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QUESTION 1
During a routine periodic KYC refresh of a policyholder and client of an insurance company, updated business registry documentation has highlighted that the policyholder's business has changed addresses five times during the last year and that the ultimate beneficial owner (UBO) changed two weeks ago. What actions should be taken immediately?

A. Investigate the changes of address and change of UBO and in the meantime decline payment and withdrawal instructions from the policy until completion of the investigation and next steps are agreed upon
B. Request the relationship manager set up a meeting with the policyholder to update their address and submit details of the new UBO in the name of good customer service
C. Investigate the changes of address and change of UBO and in the meantime freeze the client's policy
D. File a suspicious transaction report because the insurance company was not made aware of the business' change of UBO

Answer: A
Explanation:
The combination of frequent address changes and a recent change in the ultimate beneficial owner raises potential red flags that warrant immediate investigation. To mitigate risk, the insurance company should investigate these changes and temporarily decline any payment or withdrawal instructions until the review is complete and appropriate steps are agreed upon. This ensures both regulatory compliance and protection against potential misuse of the policy.

QUESTION 2
There are three types of factors that can be used to authenticate someone ownership, knowledge, and inherent factors. Which of the following factors falls under inherent factors?

A. Challenge-response
B. Fingerprint
C. Security token
D. Passphrase

Answer: B
Explanation:
Fingerprint is an inherent factor because it is a biometric trait - something the user is. Inherent factors rely on physical or behavioral characteristics such as fingerprints, facial recognition, or voice, which are unique to the individual.

QUESTION 3
Which of the following are common indicators of possible money laundering within the securities industry? (Choose two.)

A. Using brokerage accounts like deposit accounts
B. Receiving securities into an existing brokerage account following the death of a spouse
C. Allowing fixed income securities to mature
D. Engaging in transactions involving nominees or third parties

Answer: AD
Explanation:
Using brokerage accounts like deposit accounts (e.g., frequent cash deposits or withdrawals) and conducting transactions through nominees or third parties are common red flags in the securities

industry. These behaviors can obscure the origin or ownership of funds and are often used to facilitate money laundering.

QUESTION 4
Which of the following are key financial crime risks associated with real estate companies? (Choose four.)

A. Buying property allows for the movement of large amounts of funds in a single transaction
B. Criminal networks could purchase real estate for use as supply houses or locations to grow, manufacture, or distribute illicit narcotics
C. Markets can be volatile, and buyers may not achieve a strong return on their investment
D. Beneficial ownership information might be opaque, and criminals may abuse arrangements like shell companies and trusts
E. Real estate transactions often involve financial institutions and other professional gatekeepers
F. The high value of properties may require multiple types of financing, which can make it more difficult to identify the source of funds

Answer: ABDE
Explanation:
Real estate companies face key financial crime risks due to the ability to move large sums in a single transaction, the use of property by criminal networks for illicit operations, the opacity of beneficial ownership structures, and the involvement of professional gatekeepers - such as lawyers and financial institutions - who may unknowingly facilitate money laundering.

QUESTION 5
Which payment type presents the highest financial crime risk?

A. A check returning a mortgage overpayment made in error
B. A payment made to a mixer platform
C. A regular standing order to a high-interest savings account
D. A bill payment made to a friend after splitting a dinner bill

Answer: B

QUESTION 6
A large international bank is conducting a comprehensive review of its risk management framework to ensure it effectively addresses various financial crime risks, including AML, CFT, sanctions, fraud, anti-bribery and corruption (ABC), and tax evasion.

The bank's compliance team is responsible for evaluating the current risk assessment processes, identifying potential gaps, and recommending enhancements to better mitigate these risks. During this review, the team needs to consider the different types of risk assessments and how to integrate findings into the overall risk management strategy.

Which approach should the compliance team prioritize to enhance the bank's ability to identify, assess, and mitigate the identified risks?

A. Use a static risk assessment model that remains unchanged until a significant regulatory update occurs to ensure consistency in the evaluation process over time
B. Delegate the risk assessment process to individual business units to conduct independently and allow for specialized assessments tailored to each unit's specific activities

C. Conduct a periodic enterprise-wide risk assessment that includes identifying inherent risks, evaluating the effectiveness of existing controls, and determining residual risks
D. Focus primarily on AML risk assessments, as these are typically the most scrutinized by regulators, while addressing other financial crime risks only when issues are identified

Answer: C
Explanation:
Conducting a periodic enterprise-wide risk assessment (EWRA) is the most effective approach to identifying, assessing, and mitigating financial crime risks. It ensures all inherent risks across areas like AML, CFT, sanctions, fraud, ABC, and tax evasion are evaluated, existing controls are assessed, and residual risks are identified. This comprehensive view enables a cohesive and proactive risk management strategy aligned with regulatory expectations.

QUESTION 7
Which of the services provided by Trust and Company Service Providers (TCSPs) present the greatest financial crime risks? (Choose three.)

A. Providing clear procedures to ensure compliance with local tax regulations
B. Using trusts to obscure the identity of beneficial owners
C. Promoting the use of complex corporate structures
D. Maintaining accurate and updated beneficial ownership details for all customers registered for their services
E. Establishing shell companies for holding financial assets

Answer: BCE
Explanation:
Trust and Company Service Providers (TCSPs) pose the greatest financial crime risks when they use trusts to obscure beneficial ownership, promote complex corporate structures that make tracing ownership difficult, and establish shell companies that can be used to hold and move illicit funds. These activities can facilitate money laundering, tax evasion, and other financial crimes by concealing the true origin and control of assets.

QUESTION 8
The purpose of a risk appetite statement is to:

A. clearly define the level of risk exposure to financial crime which a financial institution is willing to take.
B. help investors understand the risk a financial institution is willing to take.
C. help customers understand which financial institutions may be willing to bank their business.
D. eliminate high-risk business types from a financial institution.

Answer: A
Explanation:
A risk appetite statement clearly defines the level and type of financial crime risk a financial institution is willing to accept in pursuit of its objectives. It guides decision-making and ensures consistency in risk-taking across the organization.

QUESTION 9
Unusual wire transfer transactions can include: (Choose two.)

A. wire transfers in different currencies between accounts held at different banks for the same client.

B. an incoming third-party wire transfer followed by the purchase of real estate in the client's name.
C. an incoming wire transfer followed by the loan payment to a third party that is a business associate of the client.
D. multiple wire transfers sent to counterparties associated with the client as per KYC documentation.

Answer: AB
Explanation:
Unusual wire transfer transactions may include transfers in different currencies between accounts at different banks for the same client, which can be used to obscure fund flows, and incoming third-party transfers followed by real estate purchases, which may indicate layering and integration stages of money laundering. These patterns deviate from typical financial behavior and warrant closer scrutiny.

QUESTION 10
Perpetual KYC includes: (Choose two.)

A. triggers identifying static data changes and data based on client's behaviors in real time.
B. periodic refreshing at one-, three- and five-year cycles.
C. ability to prioritize better based on client data rather than driven by schedules alone.
D. classification of clients into categories of risk.

Answer: AC
Explanation:
Perpetual KYC (pKYC) involves real-time monitoring of data triggers, such as static changes or behavioral anomalies, and prioritization based on client-specific data rather than fixed refresh schedules. This dynamic approach enhances risk management by responding more quickly to changes in client risk profiles.

QUESTION 11
While gaming platforms are typically used for recreational purposes, they can potentially be used for terrorist financing through games in which players can:

A. buy in-game items with virtual in-game currencies.
B. exchange in-game items with other players.
C. trade in-game items with other players that can be exchanged for fiat currency
D. obtain in-game materials by performing in-game activities.

Answer: C
Explanation:
Terrorist financing can be facilitated on gaming platforms particularly through the trading of in-game items for fiat currency. This mechanism allows for the movement of value outside the formal financial system, potentially evading detection and reporting requirements.

"One of the key ML/TF risks in online gaming is the ability to convert virtual assets or in-game items into real-world (fiat) currency, thereby providing a channel for laundering money or funding terrorist activities."

QUESTION 12
Having a risk-based approach is central to a financial institution understanding the money laundering and terrorist financing risk to which they are exposed. The development of a money

laundering and terrorist financing risk assessment is a key starting point. Commonly used risk factors include. (Select Three.)

A. product risk.
B. credit risk.
C. geographic risk.
D. customer risk.
E. liquidity risk.

Answer: ACD
Explanation:
The CAMS 6th Edition clearly identifies a risk-based approach as the cornerstone of effective AML/CFT programs. Risk assessments should consider various risk factors that directly influence exposure to ML/TF.

Product risk (A): Certain products or services may present higher ML/TF risks, such as private banking, correspondent banking, or cash-intensive products."Products and services offered, and their inherent risk levels, must be assessed as part of the risk-based approach."

Geographic risk (C): Jurisdictions where the customer operates or where transactions are conducted may present higher or lower risks due to factors such as weak AML regulations or high corruption."Geographic risk considers where a customer is located and/or where transactions occur, referencing countries with increased risk, such as those identified by the FATF."

Customer risk (D): The type of customer, such as PEPs, non-residents, or companies with complex structures, may present higher ML/TF risks."Customer risk assessment is based on the customer's profile, activity, and ownership structure, and is a critical component in risk-based monitoring."

QUESTION 13
A wealthy individual is using a complex corporate structure to facilitate illegal logging and then illegal mining of the resulting resources from that land. Which category of predicate crime is taking place?

A. Trade-based money laundering
B. Corruption
C. Illicit resource trade
D. Environmental crime

Answer: D
Explanation:
The CAMS 6th Edition specifically lists environmental crime as a predicate offense for money laundering. Environmental crimes include activities such as illegal logging, illegal mining, and illegal trade in wildlife.

"Environmental crime, including illegal logging and mining, is recognized as a predicate offense to money laundering. Such crimes often involve complex corporate structures to hide the illicit origin of the proceeds."

QUESTION 14
What is the primary advantage of using a risk-based approach in allocating compliance resources?

A. It reduces the overall cost of compliance programs.
B. It eliminates the need for periodic audits of low-risk customers.
C. It ensures focus on high-risk areas while maintaining operational efficiency.
D. It standardizes compliance processes across all regions.

Answer: C
Explanation:
The CAMS 6th Edition highlights that a risk-based approach enables organizations to efficiently allocate compliance resources, focusing efforts on areas presenting the highest risk, thereby ensuring both regulatory compliance and operational effectiveness.

"A risk-based approach allows firms to concentrate resources and controls where the risk of ML/TF is highest, while applying simplified measures to lower-risk areas. This enhances both effectiveness and efficiency."

QUESTION 15
The UN Security Council's primary role in imposing sanctions is that it has the authority to:

A. impose sanctions to maintain or restore international peace and security.
B. impose sanctions on countries that lack AML/CFT controls.
C. conduct research on and analyze the impacts of sanctions to improve the effectiveness of sanctions regimes.
D. impose sanctions on economic targets to maintain or restore financial stability within a country.

Answer: A
Explanation:
The United Nations Security Council (UNSC) is the only body with the legal authority under international law to impose binding sanctions on countries, entities, or individuals.

"The Security Council's primary function in imposing sanctions is to maintain or restore international peace and security. These sanctions are legally binding on all UN member states."

QUESTION 16
According to the Financial Action Task Force's (FATF's) "Guidance for a Risk-Based Approach Life Insurance Sector," which of the following are money laundering red flags relating to the involvement of a third party in a life insurance product? (Select Two.)

A. A customer engages an attorney to consult on the issuance of the policy.
B. A customer transfers the policy to another insurance company unaffiliated with the original policy issuer.
C. Payments are regularly received from third parties that have no apparent relationship with the policy holder.
D. A customer names an apparently unrelated third party as a beneficiary.

Answer: CD
Explanation:
FATF and CAMS 6th Edition highlight certain third-party activities as red flags for money laundering in the life insurance sector:

Payments are regularly received from third parties that have no apparent relationship with the policy holder (C):"Red flags include payments made by third parties, especially where there is no

apparent connection between the third party and the policy holder."

A customer names an apparently unrelated third party as a beneficiary (D):"Another warning sign is when beneficiaries have no apparent relation to the policyholder."

QUESTION 17
The relationship manager in the corporate banking department at a bank is required to take specialized AML training tailored to the risks the department is most likely to encounter. Which types of content are most appropriate for this training? (Select Two.)

A. Money laundering typologies applicable to monetary instrument reporting
B. Applicable AML laws and regulations
C. Regulatory exam best practices
D. Money laundering typologies applicable to corporate loans

Answer: BD
Explanation:
Specialized AML training must be relevant to the specific risks the corporate banking team faces, including legal/regulatory expectations and the ML/TF typologies applicable to their products and customer base.

Applicable AML laws and regulations (B):"Staff must be aware of the applicable AML/CFT laws and regulatory requirements relevant to their business area."

Money laundering typologies applicable to corporate loans (D):"Training should include typologies and red flags that are most relevant to the risks present in the specific business line, such as corporate lending."

QUESTION 18
Which of the following statements is true regarding Office of Foreign Assets Control (OFAC) sanctions? (Select Two.)

A. Sanctions can only be placed on certain individuals in foreign countries as designated by OFAC
B. Blocked funds must be placed into an interest-bearing account on a financial institution's books
C. Sanctions can be either comprehensive or selective using the blocking of assets and trade restrictions to accomplish foreign policy and national security goals
D. OFAC sanctions automatically expire after five years unless renewed by Congress

Answer: BC
Explanation:
OFAC sanctions are a key element of the U.S. AML/CFT framework. According to the CAMS 6th Edition and OFAC regulations:

Blocked funds must be placed into an interest-bearing account on a financial institution's books (B):"Blocked property must be held in a separate interest-bearing account on the books of the U.S. financial institution."

Sanctions can be either comprehensive or selective using the blocking of assets and trade restrictions (C):"OFAC administers both comprehensive and targeted (selective) sanctions programs to fulfill U.S. foreign policy and national security goals."

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