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GUIDELINES ON SUSPICIOUS TRANSACTION REPORTING (STR)

MESSAGE FROM PRESIDENT

SOUTH ASIAN FEDERATION OF ACCOUNTANTS (SAFA)

As the newly elected President of the SAFA, I am delighted to share this document with you.

This comprehensive guide on Suspicious Transaction Reporting (STR) reflects our collective commitment to equipping accountants across South Asia with practical tools to combat financial crimes. It builds upon the foundational work of the SAFA Anti-Money Laundering (AML) Task Force, which I had the privilege of founding in 2020. The AML Committee has since extended this work, demonstrating remarkable progress in addressing critical issues across the region.



By addressing red flags, fulfilling legal obligations, and adhering to international and regional standards, this guide reinforces the credibility of our profession while fostering transparency and safeguarding our financial systems.

I sincerely thank Mr. Khalid Rahman, Chairman of the SAFA AML Committee, for his exceptional leadership and contributions to these initiatives.

Together, let us continue to strengthen our collective resolve against money laundering and the financing of terrorism.

Regards,

Ashfaq Tola, FCA
President, SAFA

MESSAGE FROM VICE PRESIDENT

SOUTH ASIAN FEDERATION OF ACCOUNTANTS

As accountants, we stand at the forefront of the fight against financial crime, a responsibility that demands vigilance, collaboration, and unwavering commitment. The role we play is pivotal in safeguarding our financial architecture and reporting systems from abuse and ensuring they remain a cornerstone of economic stability and growth.

The fight against financial crime requires unified efforts across borders. This guide exemplifies SAFA's dedication to promoting standardized and effective STR reporting mechanisms among accountants in South Asia.

This document provides comprehensive guidance to support accountants across our member countries in understanding and meeting their AML/CFT responsibilities.

Let it serve not just as a reference, but as a call to action—urging all of us to work collaboratively to uphold the integrity of our financial architecture and reporting systems and contribute to global security.



Regards,

Mohammed Humayun Kabir

Vice President, SAFA

MESSAGE FROM CHAIRMAN

SAFA COMMITTEE ON ANTI – MONEY LAUNDERING

As Chairman of the SAFA AML Committee, I am proud to present this comprehensive guide on Suspicious Transaction Reporting (STR) for accountants across South Asia.

This document underscores our collective responsibility to combat financial crimes by equipping professionals with the tools and knowledge to recognize and report suspicious activities effectively. It reflects a shared commitment to aligning our practices with FATF standards while respecting the unique legislative frameworks of our region.

Together, let us uphold the highest standards of integrity and compliance to safeguard our economies and society.



Regards,

Khalid Rahman, FCA

Chairman, SAFA Committee on AML

Introduction

Accountants play a crucial role in detecting and preventing money laundering (ML) and terrorist financing (TF). As professionals who oversee financial transactions and maintain client accounts, they are often in the best position to detect suspicious activities. This document, designed for accountants, provides detailed guidelines on filing Suspicious Transaction Reports (STRs) in compliance with the FATF standards. It aims to harmonize the STR reporting process across the South Asian region, emphasizing practical application while taking into account the local legislative landscape of each country.

Suspicious Transaction Reports (STRs) are critical tools in the global fight against money laundering and terrorist financing. They enable financial institutions and other obligated entities to alert regulatory authorities about potentially illicit activities.

Objectives

The primary objectives of this document are to:

- Provide a comprehensive understanding of STRs and their significance in combating financial crime.
- Outline best practices for the reporting process.
- Encourage international cooperation and standardization of STR protocols.

1. Statutory Requirements under AML / CFT Legislations

Each South Asian country has enacted its own AML/CFT legislation to align with FATF Recommendations. Accountants are designated as reporting entities and are required to monitor financial transactions for suspicious activity. Failure to comply with these regulations may result in severe legal and professional repercussions.

These laws mandate the identification and reporting of suspicious activities to the respective Financial Intelligence Units (FIUs) of the countries, using the goAML system or other designated reporting mechanisms.

1.2 Role of Accountants in AML/CFT Compliance

- **Client Due Diligence (CDD):** Ensuring proper CDD is conducted to understand the source of funds, client identity, and business purpose.
- **Record-Keeping:** Accountants must maintain records of transactions for at least 5-7 years, depending on national requirements.
- **Continuous Monitoring:** Beyond initial CDD, accountants must continually monitor client transactions for signs of suspicious activity.

2. Sanctions for Non-Compliance

Accountants who fail to report suspicious activities can face legal penalties, reputational damage, and the potential suspension of licenses. In some countries, criminal charges may also apply, including imprisonment.

2.1 Legal and Professional Penalties

- **Financial Penalties:** Fines can range from country-specific penalties (e.g., up to INR 1 million in India, PKR 10 million in Pakistan).
- **Professional Consequences:** Loss of accreditation or membership with professional bodies like ICAI (India), ICAP (Pakistan), or ICAB (Bangladesh).
- **Imprisonment:** Accountants may face prison sentences depending on the severity of the non-compliance.

3. Reporting of STRs

Suspicion is the main criterion for filing an STR. The key challenge for accountants is determining when a transaction is sufficiently suspicious to warrant reporting. It is important to understand that reporting is required based on suspicion, not proof.

3.1 Legal Obligation to Report

Accountants must report suspicious activities regardless of the transaction amount. Any attempt to structure a transaction to evade detection (such as splitting large sums into smaller transactions) should be reported.

3.2 Identifying Suspicious Transactions

Accountants need to be familiar with common red flags for money laundering, such as:

- **Inconsistent financial activity:** Transactions that do not align with a client's usual business or personal activities.
- **Frequent large cash deposits:** Especially when the client has no legitimate need for cash-intensive activities.
- **High-risk jurisdictions:** Transactions involving countries with weak AML/CFT regulations or known for terrorist financing.

4. Scope of STR Reporting

The scope of STR reporting is wide, and accountants are responsible for monitoring not only direct financial transactions but also any business structure changes, the flow of funds, and other factors that may indicate suspicious activity.

4.1 Reporting Beyond the Obvious

While large cash transactions may trigger an STR, accountants should also be vigilant about non-monetary factors, including:

- **Complex corporate structures:** Companies with multiple layers of ownership may be hiding the true beneficiary.
- **Frequent account openings/closings:** Unexplained changes in financial operations can signal an attempt to avoid scrutiny.

4.2 Example Cases

- **Case 1:** A client in a low-risk industry suddenly deposits a large amount of cash with no explanation.
- **Case 2:** An offshore company sends money to a local account, which is immediately withdrawn in cash.

5. AML/CFT Red Flag Indicators for Accountants

FATF has established several red flag indicators specific to accountants and their profession. Understanding these indicators is critical for determining when an STR should be filed.

5.1 Key Red Flag Indicators

- Clients hesitant to provide necessary information
- Transactions significantly larger than what is expected for the client's profile
- Unexplained changes in ownership or control structures
- Use of intermediaries with no legitimate purpose
- Unusual loan agreements
- Use of financial products not typically used by the client's industry

5.2 FATF-Specific Red Flags for Accountants

- Structuring to avoid CDD requirements
- Unnecessary involvement of third-party entities in transactions
- Clients dealing with jurisdictions with weak AML enforcement

6. Internal Reporting Procedures

Establishing clear internal procedures is crucial for identifying suspicious activities within the accounting firm before external reporting. Each firm should have designated staff trained in AML/CFT compliance who can review potential red flags and escalate them internally.

6.1 Compliance Officer's Role

A firm's designated AML compliance officer should review all internal reports of suspicious activity and decide whether they warrant external reporting to the country's FIU.

6.2 Employee Training

Accountants should be trained regularly to stay updated on evolving AML/CFT risks, red flags, and procedural changes, ensuring that employees at all levels can detect and report suspicious activities effectively.

7. Reporting to FIU/FMU via goAML

All STRs must be submitted electronically via the goAML portal or its equivalent in each country. The portal is designed to ensure secure, standardized reporting.

7.1 Steps to Report via goAML

- **Log in to the goAML system:** Ensure that the firm has an active and verified account.
- **Complete the STR form:** Include all relevant details, such as transaction data, client information, and reasons for suspicion.
- **Submit securely:** The goAML system ensures encrypted transmission of sensitive data.

7.2 Ensuring Accuracy in Reporting

Reports should be clear, concise, and avoid any subjective statements. Always stick to the facts and avoid speculation.

8. Content of STR

The quality and clarity of the STR are critical to assisting the authorities in further investigation. A complete STR includes the client's details, the nature of the suspicious transaction, and any supporting documentation.

8.1 Key Elements of an STR

- **Client Details:** Full identification information of the individual or company involved.
- **Transaction Summary:** Detailed information about the suspicious transaction, including dates, amounts, and involved parties.
- **Reason for Suspicion:** A clear explanation of why the transaction is considered suspicious, based on red flags.

9. Types of STRs

There are various types of STRs that accountants may need to report, depending on the nature of the suspicious activity.

9.1 Examples of STR Types

- **Cash-based transactions:** Unusually large cash deposits or withdrawals.
- **International wire transfers:** Transfers to or from high-risk jurisdictions without a clear business purpose.
- **Layering of transactions:** Complex structures used to disguise the true origin of the funds.

10. Timeline for STR Reporting

Timeliness is essential when filing STRs. Accountants should report suspicions as soon as possible to avoid delays that could hinder an investigation.

11. No Tipping Off to Customers: Protection for Reporting in Good Faith

Under AML/CFT laws, accountants are prohibited from informing clients that they have filed an STR. Doing so is known as “tipping off,” and it can jeopardize investigations and lead to legal consequences.

11.1 Legal Protection for Accountants

Accountants who file STRs in good faith are protected from legal liability, even if the suspicion later turns out to be unfounded. This legal safeguard encourages professionals to report without fear of retaliation.

Multiple-Choice Questions (MCQs)

1. Which of the following is a statutory requirement under AML/CFT legislations for accountants?

- a) Only perform client due diligence for high-risk clients
- b) Report suspicious transactions only if the amount exceeds \$10,000
- c) Monitor and report any suspicious transactions regardless of the amount
- d) Retain client records for 1 year after transaction completion

Answer: c) Monitor and report any suspicious transactions regardless of the amount

2. What is the key criterion for accountants to file a Suspicious Transaction Report (STR)?

- a) Absolute proof of money laundering
- b) A transaction exceeding a predefined financial limit
- c) Suspicion that a transaction is related to money laundering or terrorist financing
- d) Receipt of client permission

Answer: c) Suspicion that a transaction is related to money laundering or terrorist financing

3. Which of the following is an AML/CFT red flag indicator specific to accountants?

- a) Clients who refuse to use cash for transactions
- b) Clients making transactions below the reporting threshold
- c) Clients frequently using intermediaries with no clear business purpose
- d) Clients changing their address multiple times

Answer: c) Clients frequently using intermediaries with no clear business purpose

4. What system is typically used for submitting STRs to the FIU?

- a) Tax filing software
- b) Internal office email system
- c) goAML portal or equivalent
- d) Online banking platform

Answer: c) goAML portal or equivalent

5. Which of the following statements about "tipping off" is correct?

- a) Accountants are required to inform clients that an STR has been filed against them
- b) Tipping off the client is allowed if the transaction is legitimate
- c) Tipping off refers to notifying the client about an STR and is prohibited by law
- d) Tipping off is only applicable in cash transactions

Answer: c) Tipping off refers to notifying the client about an STR and is prohibited by law

7. What is the key element of an STR that accountants must include?

- a) Speculation about the client's intentions
- b) Detailed personal opinions about the client's behavior

- c) A clear explanation of why the transaction is considered suspicious
- d) All previous transactions of the client

Answer: c) A clear explanation of why the transaction is considered suspicious

8. Which of the following is a type of suspicious transaction that may warrant filing an STR?

- a) Regular salary payments to employees
- b) International wire transfers to high-risk jurisdictions without a legitimate business reason
- c) Small domestic cash withdrawals
- d) Routine invoice payments

Answer: b) International wire transfers to high-risk jurisdictions without a legitimate business reason

9. What protection do accountants have when they report STRs in good faith?

- a) They can charge the client additional fees for reporting
- b) They are protected from legal liability, even if the suspicion is unfounded
- c) They are required to inform the client about the STR
- d) They can report anonymously to avoid involvement

Answer: b) They are protected from legal liability, even if the suspicion is unfounded