaction). k) Where the business premises are in Singapore, perform site visits (e.g. to Companies 1 and 3) where practicable. <p>The LTC should attempt to complete the above actions before onboarding Mr. X. If the LTC is unable to carry out any specific measures, it should find alternative means to mitigate the ML/TF risks posed and document its approach and risk assessment accordingly.</p> <p>*Appendix B – Financial Statements Review Checklist may be used as a guide for the review of audited financial statements wherever reference to audited financial statements are made throughout this paper. LTCs may also use any in-house review/guidance checklists which form part of their policies or procedures.</p>

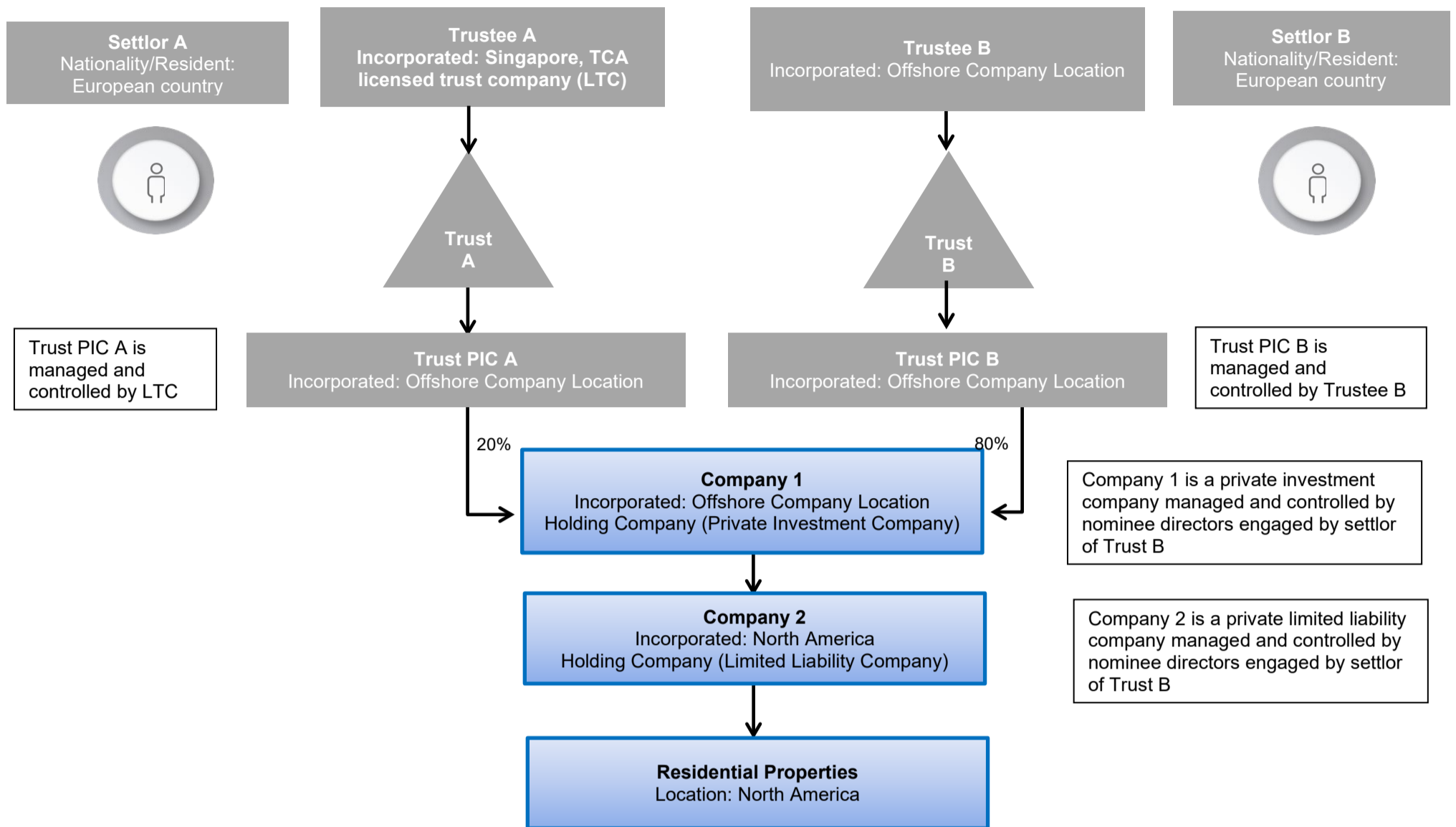
¹¹ Reviewing audited financial statements would provide an overview of the business and operations (including future developments and subsequent events) and help an LTC form a reasonable understanding of the expected ongoing activities of the specific Company. For instance a reasonableness assessment could consider whether, the income statement reveals significant gross and net profit year-on-year; or changes that do not appear commensurate with the LTC's understanding of the Company's business profile; or any significant changes in key financials or other unusual or non-recurring items reflected in the financial statements.

¹² These could refer to companies (or the beneficial owners of these companies, where appropriate) that are domiciled/incorporated in sanctioned jurisdiction or have dealings with sanctioned individuals or entities and/or that are in higher-risk/sensitive industries/sectors. Per MAS TCA-N03, a trust company is reminded of its obligations to freeze without delay and without prior notice, the funds or other assets of designated persons or entities that it has control over so as to comply with applicable laws and regulations in Singapore, including the TSOFA and MAS regulations.

¹³ For example, some jurisdictions do not have audit requirement while others, such as Singapore, have specific exemptions from audit requirement e.g. the small company/group audit exemption.

1 – Multiple intermediary ownership layers and/or multiple jurisdictions

Case Study 2



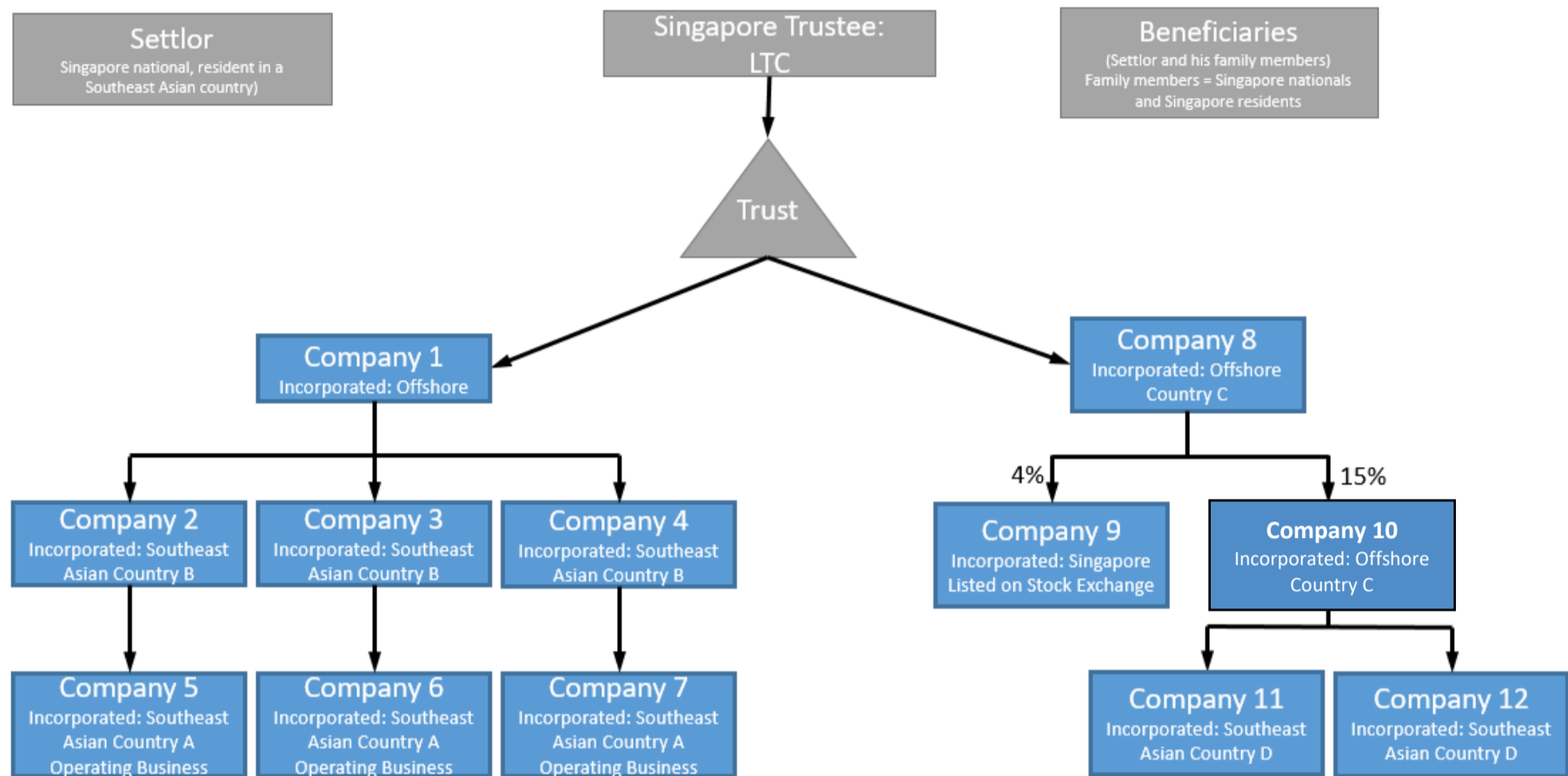
18. Settlor A is a national and resident of a European country. Settlor A approached the LTC to set up Trust A to hold his 20% interest in North American residential properties (“Residential Properties”) which he inherited from his deceased father’s estate. The Residential Properties were valued at US\$95 million.
19. Settlor B is Settlor A’s brother and is also a national and resident of a European country. Settlor B inherited 80% interest in the Residential Properties. Settlor B approached Trustee B, which is incorporated in a jurisdiction with higher ML/TF risk, to act as trustee for his Trust B.
20. Settlers A and B were seeking to establish their respective trusts A and B, as well as their underlying Trust PIC A and B to hold their direct interests in the Residential Properties. Under the two PICs, two intermediary holding layers comprising Companies 1 and 2 were set up. Companies 1 and 2 were managed by corporate service providers engaged by Settlor B.
21. In seeking to engage the LTC as his trustee, Settlor A provided a legal opinion that advised Settlers A and B to establish a trust with two intermediary holding layers i.e. Company 1 and Company 2 to hold the Residential Properties. This proposed trust is structured as such to achieve tax efficiency under specific US tax laws.
22. To acquire a holistic understanding of these two trust structures prior to acting as trustee to Trust A, the LTC requested further information on Trust B, However, Settlor B declined to provide information on the trust relevant parties of Trust B as well as its trust deed, citing privacy reasons. Settlor B only provided the names of Company 1, Company 2, and the Residential Properties.
23. For corroboration on source of wealth (SoW), Settlor A provided his deceased father’s will to LTC.

Red Flags	<ul style="list-style-type: none"> • Complex structure which has 3 intermediary holding layers for which information on the ownership chain was not available. • Settlor A was not able to provide the following information concerning his brother’s Trust B for LTC to conduct CDD: <ul style="list-style-type: none"> ➢ Name of Trustee B ➢ Trust Deed of Trust B ➢ Trust relevant parties of Trust B • Trustee B was from a jurisdiction under increased monitoring by the Financial Action Task Force
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Best Practices	<p><u>At onboarding (before accepting the complex structure comprising Company 1, Company 2, and the Residential Properties into Trust A):</u></p> <p>a) Understand the purpose and rationale for the establishment of 2 intermediary holding layers (i.e. Company 1 and Company 2). Sight and review the professional advice obtained e.g. from lawyers, tax advisors etc. Assess for reasonableness.</p> <p>b) Obtain the following information on Trustee B and Trust B, given that Trust B owns 80% of the trust assets</p> <ul style="list-style-type: none"> ➤ Name of Trustee B, ➤ Name of Settlor of Trust B, ➤ Name of Protector of Trust B, and ➤ Names of the beneficiaries to Trust B or at least the classes of beneficiaries and relationship to the Settlor. <p>Minimally, a declaration from the Trustee B on the above information should be obtained.</p> <p>c) Identify Settlor A and Settlor B and the trust relevant parties, including beneficial owners (if any) for Trust A and Trust B. To also identify the directors of Trustee B, the directors and shareholders of Companies 1 and 2, and Trust PICs A and B. Obtain the constitutional documents for these four companies.</p> <p>d) Screen the names of the above-mentioned parties in paragraph c) against commercial databases and/or the internet (e.g. United Nations Security Council websites etc.) for sanctions and to ensure there is no adverse news on them.</p> <p>e) <i>To corroborate the SoW of Settlor A:</i> Obtain Settlor A's father's will to sight evidence of Settlor A's and B's entitlement to the Residential Properties and their allocated ownership, i.e. rightful inheritance. Where sighting of the will is not possible, to obtain relevant court-certified documentation or the probate lawyer's/will executor's written confirmation on the gifting and allocated ownership. This is to ensure legitimacy of the passing on of the Residential Properties to the settlors.</p> <p>f) Obtain or commission a valuation report of the Residential Properties from a professional valuer or other reliable publicly available information to determine the value.</p> <p>g) Determine the intention of the settlors for the use of the Residential Properties, whether it is for rental or for "own stay". For purposes of "own stay", to identify and verify the intended occupants. For rental and investment purposes, Company 2 may engage the services of a professional property agent to handle the rental.</p> <p>h) Settlor A to obtain financial statements or management accounts that are prepared for Companies 1 and 2.</p> <p>The LTC should attempt to complete the above measures before onboarding Settlor A and Trust A. If the LTC is unable to complete any specific measures, it should find alternative means to mitigate the ML/TF risks posed and document its approach and risk assessment accordingly.</p> <p><u>On an ongoing basis (during a periodic review¹⁴ or when there is a trigger event)</u></p> <p>Where the LTC is able to adequately complete the due diligence measures or apply appropriate risk mitigation measures to onboard the client (Settlor A) and the trust (Trust A), it should conduct the following CDD measures on an ongoing basis:</p> <p>i) <i>To conduct CDD:</i> Assess for changes in the complex structure held by Trust A and Trust B, particularly for changes to the shareholders or directors of Company 1 and Company 2. Understand the purpose of the changes, if any, to determine whether they are in line with the original purpose of the establishment of the two trusts and its two intermediary holding structure for the Residential Properties.</p> <p>j) Review the identification information of the above-mentioned parties in paragraph c) and update for changes.</p> <p>k) Screen the names of the above-mentioned parties in paragraph c) against commercial databases and/or the internet (e.g. United Nation Security Council websites etc.) for sanctions and adverse news.</p> <p>l) <i>For the Residential Properties:</i> To ascertain title and conduct a review on their market value. The valuation can be based on reliable publicly available information.</p> <p>m) Obtain and review the latest annual financial statements of Companies 1 and 2 to confirm that they are consistent with the LTC's knowledge of the purpose and nature of these two companies (see Appendix B – Financial Statements Review Checklist). For instance, the income statement could reveal significant gross and net profit year-on-year changes. The LTC should then follow up to make enquiries to seek explanations for any significant changes in key financials and other unusual or non-recurring items reflected in the financial statements.</p> <p>n) Understand the nature of the outward flow of funds from Company 2 to Company 1, and to the Trust PICs A and B. Obtain corroborative evidence for these fund flows where they are not in line with commonly observed flows and/or industry practice for holding structures of properties.</p>
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¹⁴ For a trust and its trust relevant parties which are subjected to enhanced due diligence, periodic review is typically carried out on an annual basis.

1 – Multiple intermediary ownership layers and/or multiple jurisdictions Case Study 3



24. The settlor is a Singaporean citizen, although resident elsewhere in Southeast Asia (Country A) to be closer to the business.
25. Companies 1 – 7: The settlor built up his business from a small machine part manufacturing for maritime vessels and warehousing operations to include real estate development over the years. The business has been operating in Country A, although its client base is global. All interests in the business are owned by the settlor through his shareholding in Company 1.
26. Companies 2 to 4 are investment holding companies, incorporated in a different Southeast Asian jurisdiction (Country B), that own Companies 5 to 7 respectively. Of these companies, Company 2 and Company 3 have obtained financing from financial institutions in Country B for investment purposes. Company 2 also has a business presence in Country B.
27. The settlor's business operations (machine part manufacturing for maritime vessels) are split into three companies, Company 5 to Company 7, incorporated in Country A. Each of these companies holds different assets of the operating business, i.e. the ownership to the factory, deeds to the land and machinery, and franchise rights to distribute products in Country A.
28. The LTC obtained Company 1's unaudited consolidated financial statements. Audited consolidated financial statements were obtained for Company 2, Company 3, and Company 4. The financial statements for Company 4 show loans receivable owed by third parties outside of the settlor's group of companies.
29. Companies 8 – 12: The settlor also invested in an offshore company, Company 8, incorporated in Country C. This investment in Company 8 was made through dividends received from Company 1.
30. The assets held by Company 8 include a 4% interest in a Singapore Exchange listed company (Company 9) and a 15% interest in a technology start-up offshore company incorporated in Country C (Company 10).
31. Company 10 is a technology start-up business, which is expanding to the Asian market through entering partnerships or establishing branches (Company 11 and Company 12) in other Asian countries. The settlor was a seed investor in Company 10 which is a private equity fund. The settlor had structured his investment holding in Company 10 through Company 8.
32. The LTC is able to identify the directors of Company 10 but Company 10 is not agreeable to provide the register of shareholders due to investor confidentiality reasons. Hence, the LTC is unable to identify the shareholders and beneficial owners of Company 10.
33. The LTC obtained Company 8's unaudited consolidated financial statements. Audited financial information and annual reports for Company 9 could be obtained from internet sources. Consolidated audited financial statements are prepared for Company 10 and provided to Company 8 as its shareholder.
34. The LTC has no presence on the boards of any of these companies. Companies 1 to 12 are all settlor-managed companies.
35. All shareholdings are 100% unless indicated otherwise.

Red Flags	<p>For Companies underlying Company 1</p> <ul style="list-style-type: none"> • Incorporation of companies in different jurisdictions, with some in higher risk jurisdictions¹⁵. • Operating companies deemed to be from a higher risk industry¹⁶. • Third party loans from Company 4 to various parties for undisclosed reasons. <p>For Company 10</p> <ul style="list-style-type: none"> • Undetermined purpose and legitimacy of private equity investments in Companies 11 and 12. • Minimal information in respect of the co-shareholders – Co-shareholders details are protected by a duty of confidentiality of the fund manager, and unable to be shared with settlor. • Higher risk jurisdictions in which Company 10's subsidiaries are operating.
Best Practices	<p><u>At onboarding of Company 1 (i.e. before accepting Company 1 as an injection into a trust structure)</u></p> <ol style="list-style-type: none"> Understand the profile of business activities and assets of the underlying companies from the settlor and public sources of information (where available). Identify and verify the directors, shareholders, and beneficial owners of Companies 1-7. To ascertain legitimacy of underlying companies, obtain and review the constitutional documents (e.g. certificate of incorporation, certificate of incumbency, company constitution, register of members, register of directors) for Companies 1-7 or via other alternative means. Screen names of all companies and the beneficial owners, including the shareholders and directors of companies against commercial databases and/or the internet (e.g. UN websites, for adverse news etc.). If any negative findings are identified, consider if additional information is needed to address or clear these findings, or if any risk mitigation measures must be put in place. Obtain and review the unaudited consolidated financial statements of Company 1 to confirm its role as a holding vehicle for the businesses. If an LTC is not able to obtain audited financial statements, the LTC is to obtain and assess the reliability of alternative documents (e.g. management accounts), as well as document the reason for not obtaining audited financial statements. Obtain and review the audited consolidated financial statements of Companies 2 to 4¹⁷ to identify and follow up on any possible areas of concern (e.g. transaction red flags) requiring further clarification (see Appendix B – Financial Statements Review Checklist). (Reviewing audited financial statements would provide an overview of the business and operations (including future developments and subsequent events) and help an LTC form a reasonable understanding of the expected ongoing activities of the specific Company. For instance, the income statement could reveal significant gross and net profit year-on-year changes that do not appear commensurate with the LTC's understanding of the Company's business profile. The LTC should make enquiries to seek explanations for any significant changes in key financials and other unusual or non-recurring items reflected in the financial statements). If an LTC is not able to obtain audited financial statements, the LTC is to obtain and assess the reliability of alternative documents (e.g. management accounts), as well as document the reason for not obtaining audited financial statements. , Obtain and review the audited financial statements of Companies 5 to 7 (i.e. the financial statements of the more material/higher risk companies¹⁸ should be obtained) (see Appendix B – Financial Statements Review Checklist) If an LTC is not able to obtain audited financial statements, the LTC is to obtain alternative documents (e.g. management accounts) and document the reason for not obtaining audited financial statements. For the loan arrangement between Company 4 and third parties, understand the purpose of loans to third parties by Company 4 and the settlor's/Company 4's relationship to the borrowers. Perform site visit of settlor's operating businesses' premises where practicable, if assurance of operating activities is required. <p><u>At onboarding of Company 8 (i.e. before accepting Company 8 as an injection into a trust structure)</u></p> <ol style="list-style-type: none"> Understand the profile of business activities and assets of the underlying companies from the settlor and reliable public sources of information e.g. SGX website, ACRA, where available. Identify and verify the identities of the directors, shareholders, and beneficial owners of Company 8 and screen these individuals.

¹⁵ For clarity, the determination of higher risk jurisdiction is based on the LTC's internal policies and procedures.

¹⁶ For clarity, the determination of higher risk industry is based on the LTC's internal policies and procedures.

¹⁷ Ordinarily, the LTC should obtain and review the audited financial statements of Companies 1 and 8. In this case, the LTC was only able to obtain the unaudited financial statements of Companies 1 and 8, which would likely consist of the underlying companies' consolidated audited financial statements.

¹⁸ These could refer to companies (or the beneficial owners of these companies, where appropriate) that are domiciled/incorporated in sanctioned jurisdictions or have dealings with sanctioned individuals or entities and/or that are in higher-risk/sensitive industries/sectors. Per MAS TCA-N03, a trust company is reminded of its obligations to freeze without delay and without prior notice, the funds or other assets of designated persons or entities that it has control over so as to comply with applicable laws and regulations in Singapore, including the TSOFA and MAS regulations.

- l) To ascertain the legitimacy of the Companies, obtain and review the constitutional documents (e.g. certificate of incorporation, certificate of incumbency, company constitution, register of members, register of directors) for Company 8 or via other alternative means.

For Company 9

- m) Confirm that Company 9 is listed on the Stock Exchange. Screen Company 9 per LTC's standard screening practices for instances where the structure will be acquiring a majority interest.

For Company 10 (Offshore Country C - private equity investment)

- n) Confirm that the private equity fund manager is regulated and supervised for AML/CFT requirements in line with the FATF Standards ("FATF equivalent jurisdiction"); or that the private equity fund (notwithstanding it is not regulated in a FATF equivalent jurisdiction) is custodised or distributed by licensed financial service providers which are regulated and supervised for compliance with AML/CFT requirements in a FATF equivalent jurisdiction.

- o) Screen Company 10, its key appointment holders (e.g. directors) and the private equity fund manager against commercial databases and the Internet (e.g. United Nations Security Council website) for sanctions hits, adverse news, etc.¹⁹

- p) If the fund manager/fund does not fall within paragraph n) above, the LTC should:
- Request and review subscription-related documents to understand the nature of the underlying private equity undertakings/investments (i.e. for Company 11 and 12), e.g. the propensity of the risk of the investment jurisdiction or sector for ML/TF. For Company 11 and 12, obtain the legal names and business activities of these companies and perform screening of the legal names.
 - Conduct screening of the private equity fund (including its key appointment holders e.g. directors), the private equity fund manager and other parties associated (e.g. Fund administrator, custodian bank) with Company 10 against commercial databases and the Internet (e.g. United Nations Security Council website) for sanctions hits, adverse news, etc.
 - Review the subscription-related documents to determine if the private equity fund manager is subjected to any local AML/CFT rules and regulations. LTCs should have a framework²⁰ to assess the ML/TF risks of the jurisdiction in which the private equity fund manager is located and adopt additional mitigation measures as appropriate, taking into consideration whether the investment in the private equity fund is material²¹.
 - If the private equity fund manager is located in a high risk jurisdiction (per LTC's internal risk assessment framework) and the LTC/ Investment manager proceeds with the investment, the LTC should obtain an attestation letter from the private equity fund manager to confirm that the private equity fund manager performs AML/CFT due diligence measures to identify and verify the beneficial owners as well as their source of wealth and funds²².
 - In the alternative, LTC may accept such confirmations from the associated parties (eg : Fund administrator, custodian bank) of the private equity fund, if the associated party is not one that has been specifically precluded by the relevant competent AML/CFT authorities from relying upon; and the LTC is satisfied that the associated parties it intends to rely upon are subject to and supervised for compliance with AML/CFT requirements consistent with standards set by the FATF.
 - In determining if further due diligence is needed, consideration can be given to whether the associated parties to the fund structure (e.g. Fund administrator, custodian bank) are regulated and supervised for AML/CFT requirements in a FATF equivalent jurisdiction, or funds are being remitted from/to an FI that is regulated and supervised for AML/CFT requirements in a FATF equivalent jurisdiction.

- q) Obtain and review the audited financial statements of Company 10 to identify and follow up on any possible areas of concern (e.g. transaction red flags) requiring further clarification (see Appendix B – Financial Statements Review Checklist). If an LTC is not able to obtain audited financial statements, the LTC is to obtain and assess the reliability of alternative documents (e.g. management accounts), as well as document the reason for not obtaining audited financial statements.

On an ongoing basis (i.e. during a periodic review – which should be performed at least annually or when there is a trigger event)

- r) Understand from the settlor the anticipated activities of the Company 1 and its subsidiaries.

¹⁹ For the avoidance of doubt, if the interests (units/shares) in a private equity fund are distributed and/or custodised in a bank account with a licensed bank that is regulated and supervised in Singapore or other FATF jurisdictions for compliance with AML/CFT requirements, paragraphs o), q) and w) would not be applicable. For avoidance of doubt, "other FATF jurisdictions" should be FATF AML/CFT compliant jurisdictions and exclude (i) high risk jurisdictions subjected to call for action ("FATF blacklist") and (ii) jurisdictions under increased monitoring ("FATF greylist").

²⁰ LTCs can rely on its internal framework to assess the materiality of the ML/TF risks of the respective jurisdiction based on risk criteria which may include taking into account FATF Mutual Evaluation reports / FATF-style regional bodies as well as other relevant risk factors such as economic and political risk, and organised crime as deemed applicable.

²¹ As a general guide, an investment in the private equity fund may not be considered as material if such investment constitutes: -

1. less than 5% of the private equity fund; or
2. less than 5% of the trust fund.

²² In this regard, LTCs can consider taking reference from, but not limited to, applicable FATF standards, local AML rules and regulations etc.

	<p>s) Acquire the certificate of incumbency (or equivalent) for Companies 1 to 8 to confirm that the companies are in good standing as well as for any changes to the directors and the shareholders.</p> <p>t) Screening of names of companies, directors and shareholders against commercial databases or the internet (e.g. United Nations Security Council website) for sanctions hits, adverse news, etc.)</p> <p>u) Review the audited consolidated financial statements for Companies 2-4 and Company 10 to ensure that there have been no unexpected injections or distributions of assets or unusual activity in the Companies and follow up on any possible areas of concern (e.g. transaction red flags) requiring further clarification (see Appendix B – Financial Statements Review Checklist). If an LTC is not able to obtain audited financial statements, the LTC is to obtain alternative documents (e.g. management accounts) and document the reason for not obtaining audited financial statements.</p> <p>v) Obtain and review the audited financial statements of Companies 5-7, 9, 11-12, using a risk-based approach (i.e. the financial statements of the more material/higher risk companies²³ should be obtained) (see Appendix B – Financial Statements Review Checklist). Reviewing audited financial statements would provide an overview of the business and operations, including future developments and subsequent events and help an LTC form a reasonable understanding of the expected ongoing activities of the specific Company. For instance, the income statement could reveal significant gross and net profit year-on-year changes that do not appear to commensurate with the LTC's understanding of the Company's business profile. The LTC should make enquiries to seek explanations for any significant changes in key financials and other unusual or non-recurring items reflected in the financial statements. If an LTC is not able to obtain audited financial statements, the LTC is to obtain alternative documents (e.g. management accounts) and document the reason for not obtaining audited financial statements.</p> <p>w) For Company 10 (Offshore Country C - private equity investment):</p> <ul style="list-style-type: none"> ○ Conduct periodic screening on the Company, fund manager and other related parties as appropriate. ○ Conduct periodic review of the adequacy of earlier due diligence done at onboarding. ○ Monitor for additional capital calls or requests for funding, particularly, funds that are paid to a bank account not in a FATF-equivalent jurisdiction. <p>If the LTC is not sufficiently satisfied with the mitigation of the ML/TF risks posed by the structure at onboarding and on an ongoing basis, it should document the basis of its decision for continuing business relations, assess and implement additional appropriate risk mitigation measures such as declining the business, exiting of existing business and/or filing relevant STRs.</p>
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²³ These could refer to companies that operate in high-risk jurisdictions or that are high-risk rated based on the LTC's ML/TF risk assessment (for example, high-risk jurisdiction, industries, sectors etc.).

2 – Corporate settlors, beneficiaries, and protectors (“CSBPs”)

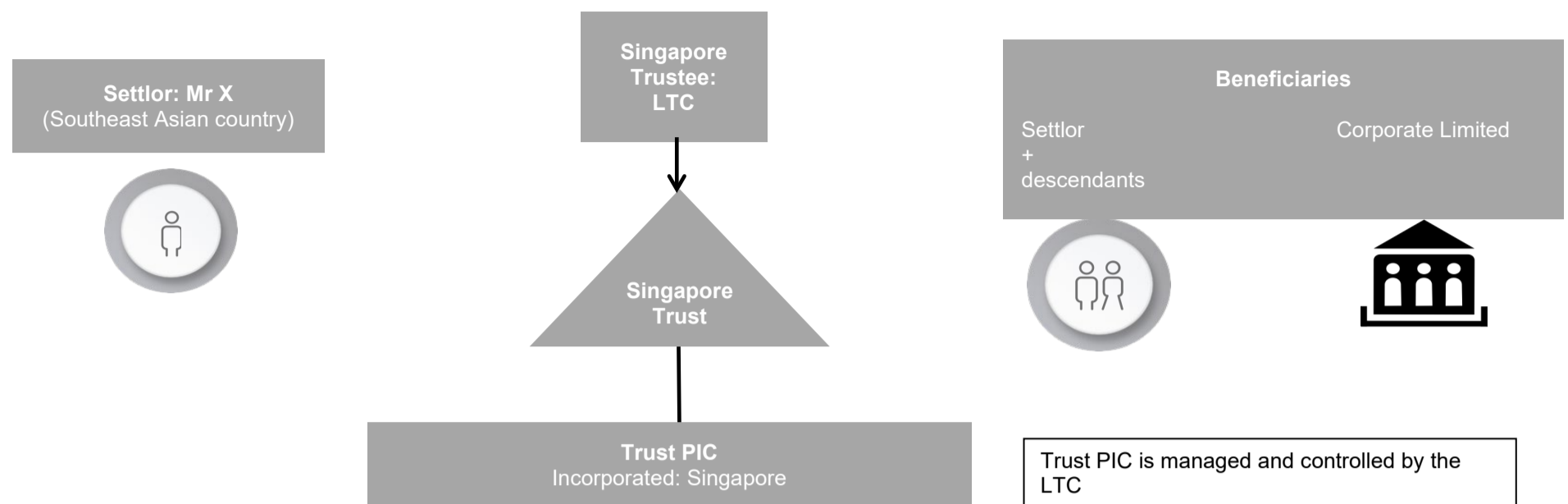
36. The settlors, beneficiaries and protectors of a family trust would typically be natural persons, as family trusts are set up for the purposes of succession planning and estate planning. However, there could be valid reasons for the use of CSBPs. For instance:

- (i) **Corporate settlor:** A corporate settlor confers the benefits of perpetual succession (i.e. the trust does not terminate upon the demise of one specific person) and relationship management (i.e. the corporation can be used to manage family dynamics and reduce relationship conflicts which could arise due to a patriarch or matriarch acting as a settlor). The use of a corporate settlor could also be the result of a restructuring of an existing trust. For example, Trust B could be restructured from Trust A with the asset holding vehicle (i.e. the PIC) under Trust A becoming the corporate settlor of Trust B. This restructuring could be triggered by the death of Trust A's settlor, resulting in the first generation of the settlor's descendants becoming the shareholders and directors of the PIC and setting up Trust B with the PIC as the corporate settlor to facilitate joint decision making as a family.
- (ii) **Corporate beneficiary:** A trust may have one or more corporate beneficiaries where each corporate beneficiary is a vehicle representing a particular branch of a family, which may include minor, mentally-incapacitated or spendthrift family members. The corporate beneficiary may take the form of a trust, a foundation or a PIC. For example:
 - A guardian of a mentally-incapacitated individual often has to keep records of funds received and payments made on behalf of the individual. It may be the guardian's preference to set up a company purely to attend to matters in connection with that individual to avoid the intermingling of funds and for proper record keeping.
 - Alternatively, it may be the wish of a family to have a designated corporation for the maintenance of a mentally-incapacitated individual that can be managed and/or owned by different family members at different times depending on the circumstances. In such a scenario, the settlor may want to have certainty that the trustee would make distributions to the corporation and would therefore include the corporation as a beneficiary of the trust. This would usually be supported by guidance on distributions to this corporate beneficiary contained in the settlor's letter of wishes.
 - A corporation could also be set up for a spendthrift beneficiary to receive funds, for example, when he/she reaches a certain age. This would enable the beneficiary to receive distributions like other members of that generation of beneficiaries, while still allowing the family to have oversight or control over that individual's expenditure if other family members are directors of this corporation alongside the spendthrift beneficiary. In this scenario, the settlor may decide not to include the individual as a beneficiary of the trust and only permit the individual to benefit via the corporation.
- (iii) **Corporate protector:** A corporate protector may be used in a trust to facilitate decision making among different branches of a family. A representative from each branch of the family could be appointed as a director of the corporate protector, who has a vote / decision making power over decisions made by the corporate protector in respect of the trust. This would ensure that the interests of all branches of the family are taken into consideration. If an individual is unable to continue acting as director (e.g. due to his demise), a replacement director can be appointed without the need to make potentially costly or complex adjustments to the trust structure.

37. LTCs should nonetheless assess on a case-by-case basis whether the reasons provided for the use of CSBPs are reasonable, and whether CSBPs are set up to intentionally conceal the identity of the natural person who ultimately controls a trust arrangement for illicit purposes. The presence of CSBPs, especially across multiple jurisdictions, could increase the opacity of a trust structure and associated ML/TF risks, especially if an LTC does not understand why CSBPs are being used or incorporated in various jurisdictions, and is unable to pierce through the corporate veils to determine the beneficial owners.

38. Case Studies 1 and 2 contain recommended best practices, should LTCs encounter trust structures with CSBPs.

2 – Corporate settlors, beneficiaries, and protectors (“CSBPs”) Case Study 1



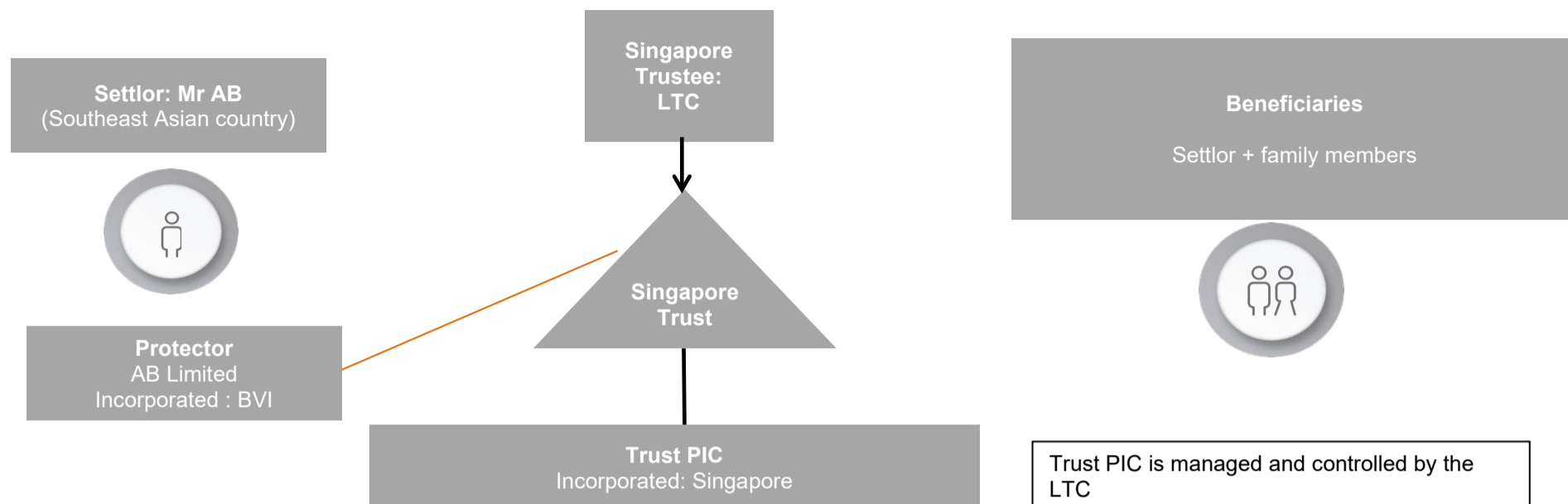
39. Mr X approached the LTC asking it to take over the trusteeship of an existing trust, Singapore Trust. The purpose of the trust was for estate and succession planning. The beneficiaries named in the trust deed were the settlor, Mr X, and his descendants. Mr X wanted to include Corporate Limited as an additional beneficiary.
40. At onboarding, the LTC sought information on all trust relevant parties, including Corporate Limited. Mr X explained that Corporate Limited was the family “bank”, which financed his family members’ personal investments and businesses by way of direct investments.
41. The LTC obtained information on Corporate Limited, which included information indicating that the shareholders and directors of Corporate Limited were family members of Mr X and that there was no known adverse news. The LTC also obtained a copy of Corporate Limited’s financial statements. After the LTC was assured based on its due diligence checks, it proceeded to establish business relations with Mr X and became the trustee of Singapore Trust.
42. Several years later, the LTC received the first request for a distribution from Corporate Limited, which included the amount to be distributed and bank account details. Before making the distribution, the LTC asked for Corporate Limited’s original or certified copy certificate of incumbency to confirm that the shareholders and directors of Corporate Limited were still Mr X’s family members. This was not provided, and Corporate Limited withdrew its distribution request soon after, without providing reasons.
43. The LTC commissioned a company search report to ascertain the shareholders and directors of Corporate Limited. The LTC discovered that the shareholders of Corporate Limited now included non-family members and another company, FamilyCo Limited. The LTC attempted to discuss this finding with Mr X and the directors of Corporate Limited (who were still Mr X’s family members) but they did not respond to the LTC’s emails and calls. The LTC’s own attempts to obtain information on FamilyCo Limited were unsuccessful.

Red Flags	<ul style="list-style-type: none"> Corporate Limited’s withdrawal of its distribution request without providing reasons after the LTC asked for information. Mr X and the directors of Corporate Limited did not respond to the LTC’s emails and calls to address the LTC’s queries. The addition of new shareholders unrelated to the family and a corporate shareholder (FamilyCo Limited), whose ownership and control structure was not known, appeared contrary to the LTC’s understanding that Corporate Limited was the family bank.
Best Practices ²⁴	<p><u>CDD on Corporate Limited at onboarding before taking on the trusteeship</u></p> <ol style="list-style-type: none"> Understand the rationale behind including Corporate Limited in the trust structure (including the reason why this beneficiary is a corporate vehicle), assess whether the rationale is reasonable and document this assessment. Perform CDD on Corporate Limited (and ensure that the CDD information is kept up to date). CDD measures should include the following: <ol style="list-style-type: none"> Obtain and review information on the profile and nature of business of Corporate Limited. Identify and verify the identities of the directors, shareholders, and beneficial owners of Corporate Limited. Screen the names of Corporate Limited and its directors, shareholders and beneficial owners against commercial databases and the Internet to ensure there is no adverse news and sanctions hits. Investigate and escalate any positive matches in accordance with the LTC’s AML/CFT framework, policies, and procedures

²⁴ For the purpose of illustration, the best practices in the case studies focus on the CDD performed on the CSBPs. LTCs should continue to perform their usual CDD measures.

	<p>c) Obtain and review the constitutional documents (e.g. certificate of incorporation, certificate of incumbency, constitution, register of members, register of directors, or perform alternative measures if constitutional documents cannot be obtained) and audited financial statements of Corporate Limited (in view of the fact that there are shareholders which included non-family members and another company). If an LTC is not able to obtain audited financial statements, the LTC is to obtain alternative documents (e.g. management accounts) and document the reason for not obtaining audited financial statements.</p> <p>d) Ascertain the relationship between Corporate Limited and the other trust relevant parties including the beneficial owners.</p> <p>e) Obtain an undertaking from Corporate Limited that it would update the LTC in a timely manner if there are any changes in e.g. the structure, shareholders, directors of the company.</p> <p><u>Ongoing monitoring of Corporate Limited (during periodic review and when there is a trigger event)</u></p> <p>f) Screen the names of Corporate Limited and its directors, shareholders and beneficial owners against commercial databases and the Internet to ensure there is no adverse news and sanctions hits.</p> <p>g) Check whether there have been changes in e.g. the structure, shareholders, directors of Corporate Limited by obtaining the updated register or certificate of incumbency, etc. If there have been changes, understand the rationale behind the changes, assess whether the rationale is reasonable and document this assessment.</p> <p>h) Confirm that the rationale behind including Corporate Limited in the trust structure (including the reason why this beneficiary is a corporate vehicle) remains the same.</p> <p>The LTC should attempt to complete the above measures at onboarding and on an ongoing basis. If the LTC is not able to complete any specific measures, it should find alternative means to mitigate the ML/TF risks posed and document its approach and risk assessment accordingly.</p> <p>The LTC should also document its decision (i.e. to establish, continue or terminate the relationship) and rationale, and assess whether a suspicious transaction report should be filed. Should the LTC decide to establish/continue the relationship, it should assess whether enhanced CDD should be applied, obtain the necessary internal approval, and document its assessment.</p>
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2 – Corporate settlors, beneficiaries, and protectors (“CSBPs”) Case Study 2



44. Mr AB approached the LTC asking it to establish a new trust, Singapore Trust. Singapore Trust was to hold USD25 million worth of financial assets and the trust relevant parties would include Mr AB’s children and grandchildren as beneficiaries, as well as a corporate protector, AB Limited. The purpose of the trust was for estate and succession planning. AB Limited was a private investment company incorporated in the British Virgin Islands, with Mr AB and his wife, Mdm CD as the shareholders and his five children as the directors.
45. At onboarding, the LTC sought information on the trust relevant parties (including AB Limited) and asked for the reasons for the intended trust structure which would include AB Limited. Mr AB explained that having AB Limited as the corporate protector was to enable his five children to be represented in the disposal of the trust assets. The trust deed would allow AB Limited to request for distributions to Mr AB’s 14 grandchildren (if they were below the age of 25) for their maintenance and education (the requests were to be signed by two directors of AB Limited). The trust deed would also mention that Singapore Trust was to pay an annual protector fee of USD100,000 to AB Limited. This annual fee would be AB Limited’s sole source of income.
46. As the LTC was assured based on its due diligence checks, it proceeded to establish business relations with Mr AB and set up Singapore Trust.
47. Mr AB died not long after Singapore Trust was established. A few months later, AB Limited submitted to the LTC two requests signed by two directors – a request for a distribution of USD100,000 and a request for the annual protector fee of USD100,000. The LTC noted that the names of the two directors who had signed the requests matched the LTC’s CDD records. The LTC also requested for the directors’ resolution to sight the board of directors’ approval of these two requests, which AB Limited provided. The LTC then discovered that two of the five directors had changed.
48. The LTC asked for the rationale behind the change in directors. Mr AB’s children were forthcoming and told the LTC that following Mr AB’s demise, two directors had decided to give up their positions to their children due to their desire to retire and relocate to North America. Mr AB’s children also provided the updated certificate of incumbency that reflected these changes.

Red Flags	<ul style="list-style-type: none"> Changes in the directors of AB Limited were not made known to the LTC.
Best Practices	<p><u>CDD on AB Limited at onboarding before establishing Singapore Trust</u></p> <ol style="list-style-type: none"> Understand the rationale behind including AB Limited in the trust structure (including the reason why this protector is a corporate vehicle), assess whether the rationale is reasonable and document this assessment. Perform CDD on AB Limited (and ensure that the CDD information is kept up to date). CDD measures should include the following: <ol style="list-style-type: none"> Obtain and review information on the profile and nature of business of AB Limited. Identify and verify the identities of the directors, shareholders, and beneficial owners of AB Limited. Screen the names of AB Limited and its directors, shareholders and beneficial owners against commercial databases and the Internet to ensure there is no adverse news and sanctions hits. Investigate and escalate any positive matches in accordance with the LTC’s AML/CFT framework, policies, and procedures. Obtain and review the constitutional documents (e.g. certificate of incorporation, certificate of incumbency, constitution, register of members, register of directors, or perform alternative measures if constitutional documents cannot be obtained) and audited financial statements of AB Limited (see Appendix B – Financial Statements Review Checklist). If an LTC is not able to obtain audited financial statements, the LTC is to obtain alternative documents (e.g. management accounts) and document the reason for not obtaining audited financial statements. Ascertain the relationship between AB Limited and the other trust relevant parties including the beneficial owners.

	<p>e) Obtain an undertaking from AB Limited that it would update the LTC in a timely manner if there are any changes in e.g. the structure, shareholders, directors of the company.</p> <p><u>Ongoing monitoring of AB Limited (during periodic review and when there is a trigger event)</u></p> <p>f) Screen the names of AB Limited and its directors, shareholders and beneficial owners against commercial databases and the Internet to ensure there is no adverse news and sanctions hits.</p> <p>g) Check whether there have been changes in e.g. the structure, shareholders, directors of AB Limited by obtaining the updated register or certificate of incumbency or equivalent document(s). If there have been changes, understand the rationale behind the changes, assess whether the rationale is reasonable and document this assessment.</p> <p>h) Confirm that the rationale behind including AB Limited in the trust structure (including the reason why this protector is a corporate vehicle) remains the same as at onboarding.</p> <p>In particular, the LTC should consider the demise of Mr AB as a trigger event and be prompted to perform CDD on AB Limited.</p> <p>The LTC should complete the above measures at onboarding and on an ongoing basis. If the LTC is not able to complete any specific measure, it should find alternative means to mitigate the ML/TF risks posed and document its approach and risk assessment accordingly.</p> <p>The LTC should also document its decision (i.e. to establish, continue or terminate the relationship) and rationale, and assess whether a suspicious transaction report should be filed. Should the LTC decide to establish/continue the relationship, it should assess whether enhanced CDD should be applied, obtain the necessary internal approval, and document its assessment.</p>
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3 – Private Trust Companies

49. A private trust company (“PTC”)²⁵ is typically established to act as trustee to a trust or a number of trusts created by a settlor or individuals connected to the settlor by blood or legal adoption, and the beneficiaries to these trusts are also connected by familial ties.

50. Some advantages in establishing a PTC over engaging a professional LTC include having

- (i) continuity of a trustee that is knowledgeable about the family, and
- (ii) enhanced control over decision making as the family selects the PTC board members and team of professionals²⁶, and contributes to the investment and asset management process through their participation in the PTC investment committee.

Also, for sensitive assets or strategic business assets, the inclusion of family members on the board of the PTC may be helpful in demonstrating that the family is involved in the decision-making process.

51. In determining whether an LTC is comfortable to deal with the higher ML/TF risks posed by its role to conduct AML/CFT and trust administration for PTCs, LTCs should consider factors including:

- (i) its ability to understand the ML/TF risks of the underlying trust assets, which can be illiquid or bespoke assets (e.g. cryptocurrencies, fine art);
- (ii) its exposure to higher risk activities and jurisdictions (e.g. business more exposed to ML/TF activities);
- (iii) internal expertise and controls needed to mitigate the higher ML/TF risks on an ongoing basis; and
- (iv) LTC’s own risk appetite and assessment of the potential reputational and financial impact if ML/TF risks are not well-mitigated. For this role, an LTC should ensure it has commensurate AML/CFT controls in place, including the ability to identify suspicious transactions and fulfilling its obligations to file STRs as warranted.

52. The structure and role of a PTC, if used for its rightful purpose, may not present additional ML/TF risks. However, a trust under the trusteeship and administration of a PTC may be assessed to be a complex structure as its enhanced privacy set up could be used to conceal proceeds of crime. ML/TF risks may arise as information on such a PTC-administered trusts with its familial trust relevant parties (“TRP”) and trust assets may be obscured. To address this concern and to ensure that an adequate AML/CFT framework is applied to PTCs, a PTC is required to engage an LTC according to regulation 4(2) of the Trust Companies (Exemption) Regulations²⁷. The LTC is required to conduct AML/CFT checks to ensure the PTC complies with its obligations under the MAS AML/CFT Notice TCA-N03.

53. In the discharge of their responsibilities, LTCs may find it challenging to obtain sufficient information from the PTC’s directors, the families, and entities of the PTC-administered trusts to satisfy the required AML/CFT checks. This is because, some families are typically not accustomed to disclosing sensitive information on assets and transactions involving themselves and their family members to third parties. The PTC may also not be fully attuned to identify suspicious activities or red flags that should be followed up on.

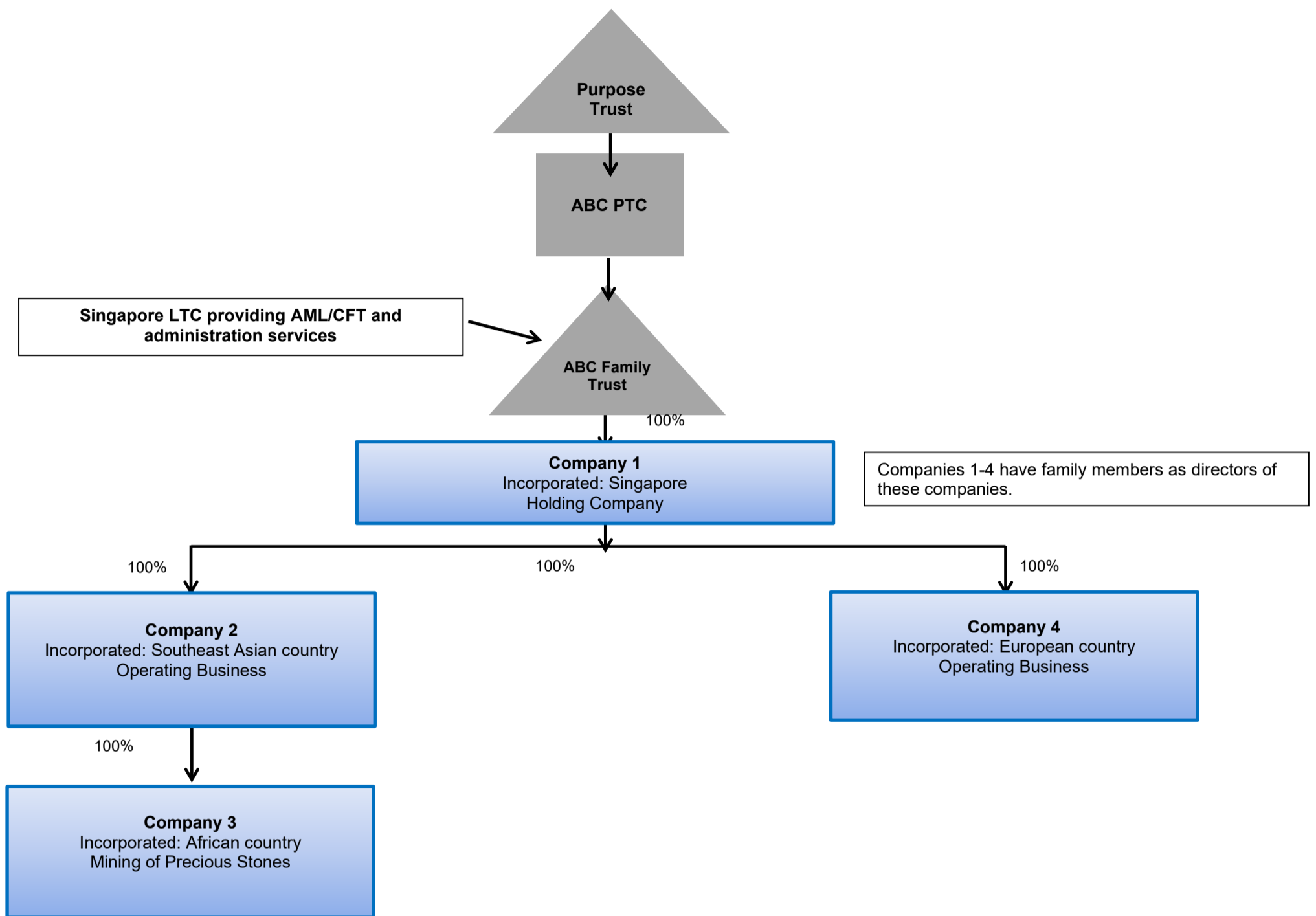
54. Case studies 1 and 2 contain recommended best practices which LTCs are encouraged to adopt when they encounter trust structures involving PTCs.

²⁵ PTC definition in Regulation 2 of the Trust Companies (Exemption) Regulations.

²⁶ The team of professionals includes lawyers, accountants, wealth planners, investment managers who provide advice on investments, wealth planning and structuring of the family trust(s).

²⁷ An LTC may also carry out trust administration duties for the PTC which comprise maintaining trustee resolutions, trust accounts, trustee meeting minutes, tax filings, PTC accounts and resolutions, exercising delegable powers of the trustee on behalf of the PTC.

3 – Private Trust Companies Case Study 1



55. ABC PTC acts as trustee for the ABC Family Trust. The purpose of establishing the ABC Family Trust is for family wealth protection and succession planning. ABC PTC’s board of directors (“BOD”) consists of members of the ABC Family, who are also directors of Companies 1 to 4.

56. As required under paragraph 4(2) of the Trust Companies (Exemption) Regulations, ABC PTC engaged an LTC to conduct AML/CFT checks for the ABC Family Trust and to assist with administration of the trust. ABC PTC provided audited financial and bank statements of Companies 1 to 4 to the LTC for its review.

57. From the financial statements, the LTC noted that:

- a. Company 3 had acquired an additional precious stone mine, and
- b. the income of Company 4 had doubled year-on-year.

58. For Company 3, the LTC requested for documents relating to the acquisition of the mine, its valuation and ongoing activity. Regarding Company 4, the LTC requested an explanation for the significant increase in the income of Company 4. PTC’s BOD declined to provide this additional information, citing privacy reasons.

59. The LTC also noted third party distributions from its review of the bank statements of ABC PTC as Trustee of the ABC Family Trust²⁸ The LTC was advised by the ABC PTC directors that this third party was a business company majority owned by one of the beneficiaries (“Beneficiary”). The Beneficiary had received a distribution from the ABC Family Trust and directed ABC PTC to pay the funds directly to the business company on his behalf, to meet the Beneficiary’s obligations under a capital call. The LTC was provided with the necessary due diligence information on the Beneficiary and the business company to satisfy its due diligence checks.

Red Flags	<ul style="list-style-type: none"> • Information about the trust activity was not provided to enable the LTC to perform AML/CFT checks prior to payments being made from the ABC Family Trust. • Unexplained significant increase in income of Company 4.
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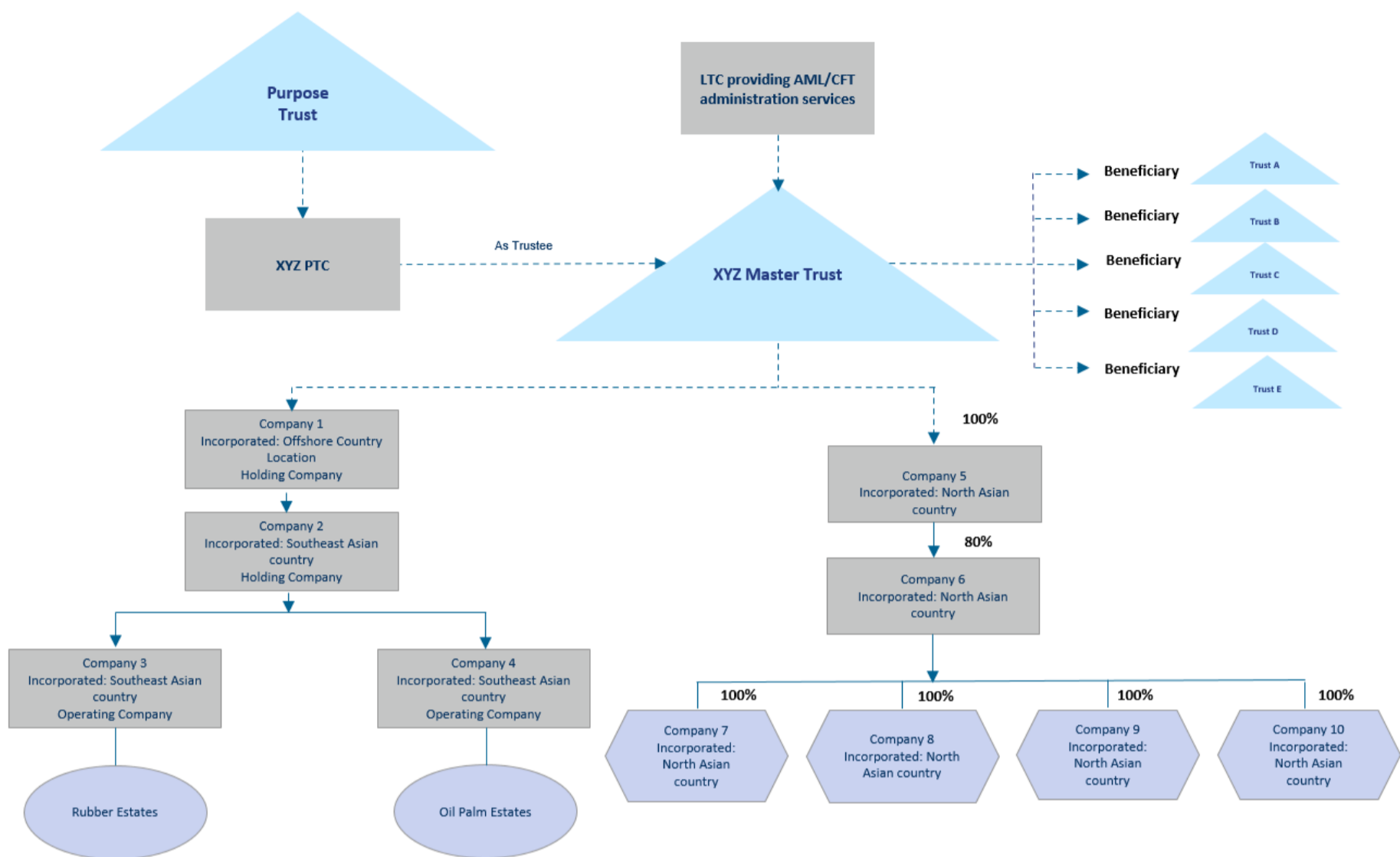
²⁸ Third party distributions refer to payments to persons/entities that are neither ABC PTC or entities held within the ABC Trust

	<ul style="list-style-type: none"> • Unwillingness to provide information and supporting documents relating to the new asset acquired by Company 3 – a company involved in high-risk activity in a high-risk jurisdiction.
Best Practices	<p><u>At onboarding of ABC PTC and ABC Family Trust.</u></p> <ol style="list-style-type: none"> Establish and document the roles and responsibilities between the LTC, ABC PTC and ABC Family Trust – including specific information on the underlying PTC companies and trust activities, which should be made available to the LTC in a timely manner. Understand the rationale for use of ABC PTC to hold and administer the trust set out by the ABC Family. Where required, obtain any legal and or tax advice on the set-up of the trust structure and consider whether this may need to be refreshed on an ongoing basis. Obtain source of wealth (“SoW”) and source of funds (“SoF”) information in relation to the assets injected to the ABC Family Trust. Obtain detailed information on the profile, activities, and assets of Companies 1 to 4, including the type and size of assets, expected transaction patterns and reasons for undertaking the transactions. Based on its understanding of Companies 1 to 4, LTC to make an assessment of the ML/TF risks posed by these companies and consider commensurate mitigating controls. , In addition, in view of Company 3 conducting high-risk activity in a high-risk jurisdiction, the LTC should consider obtaining the sale and purchase agreement and/or such other relevant information (e.g. valuation assessment) to corroborate the legitimacy of the acquisition, so as to ascertain the legitimacy of the acquisition. Identify and verify the identities of the directors, shareholders, and beneficial owners of Companies 1 to 4. Screen the names of Companies 1 to 4, and their directors, shareholders, and beneficial owners against commercial databases and/or the internet (e.g. UN websites) for sanctions hits, adverse news, etc. Investigate and escalate any positive matches in accordance with the LTC’s AML/CFT framework, policies, and procedures. To ascertain the legitimacy of Companies 1 to 4, obtain and review their constitutional documents. (e.g. certificate of incorporation, certificate of incumbency, constitution, register of members, register of directors) or perform alternative measures if constitutional documents cannot be obtained. Review the audited consolidated financial statements of Company 1 (provided by ABC PTC). Review audited financial statements of Companies 2 to 4 (provided by ABC PTC) using a risk-based approach (i.e. the financial statements of the more material/higher risk companies²⁹ should be obtained). If an LTC is not able to obtain audited financial statements, the LTC is to obtain alternative documents (e.g. management accounts) and document the reason for not obtaining audited financial statements. Obtain an undertaking from ABC PTC to update the LTC within a reasonable time following any changes to the structure, constitution, or key parties of ABC PTC. <p><u>Ongoing monitoring</u> (i.e. during a periodic review or when there is a trigger event):</p> <ol style="list-style-type: none"> Screen the names of Companies 1 to 4 and their directors, shareholders, and beneficial owners against commercial databases and/or the internet (e.g. UN websites) for sanctions hits, adverse news, etc. Investigate and escalate any positive matches in accordance with the LTC’s AML/CFT framework, policies, and procedures. Monitor that the purpose for use of the ABC PTC and its trust administration of ABC Family Trust remains the same, as at onboarding. Understand the rationale for any changes to the purpose or changes in structure to the ABC Family Trust. Ensure updated CDD i.e. constitutional documents of Companies 1 to 4, audited consolidated financial statements for Company 1, and on a risk-based approach for Companies 2 to 4 i.e. financial statements of the more material/higher risk companies are requested). If an LTC is not able to obtain audited financial statements, the LTC is to obtain alternative documents (e.g. management accounts) and document the reason for not obtaining audited financial statements. Review the audited financial statements. Obtain explanations and relevant supporting documents to address queries arising from the review of the financial statements, e.g. changes in income, assets, or company injections. Inform the ABC PTC BOD and ABC Family of ABC PTC’s AML/CFT duties and obligations. For example, during the distribution to an ABC Family Trust beneficiary, ABC PTC should be approached to provide the LTC with the relevant information, similar to which the LTC would request for when it subsequently reviews the PTC’s CDD checks on distribution to beneficiaries.

²⁹ These could refer to companies that operate in or have dealings with high-risk jurisdictions or that are in high-risk industries/sectors.

	<p>In carrying out its trust administration role to the ABC PTC, the LTC should attempt to complete the above measures at onboarding and on an ongoing basis. If the LTC is unable to complete any specific measures, it should find alternative means to mitigate the ML/TF risks posed and document its approach and risk assessment accordingly. The LTC should document the rationale for its decisions and assess whether a suspicious transaction report should be filed.</p>
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3 – Private Trust Companies Case Study 2



60. The XYZ PTC acts as the trustee for the XYZ Master Trust. The purpose of the trust is for family wealth protection and succession planning. The Board of Directors (“BOD”) of XYZ PTC consists of five siblings. Their father, the patriarch, has since passed on.
61. The XYZ PTC engaged the LTC to conduct AML/CFT checks for the XYZ Master Trust and the five sub-trusts established for each sibling and his/her respective family.
62. The Settlor is the eldest son of the late patriarch who was a successful businessman. The family businesses consist of rubber and oil palm estate, and real estate. The real estate business, which was originally located in the patriarch’s home province in a North Asian country, has grown substantially and expanded into the neighbouring provinces.
63. When engaged by the PTC, the LTC reviewed the background profile of each sibling and the deceased patriarch and corroborated their source of wealth (“SoW”). As the patriarch had established his business in the 1930s, this review took considerable time, owing to the age and patchy quality of historical documents. Some of these documents had also gone missing or were assumed to be destroyed during World War 2. An example of the missing document was the land acquisition record for the land purchased by the patriarch, which had appreciated over decades and was transferred by way of inheritance to various family members. Foreign language documents were translated into English at some cost. Notwithstanding, the siblings presented a coherent explanation on the evolution of wealth of the patriarch and development of his businesses. Internet articles further validated the siblings’ explanation on how the late patriarch, a poor immigrant teenager when he came to Singapore (then Malaysia) in the 1920s, found success through hard work and contributed to social and economic development in both his newly adopted country and his motherland.
64. From its review of the financial statements and management accounts of the underlying companies within the XYZ Master Trust, the LTC noted significant growth in turnover and profit in Company 8 located in North Asia. The LTC also observed the XYZ Master Trust had received significant third-party loans. The LTC obtained the lender’s constitutional documents and loan agreements to confirm legitimacy of the lender and the loan arrangement. The LTC also sought clarification from the XYZ PTC on the purpose of borrowing these funds, but the XYZ PTC was reluctant to explain further or provide the additional information on the downstream entities.

Red Flags	<ul style="list-style-type: none"> • Delayed provision of information to the LTC that restricted its performance of AML/CFT checks, for example that the XYZ Master Trust was receiving significant funds from third parties. • Lack of transparency of downstream entities in relation to their transactions. • Unexplained significant increase in the turnover and income of Company 8. • Reluctance to provide information regarding the inner workings of the family business to the LTC.
Best Practices	<p><u>At onboarding of XYZ PTC and the XYZ Master Trust</u></p> <p>a) Understand the rationale for use of XYZ PTC to hold and administer the XYZ Master Trust established by the settlor and the 5 trusts for his siblings.</p>

- b) Ensure that the purpose and structure of the XYZ Master Trust are consistent with the settlor family's original objectives, and where required, to obtain any legal and or tax advice on the set-up of the structure and consider whether this may need to be refreshed on an ongoing basis.
- c) Review the source of wealth and source of funds in relation to assets and companies injected to the XYZ Master Trust. To obtain relevant documents and conduct public internet searches to corroborate the SoW and SoF.
- d) Obtain detailed information on the profile, activities, and assets of underlying companies 1-10.
- e) Identify and verify the identities of the directors and shareholders of these companies.
- f) Screen the names of the companies including their directors and shareholders against commercial databases and/or the internet (e.g. UN websites) for sanctions hits, adverse news, etc. Investigate and escalate any positive matches in accordance with the LTC's AML/CFT framework, policies, and procedures.
- g) To ascertain the legitimacy of Companies 1 to 10, obtain and review the constitutional documents of Companies 1 to 10 (e.g. certificate of incorporation, certificate of incumbency, constitution, register of members, register of directors) or perform alternative measures if constitutional documents cannot be obtained.
- h) Obtain and review the audited consolidated financial statements of Companies 1 and 5. If an LTC is not able to obtain audited financial statements, the LTC is to obtain alternative documents (e.g. management accounts) and document the reason for not obtaining audited financial statements.
- i) Obtain and review the audited financial statements of the Companies 2 to 4 and 6 to 10, using a risk-based approach (i.e. the financial statements of the more material/higher risk companies³⁰ should be obtained). If an LTC is not able to obtain audited financial statements, the LTC is to obtain alternative documents (e.g. management accounts) and document the reason for not obtaining audited financial statements.
- j) Obtain an undertaking from XYZ PTC to update the LTC within a reasonable time following any changes to the structure, constitution, or key parties of XYZ PTC.

On an ongoing basis (i.e. during a periodic review, which should be performed annually or when there is a trigger event):

- k) Screen the names of the companies and their directors, shareholders, and beneficial owners against commercial databases and/or the internet (e.g. UN websites) for sanction hits, adverse news, etc. Investigate and escalate any positive matches in accordance with the LTC's AML/CFT framework, policies, and procedures.
- l) Monitor that the purpose for use of the XYZ PTC and trust administration of the XYZ Master Trust remains the same, as at onboarding. Understand the rationale for any changes to the purpose or changes in structure to the XYZ Master Trust.
- m) Ensure updated CDD i.e. constitutional documents of all the companies, audited consolidated financial statements for Companies 1 and 5, and on a risk-based approach for the remaining underlying companies 2 to 4 and 6 to 10 i.e. financial statements of the more material/higher risk companies.
- n) Review the audited financial statements. Obtain explanations and relevant supporting documents to address queries arising from the review of the financial statements, e.g. changes in income, assets, or company injections.
- o) Where practicable (e.g. if assurance of operating activities is required), to perform a site visit to the operating company's business premises i.e. Companies 3 and 4.
- p) Inform the PTC BOD and the XYZ Family of the PTC's AML/CFT obligations. For example, during the distribution to an XYZ Master Trust beneficiary, the PTC should approach to provide the LTC with the relevant information, similar to which the LTC would request for when it subsequently reviews the PTC's CDD checks on distribution to beneficiaries.

In carrying out its trust administration role to XYZ PTC, the LTC should attempt to complete the above measures at onboarding and on an ongoing basis. If the LTC is unable to complete any specific measures, it should find alternative means to mitigate the ML/TF risks posed and document its approach and risk assessment accordingly. The LTC should document the rationale for its decision and assess whether a suspicious transaction report should be filed

³⁰ These could refer to companies that operate in or have dealings with high-risk jurisdictions or that are in high-risk industries/sectors.

Conclusion

65. It is important that LTCs stay vigilant and keep themselves abreast of evolving ML/TF typologies and emerging ML/TF risks. LTCs need to actively review, adapt, and enhance their AML/CFT controls to consider developments in the trust landscape to effectively prevent and detect any potential misuse of trusts for illicit purposes. Such vigilance and adaptability would not only raise AML/CFT standards within the LTC industry but also minimise the risk of LTCs being used to facilitate ML/TF.
66. One emerging ML/TF risk area is the increasing use of virtual assets (which includes cryptocurrencies and digital payment tokens). LTCs should be cognisant of the higher ML/TF risks posed by such virtual assets, given the anonymity, speed and cross-border nature of transactions involving these assets. As with any other new risk area, LTCs should continuously familiarise themselves with the ML/TF typologies and ensure that they have in place appropriate controls to mitigate the ML/TF risks. LTCs should have the ability to trace and monitor the chain of ownership and control of virtual assets injected into a trust.³¹ LTCs should also perform a comprehensive ML/TF risk assessment of the customer, which would include establishing and corroborating the customer's source of wealth and source of funds, in line with relevant regulatory requirements and their own AML/CFT policies and procedures.
67. LTCs are encouraged to share best practices with industry bodies to augment AML/CFT standards within the industry.

³¹ For reference, MAS published an infographic "Strengthening AML/CFT Controls of Digital Payment Token Service Providers" in March 2021, setting out MAS' AML/CFT requirements and supervisory expectations for the digital payment token sector. LTCs can refer to the guidance to operationalise CDD in respect of digital payment tokens within trusts.

Appendix A – Working Group Members and Observer

LTCs

Firm	Representative
Cititrust (Singapore) Limited	Raelene Gabrielli Singh Co-Chair
DBS Trustee Limited	Christina Choo (as representative of the Singapore Trustees Association) Co-Chair
Credit Suisse Trust Limited	Walter Suen
Sequent (Singapore) Limited	Ruth Beaven
RBC Investor Services Trust Singapore Limited	Alex Cheah

Professional Intermediaries

Firm	Representative(s)
Pinsent Masons LLP / Pinsent Masons MPillay LLP	Valerie Wu
PricewaterhouseCoopers Risk Services Pte. Ltd	Denise Lim, Germaine Huang, Sherlyn Chua

Observer

The Monetary Authority of Singapore (“MAS”)

Other Contributors

Michelle Lau as Co-Chair during her stint at HSBC Trustee (Singapore) Limited

Appendix B – Financial Statements Review Checklist

68. A financial statement could be able to provide useful CDD information such as:

- i. Principal activities of the entity;
- ii. Corroboration of the directors and shareholders of the entity;
- iii. Identification of the material subsidiaries and branches within a group (where the audited FS are consolidated or group accounts);
- iv. Key financials, including contribution of revenue or profit by material entities within a group, unusual or non-recurring line items etc.

69. This guidance is not intended to be exhaustive but serves as a reference guide for LTCs when conducting reviews of financial statements. LTCs may also use its own in-house review/guidance checklists which form part of their approved policies or procedures. An LTC may be guided by the below checklist when reviewing financial statements to assess ML/TF risks at onboarding and on an ongoing basis. Where necessary, the LTC should obtain further information or supporting documents (e.g. tax invoice) from the client. In this regard, the reviews and assessments conducted by the LTC should be properly documented.

S/N	Question	Response	Notes/Guidance
General			
1	Are the shareholders and directors disclosed in the financial statements consistent with LTC's understanding and records?	<input type="checkbox"/> No <i>(See additional Notes/Guidance)</i> <input type="checkbox"/> Yes	<p>Name screenings should be performed on existing and new shareholders and directors, for instance upon onboarding and at periodic reviews (e.g. at the financial statement review or periodic structure review) or as prescribed by the LTC's policy/procedures.</p> <p>If the shareholders and directors disclosed in the financial statements are inconsistent with the LTC's understanding and records, the LTC should understand the basis for the difference and assess if the documents previously obtained to identify directors/shareholders are still valid. The LTC should also determine if the changes are reasonable and to document its assessment.</p>
2	Is the auditor's opinion qualified?	<input type="checkbox"/> No <input type="checkbox"/> Yes <i>(See additional Notes/Guidance)</i>	<p>If the auditor's opinion is a qualified financial statement, the LTC should understand if the reason (i) is reasonable and (ii) may be attributed to any ML/TF risk. The LTC may also need to enquire with the settlor if further information is necessary to identify any ML/TF implications.</p> <p>Where necessary, the LTC may wish to clarify with the auditors directly to obtain an independent perspective in their assessment.</p>
Activities of the operating company (only applicable if underlying is an operating company)			
3	Review whether the geographical location of the underlying company is operating in a high-risk jurisdiction. Flag any high-risk jurisdiction for further assessment in accordance with the LTC's policy and procedures.	<i>(free text)</i>	<p>LTC to determine if the geographical locations of the underlying company's business/operations or country of incorporation fall within a high-risk jurisdiction as determined by its policy/procedures, or as notified to it by the relevant authorities.</p> <p>In making its determination of higher risk jurisdictions, LTCs can consider jurisdictions identified in the Financial Action Task Force's Statement on High-Risk Jurisdictions subject to a Call for Action and Jurisdictions under Increased Monitoring list, as well as jurisdictions with a significant level of corruption (using e.g. Transparency International's Corruption Perceptions Index as reference), TF, serious tax crime or other financial crime.</p>
4	Review if the general business activities of the company fall within a high-risk industry in accordance with the LTC's policy and procedures.	<i>(free text)</i>	<p>LTC to determine if the principal business of the company fall within a high-risk industry as determined by its policy/procedures.</p> <p>In making its determination of higher risk industries, LTCs can consider taking reference from the Financial Action Task Force's guidance and other credible bodies' publications (e.g. Transparency International's Corruption Perception Index).</p>
Financials related			
5	Review whether the financial statements of the company are in line with the LTC's understanding of the company's business activities/ operations/ transactions	<input type="checkbox"/> No <i>(See additional Notes/Guidance)</i> <input type="checkbox"/> Yes	<p>Examples of items to consider as part of a reasonableness assessment of the financials could include reviewing:</p> <ul style="list-style-type: none"> ➤ Year-on-year variances on key line items (e.g. profit, loss, assets, liabilities, equity, dividends) ➤ Any new items on the financial statements that are unusual, large or complex (e.g. one-off write-off of related party transactions, prior year adjustments etc.)

S/N	Question	Response	Notes/Guidance
			Where necessary, the LTC should enquire with the client and/or the auditors to obtain further information or supporting documents as may be relevant.
6	Are there potential contingent liabilities and provisions made which may indicate ML/TF risks?	<input type="checkbox"/> No <input type="checkbox"/> Yes <i>(See additional Notes/Guidance)</i>	<p>The LTC should take note of any potential fines, which may have resulted from breaches of laws and regulations with ML/TF implications.</p> <p>If there were potential contingent liabilities and provisions made that are associated with ML/TF risk events, the LTC should understand the reason and assess whether they are reasonable and document its assessment.</p>