



**Securities and
Exchange
Commission**
PHILIPPINES

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**SECTORAL RISK
ASSESSMENT
SECURITIES SECTOR**

Executive Summary

Below is the snapshot of risk ratings for the securities sector and its sub-sectors:

Overall Risk Rating

The overall money laundering (ML) and terrorist financing (TF) risk rating for the securities sector is assessed as **MEDIUM**. This rating is based on assessments of the criminal threat environment, vulnerabilities and the associated consequences.

Criminal Threat Assessment

The ML criminal threat environment for securities sector is assessed as **MEDIUM**. TF is assessed to be posing **MEDIUM-LOW** risk to the sector.

The crime threat assessment for each sub-sector is presented as follows:

Table 1. ML Crime Threat Assessment per Sub-Sector

ML CRIME THREAT ASSESSMENT PER SUB-SECTOR	RISK RATING
Brokers/Dealers	MEDIUM
Investment Houses/Underwriters of Securities	MEDIUM-HIGH
Government Securities Eligible Dealers	LOW
Investment Company Advisers/ Mutual Fund Distributors/ Investment Companies	MEDIUM-LOW
OVERALL ML CRIME THREAT ASSESSMENT	MEDIUM

Vulnerabilities

The overall ML/TF vulnerability of the securities sector is assessed as **MEDIUM**.

The vulnerability assessment for each sub-sector is shown below:

Table 2. Vulnerability Assessment per Sub-Sector

Sector	Sector Risk Assessment (SRA) 2021	National Risk Assessment (NRA) 2017
Brokers/Dealers	MEDIUM	MEDIUM
Investment Houses/Underwriters of Securities	MEDIUM-LOW	MEDIUM-LOW
Government Securities Eligible Dealers (Banks)	LOW	N/A
Investment Company Advisers/ Mutual Fund Distributors/ Investment Companies	MEDIUM	MEDIUM

Consequences

The overall consequences of ML/TF activity in the sector are assessed as **MEDIUM/MODERATE**.

I. Introduction

Purpose

The objective of this report is to assess the ML/TF risks affecting the securities sector of the Philippines. It identifies the main criminal offenses and ML/TF threats currently being faced by the securities sector. It determines and highlights the key vulnerabilities of the sector most likely to be exploited for ML/TF purposes. The potential impact or harm that ML/TF activities and other financial crimes in the securities sector may cause has also been assessed.

The purposes of the risk assessment are:

- a) To establish the basis for an effective risk-based supervision and monitoring of the securities sector by developing a better understanding of the overall ML/TF risks facing this sector;
- b) To identify the gaps and opportunities for improvement in the anti-money laundering and combating the financing of terrorism (AML/CFT) policies, procedures and processes, including the areas that need to be prioritized in the implementation of risk mitigating measures;
- c) To provide guidance to the institutions in the securities sector in identifying, understanding, and assessing the ML/TF risks to which they are exposed and in formulating and effectively implementing risk mitigating measures commensurate to the risk; and
- d) To inform and enhance the awareness and understanding of stakeholders and the general public of the ML/TF risks besetting the securities sector.

Scope and Methodology

This risk assessment covers all the 304 covered persons/institutions operating in the securities sector as shown in Table 3 below.

Table 3. Number of assessed covered persons per sub-sector

SUB-SECTOR	NO. OF COVERED PERSONS
Brokers and Dealers	143
Investment Houses/ Underwriters of Securities	37
Government Securities Eligible Dealers	25
Investment Company Advisers/ Mutual Fund Distributors/ Investment Companies	99
TOTAL	304

This risk assessment follows the FATF guidance that states that ML/TF risks should be assessed as a function of criminal threat, vulnerability and consequence. Each risk factor has been assessed and scored using the ratings below:

1	2	3	4	5	6	7	8	9	10
Low 0-20%	Medium-Low 21-40%		Medium 41-60%		Medium-High 61-80%		High 81-100%		

Information Collection and Validation of Results

The SEC is the lead agency responsible for the conduct of this ML/TF risk assessment with technical assistance provided by the Asian Development Bank (ADB).

- A Technical Working Group (TWG) composed of experts and specialists from the different departments of the SEC, the Bangko Sentral ng Pilipinas (BSP) and the Anti-Money Laundering Council (AMLC) was constituted.
- Quantitative and qualitative data from the following sources were collected and analyzed:
 - i. Suspicious Transaction Reports (STRs) and Covered Transaction Reports (CTRs) submitted in the past three years (1st January 2017 to 31st December 2019) by institutions in the securities sector;
 - ii. Records of the SEC's different Operating Departments, studies, annual reports, intelligence information and other data from other government agencies and organizations including the AMLC, BSP, law enforcement agencies (LEAs), National Law Enforcement Coordinating Committee (NALECC), and other relevant supervisory and regulatory agencies across government; and
 - iii. Data from open sources and feedback and professional insights obtained through a survey questionnaire, interviews and consultations with a range of entities operating in the sector, as well as industry experts and industry associations.
- A survey questionnaire designed to obtain the necessary data to assess the ML/TF vulnerability of the sector was disseminated through a Notice posted on the SEC website. The survey was responded to by 105 brokers and dealers representing 73.4% of the total covered persons within this sub-sector; 19 investment houses/underwriters of securities representing 51.4% of covered persons in this sub-sector; 16 GSEDs representing 64.0% of the total registered GSEDs; and 45 investment company advisers/mutual fund distributors/investment companies representing 46.4% of the covered persons within this sub-sector.
- Inputs were likewise obtained on the vulnerabilities of the sector that could be exploited for ML/TF purposes through a focus group discussion and a consultation workshop with industry representatives in the securities sector held on 17 December 2020 and 18 January 2021, respectively. These findings were in turn cross-referenced with inputs from supervisors and regulators of the sector, including SEC, BSP and the AMLC.
- To gather inputs in determining the predicate crimes most likely to be the source of ML/TF risks on this sector, the SEC conducted a focus group discussion with LEAs and other competent authorities on 08 February 2021.
- This risk assessment also considered the compliance record of the covered persons and results of the 2018 and 2019 AML/CFT audit conducted by the SEC as well as the findings of the Capital Markets Integrity Corporation (CMIC).
- The study has also collected and analyzed information from a variety of other available resources, including the national and regional risk assessments, national and international guidance documents, and sector-specific typology reports.
- To ensure the accuracy of the findings, the risk assessment was developed in wide consultation with key government stakeholders, including supervisors, regulators and LEAs. The consultations were done to collect more in-depth information, capture a wide range of intelligence, policy and supervisory perspectives, and to confirm the initial findings and assessments made.

Limitation of the Risk Assessment

The limitation and challenges encountered during the conduct of the risk assessment are as follows:

- Lack of sufficient detailed data coming from reports of actual cases, typologies including the sophistication of methods and means used, actual complaints, investigations and prosecutions as well as specific instances of ML/TF reported.
- Crime threat assessment thus relied heavily on data from reports on the STRs filed with the AMLC, enforcement and supervisory records of the SEC, reports from other government agencies like the BSP, the Serious and Organized Crime Threat Assessments (SOCTA) for the Philippines for the years 2019 and 2020, consultation meetings with industry representatives and LEAs, expert inputs from the TWG members, and inputs derived from surveys conducted among private stakeholders.
- Challenges in collecting sufficient data and information from the institutions in this sector to properly assess the level of their ML/TF vulnerability for this risk assessment has been further compounded by the COVID-19 situation.

II. Regulatory and Institutional Framework for the Securities Sector

The *Securities Regulation Code of 2000* (“SRC”, “RA 8799”), the *Investment Houses Law*, as amended (“IHL”, “PD 129”), *Investment Company Act* (“ICA”, “RA 2629”), the *Revised Corporation Code of the Philippines* (“RCCP”, “RA 11232”), and the *New Central Bank Act*, as amended (“NCBA”, “RA 7653”) are the main laws governing the securities sector in the Philippines.

Under these laws, the SEC and the BSP are the two government agencies that have been authorized to regulate and supervise the securities sector. The SEC is the primary licensing authority of all the covered persons in the securities sector. However, the SEC and the BSP share the general and AML/CFT supervision of a number of entities in this sector.

The responsibility for the general supervision of the Underwriters of Securities and GSEDs lies exclusively with the BSP if they are banks, with quasi-banking functions, or are affiliates/subsidiaries of banks pursuant to Sections 3 and 25 of the NCBA. On the other hand, the SEC has authority over dealings in securities of GSEDs (banks or otherwise) and Underwriters of Securities (banks or otherwise) under Sections 28 and 53 of the SRC. As such, if a GSED or an Underwriter of Securities is a bank/subsidiary or affiliate of a bank, both the BSP and the SEC have authority to supervise it. The common supervision pertains only to the “dealings in securities.”

Conversely, if a GSED or an Underwriter of Securities is not a bank/subsidiary or affiliate of a bank, the BSP has no authority to supervise them. The SEC by virtue of RA 8799 must perform supervision in this case.

Both the BSP and the SEC were designated as AML/CFT supervisors over GSED and Underwriters of Securities under the Anti-Money Laundering Act, as amended (“AMLA”, “RA 9160, as amended”).

Similarly, the BSP and the SEC share the general and AML/CFT supervision of Brokers and Dealers, Investment Houses, Investment Company Advisers, Mutual Fund Distributors and Investment Companies with the BSP mainly supervising those institutions that are subsidiaries or affiliates of banks.

Table 4 below shows the SEC and BSP supervision/regulation of the securities sector.

**Table 4. SEC and BSP Supervision/Regulation of the Securities Sector
(as of 31 December 2020)**

LICENSE TYPE	NO. OF ENTITIES	LICENSING AUTHORITY	GENERAL SUPERVISION	AML/CFT SUPERVISION
Brokers/Dealers	143	SEC	SEC/BSP	SEC/BSP
a. With Quasi-Banking License	-			
i. Subsidiaries/Affiliates of Banks	-	SEC	BSP	SEC/BSP
ii. Not Subsidiaries/Affiliates of Banks	-	SEC	BSP	SEC/BSP
b. Without Quasi-Banking License	143			
i. Subsidiaries/Affiliates of Banks	15	SEC	BSP	SEC/BSP
ii. Not Subsidiaries/Affiliates of Banks	128	SEC	SEC	SEC
Investment Houses	25	SEC	SEC/BSP	SEC/BSP
a. With Quasi-Banking License	2			
i. Subsidiaries/Affiliates of Banks	2	SEC	BSP	SEC/BSP
ii. Not Subsidiaries/Affiliates of Banks	-	SEC	BSP	SEC/BSP
b. Without Quasi-Banking License	23			
i. Subsidiaries/Affiliates of Banks	11	SEC	BSP	SEC/BSP
ii. Not Subsidiaries/Affiliates of Banks	12	SEC	SEC	SEC
Underwriters of Securities (Banks)	12	SEC	BSP	SEC/BSP
Government Securities Eligible Dealers (Banks)	25	SEC	BSP	SEC/BSP
Investment Company Advisers/Mutual Fund Distributors/Investment Companies	99	SEC	BSP	SEC/BSP
a. With Quasi-Banking License	-			
i. Subsidiaries/Affiliates of Banks	-	SEC	BSP	SEC/BSP
ii. Not Subsidiaries/Affiliates of Banks	-	SEC	BSP	SEC/BSP
b. Without Quasi-Banking License	99			
i. Subsidiaries/Affiliates of Banks	2	SEC	BSP	SEC/BSP
ii. Not Subsidiaries/Affiliates of Banks	97	SEC	SEC	SEC
TOTAL	304			

All the 304 covered persons, as listed above, are reporting entities under the AMLA, as amended and are required to comply with their AML/CFT obligations under the law, including the requirements on customer due diligence, record-keeping, covered and suspicious transaction reporting, and adoption and implementation of internal AML/CFT controls, policies and procedures.

III. Crime Threat Assessment

‘Threat’ refers to a person or group of people, object or activity with the potential to cause harm.

This report assessed that there is a **MEDIUM** threat of criminal exploitation to the Philippines’ securities sector. The sector attracts various criminal threats, with **moderate** level of sophisticated tactics and methods to commit offenses. The cheap availability of internet access, increasing functionality of mobile phones, and technological advancements that speed up transactions, while admittedly contributing to the ease of doing business and financial inclusion, nonetheless provide criminals with tools to escape detection or to hide the proceeds of their illegal activities.

STRs and CTRs filed with the AMLC provide the basis for determining the nature and extent or materiality of the criminal threat. The number and value of STRs and CTRs filed over the past three (3) years by entities in the securities sector registered with the AMLC as of 31 December 2019 are as follows:

Table 5: No. of STRs and CTRs Filed by the Securities Sector (2017-2019)

Sector	Registered with AMLC (As of 2019)	STRs (2017-2019)		CTRs (2017-2019)	
		No. of STRs	Value of STRs (In PHP Millions)	No. of CTRs	Value of CTRs (In PHP Millions)
Brokers/Dealers	141	124	962	2,128,513	12,442,426
Investment Houses/ Underwriters of Securities	37	587	10,255	161,915	5,848,389
Government Securities Eligible Dealers	24	1	100	312,273	22,722,944
Investment Company Advisers/Mutual Fund Distributors/Investment Companies	91	62	202	57,675	292,373
TOTAL	293	774	11,519	2,660,376	41,306,132

As highlighted in Table 5 above, the AMLC has received a total of 774 STRs related to the securities sector between 2017 and 2019, which represent 0.06% of the total STRs (1,401,983) received during this period. The total value of STRs received from the securities sector is PhP11.5 Billion. Majority of the STRs have been received from Investment Houses and Underwriters of Securities while majority of the CTRs, in terms of volume, were received from the Brokers and Dealers. The GSEDs, on the other hand, recorded the biggest portion of CTRs filed in terms of value.

The top four (4) suspected predicate crimes that were reported in the STRs by the entities in the securities sector include plunder (4.9%), graft and corrupt practices (2.5%), drug trafficking and related offenses (0.9%), and fraudulent practices and other violations under the SRC (0.6%). The number of the STRs filed and their corresponding value involving these crimes are shown in the table below:

Table 6: Top Suspected Predicate Crimes Reported involving the Securities Sector (2017-2019)

Year	No. of STRs Filed (2017-2019)	Estimated Value of STRs (PHP)
Plunder	38	25,073,312.67
Graft and Corrupt Practices	19	8,372,407.00
Drug Trafficking and Related Offenses	7	39,520.00
Fraudulent Practices and Other Violations Under the SRC	5	11,639,723.69
TOTAL	58	44,151,135.67

STRs filed on “other suspicious indicators” accounted for 90.2% of the total STRs filed by the covered persons in this sector with the AMLC for the period 2017-2019, which may indicate that the securities sector is being targeted to launder money and move the proceeds of the crimes.

A small number of STRs were linked to various other types of predicate offenses including qualified theft (2 STRs), violations of the Intellectual Property Code (2 STRs), kidnapping for ransom (1 STR), and malversation of public funds and property (1 STR).

In majority of the STRs, the predicate offenses have been suspected to be committed in the home jurisdiction. However, a small number (i.e., 5 STRs) was filed by Brokers/Dealers involving cross-border related STRs where the predicate offense is suspected to be committed in China.

The involvement of cash in the predicate offenses or ML/TF offenses related to the securities sector has not been extremely huge. There were only 2% of STRs in the sector which reported to have involved cash transactions. Similarly, the estimated amount of cash involved in the cases prosecuted in the securities sector is limited to Php24.7 million.

3.1 Money Laundering

Out of the 774 STRs filed with the AMLC by the covered persons in the securities sector for the period of 2017-2019, there were 697 STRs related to ‘other suspicious indicators’ with a total value of Php7.25Billion.

Majority (582 out of 697 STRs) or 83.5% of the STRs received from the securities sector for suspected money laundering have been received from the Investment Houses and Underwriters of Securities, followed by Brokers and Dealers (14.5%), and Investment Company Advisers, Mutual Fund Distributors (2%).

The major indicators that were cited in the STRs where customers were suspected of money laundering are as follows (in order of their reporting rate):

- the amount involved is not commensurate with the business or financial capacity of the client (90.7% of the total STRs filed under other suspicious indicators with an estimated value of Php6.6 Billion);
- the transaction is structured to avoid being reported (4.4% of the total STRs filed under other suspicious indicators with an estimated value of Php40.4 Million);
- there is no underlying legal or trade obligation, purpose or economic justification (2.3% of the total STRs filed under other suspicious indicators with estimated value of Php113.3 Million);
- there is deviation from the client’s profile/past transactions (1.1% of the total STRs filed under other suspicious indicators with estimated value of Php435.3 Million);

- the client is not properly identified (0.9% of the total STRs filed under other suspicious indicators with estimated value of PhP2.8 Million); and
- the transaction is similar, analogous or identical to any of the foregoing (0.6% of the total STRs filed under other suspicious indicators with estimated value of PhP15.6 Million).

3.2 Terrorist Financing

The level of terrorist financing reported to the AMLC in STRs from the securities sector is extremely low or nil. In the sample period of three years, no STRs have been submitted to the AMLC related to possible terrorist financing, despite the fact that there is a separate suspicious indicator for 'Financing of Terrorism' (PC14) in the STR submission form.

However, despite no or limited reporting of terrorist financing in STRs, the sector should not be complacent about the potential risk. Awareness of this risk may result in increased detection and STR reporting. This is particularly significant, for the data from the LEAs reveal that the risk of terrorism and terrorist financing is present in the securities sector. According to this data received from the LEAs, 40 cases have been investigated between 2017 to 2019 related to the offense of 'terrorism and terrorist financing' involving the securities sector, which resulted into the prosecution of 2 terrorist financing cases in 2018.

3.3 Plunder and Corruption-Related Offenses

During the period of 2017 to 2019, a total of 58 STRs submitted to the AMLC involving the securities companies were related to plunder, graft and corrupt practices and malversation of public funds and property. These STRs comprise of 7.5% of total STRs relating to these offenses in the sample period, with the total value of PhP44.1 Million.

This assessment is further substantiated by the data from the AMLC, SEC and other partner agencies which also noted that 6.5% of the total cases investigated, involving the securities sector, relate to the offenses of graft and corrupt practices, bribery, malversation of public funds and property and other related crimes.

3.4 Drug Trafficking and Related Offenses

The 2019 AMLC external threat assessment report has noted that although 'substantial amount of illicit funds from drug trafficking were generated in the Philippines, they have been circulated around the financial system generally through commercial banks.¹ These findings are supported by the analysis of the STRs submitted to the AMLC by the securities companies. The sector has started reporting a suspicion on these offenses only in 2019 with 7 STRs valued at a relatively small amount of PhP39,520.00.

Notwithstanding the above, the current statistics from the AMLC and SEC investigation records are, however, indicating an increasing potential of the misuse of the securities sector to launder the proceeds of crime generated through drug trafficking and other drug-related offenses. In the last three years (2017 to 2019), 43 cases have been investigated by the AMLC and SEC involving the securities sector that relate to drug-related offenses, which represents 29% of the total cases investigated during this period. As compared to 2018 in which only 15 drug-related offenses were investigated involving the securities sector, the number of such cases almost doubled in 2019, reaching to 28 cases under investigation in 2019.

¹ AMLC (2019), *A Risk Assessment on the Philippines' Exposure to External Threats based on Submitted Suspicious Transaction Reports* (Philippines, last updated on 31 May 2019), p. 9.

3.5 Fraud-Related Offenses

Although fraud-related offenses, including fraudulent practices and other violations of the SRC and swindling, constitute a very small number of the STRs involving the securities sector, the total value of these STRs is significant at PhP16.9 Million for the period of 2017 to 2019.

Moreover, investment-related scams have been assessed to be proliferating in the securities sector, which is primarily based on the data and reports gathered from the supervisory authorities, LEAs and other partner agencies.

The fraudulent public offering and selling of securities without a permit or license from the SEC has been identified as the most common type of violation of the SRC by the SEC. These fraudulent schemes invariably involve the offering of high returns to investors on their investment to be paid within a relatively short period of time, usually within three (3) months. Those who are initially recruited actually get the promised returns and this encourages more people to join. Eventually, however, such schemes fail as more and more people are recruited requiring an ever-increasing amount of money to be paid to later investors. Such schemes have been the subject of advisories issued by the SEC to the industry.

The predicate offense of ‘swindling’ has been reported in only one STR related to the securities sector in the sample period of 2017 to 2019, with the total value of PhP5.2 Million. Nonetheless, the data from other partner agencies highlight 37 cases that are under investigation in the securities sector in 2019 involving the offense of swindling, which represents around 25% of the total cases under investigation in the sector.

The competent authorities and covered persons engaged in this risk assessment perceived cyber-enabled fraud as a serious issue. The threat of cyber-enabled fraud has been assessed to be increasing in both the volume and the level of sophistication. It has been widely recognized that the use of the internet facilitates the transactions and allows the scam operators to reach a wide market, resulting in the increasing ML/TF threat for the securities sector that is operating largely online.

3.6 Other Offenses

In the sample period of 2017 to 2019, only 0.6% of STRs involving the securities sector relate to other predicate offenses, including kidnapping for ransom (1 STR in the significant value of PhP4.01 Billion), qualified theft (2 STRs in the value of PhP16.4 Million) and violation of the Intellectual Property Code (2 STRs in the value of PhP1 Million).

A few other offenses that have been highlighted as under investigation in the data from AMLC, SEC and other partner agencies, involving the securities sector, include: child pornography and other similar offenses, environment crimes, hijacking, human trafficking, kidnapping for ransom, qualified theft, robbery and extortion, smuggling, violation of E-commerce Act, violation of intellectual property rights, violation of Overseas Filipinos Act, and violation of penal laws of other countries.

The 2017 NRA Report of the Philippines has concluded that the threat posed by tax evasion is High.² This risk assessment also assessed tax evasion as posing a major ML threat for the securities sector, especially considering the current and potential threat assessed facing this sector from plunder and corruption related offenses as discussed above.

² 2nd National Risk Assessment of Philippines (Manila, 2017), p. 15.

The crime threat assessment per sub-sector is shown below:

Table 7: Crime Threat Assessment Rating per sub-sector

CRIME THREAT ASSESSMENT PER SUB-SECTOR	RISK RATING
Brokers/Dealers	MEDIUM
Investment Houses/Underwriters of Securities	MEDIUM-HIGH
Government Securities Eligible Dealers	LOW
Investment Company Advisers/Mutual Fund Distributors/Investment Companies	MEDIUM-LOW
OVERALL CRIME THREAT ASSESSMENT	MEDIUM

IV. Vulnerabilities

This report assesses that there is a **MEDIUM** level of vulnerability to ML/TF in the securities sector.

Vulnerability refers to the characteristics of a sector that make it susceptible to criminal exploitation. This includes nature, size and complexity of business, products and services, customers, delivery channels, countries/jurisdictions with which it deals. Sector vulnerability also considers the operational vulnerabilities common among businesses in the sector, as well as the AML/CFT systems and controls in place across the sector.

Here is the snapshot of ‘Vulnerability’ risk rating for each sector.

Table 8: Vulnerability Rating per Sub-Sector

Sector	Sector Risk Assessment (SRA) 2021	National Risk Assessment (NRA) 2017
Brokers/Dealers	MEDIUM	MEDIUM
Investment Houses/Underwriters of Securities	MEDIUM-LOW	MEDIUM-LOW
Government Securities Eligible Dealers (Banks)	LOW	N/A
Investment Company Advisers/Mutual Fund Distributors/Investment Companies	MEDIUM	MEDIUM

**Rating:
Medium**

Brokers and Dealers (BDs)

A 'Broker' is a person who is engaged in the business of buying and selling securities for the accounts of others.

A 'Dealer' is a person who buys and sells securities for his/her own account in the ordinary course of business.

143

In the sector

15

Subsidiaries
of banks



91%

Conduct
transactions
thru banks



57 Billion

Total Assets

400
Million

Average
value of
assets per BD

Total STRs
Valued at

962
Million

124
STR

90%



Delivery of product and services thru combination

8.6% Delivery thru domestic
intermediaries

95%
With
customers
who are
individuals

1.35%
With non-
resident
customers

0.03%
With domestic
PEP customers

22.9%

With
transactions
involving
foreign*
jurisdiction

Onboarding

18%

Face-to-face

71%

Combination



11%

Use of IT

*USA, China, Singapore, Hongkong, Canada, Australia, UK, Japan, Saudi Arabia, and UAE

Brokers/Dealers (BDs): Inherent Risk Summary

Variable	Assessment	Risk Rating
Nature, Size and Complexity of Business	<ul style="list-style-type: none"> Size and complexity range from small businesses to entities operating on a global scale. Transactional volume and value are significant. Majority of transactions are simple. 	High
Products and Services	<ul style="list-style-type: none"> Products and services offered are generally highly liquid. 	High
Customer Types	<ul style="list-style-type: none"> Majority of customers are individuals. Has small percentage of corporate and legal arrangements as customers. Domestic PEPs constitute a small proportion of the total customers. Non-resident customers make up a small percentage of the total customer base. 	Low
Delivery Channels	<ul style="list-style-type: none"> Majority of BDs use a combination of face-to-face and information technology during onboarding of customers. Majority of BDs use a combination of face-to-face and non-face-to-face methods in delivering their products and services. Small percentage utilize domestic intermediaries in onboarding customers or delivering products or services. 	Medium-Low
Country Risk	<ul style="list-style-type: none"> Almost a quarter of BDs have transactions involving foreign jurisdictions. BDs deal mainly with institutions and intermediaries based in low-risk countries. 	Medium-Low
Operational Vulnerabilities	<ul style="list-style-type: none"> Majority of BDs use banks to conduct their financial transactions. Only a small percentage of BDs use money service businesses (MSBs). Cash is a prevalent method to conduct transactions, however, the total value of transactions involving cash remains less than 10% of the total value of transactions. 	Medium
AML/CFT Systems and Controls	<ul style="list-style-type: none"> AMLC registration of BDs increased in the past three (3) years. Majority of BDs participated in events organized by the SEC/BSP/AMLC and have arranged internal AML/CFT trainings. Number of STRs filed by BDs have decreased over the past two (2) years. Limited role of the AML/CFT supervisors in the past three (3) years. Lack of statistics and other information relating to ML/TF activities in the BD sub-sector. 	Medium-High
OVERALL VULNERABILITY ASSESSMENT	<p>The overall vulnerability of BDs to ML/TF is assessed as MEDIUM. Products and services offered by BDs are generally highly liquid, such as shares, bonds, and distribution of initial public offering. The high liquidity provides possibility of frequent trading without raising suspicion, making the sector vulnerable to ML. Individual products or entire portfolios in this sub-sector can be transferred to other institutions both on-shore and off-shore which can hinder efforts to trace the source of funds. The significant volume and value of transactions are mainly attributed to broker dealers in securities, which constitute the largest proportion of the sub-sector. The low level and decreasing trend of STRs reported by BDs suggests that AML/CFT reporting mechanisms need to be strengthened to better detect financial crime and increase reporting to AMLC.</p>	

Rating:
Medium Low

Investment Houses and Underwriters of Securities (IH/US)

'Investment Houses' is defined as enterprises engaged in the underwriting of securities of other corporations. Investment houses in the Philippines are allowed to perform quasi-banking functions upon approval of the Monetary Board of the Bangko Sentral ng Pilipinas.

37

In the sector

13 IH

Subsidiaries of banks



12 US

Subsidiaries of banks

143.6
Billion

Average value of assets per IH/US

5.3 Trillion

Total value of Transactions

137M

Average transaction value

29 IH/US

Entirely domestic

8 IH/US

With foreign equity

91%

Conduct transactions thru banks

With more than 10,000 transactions in 2019

21%

5.6 Trillion

Total Assets

10

Billion

Total STRs Value

587
STR

89%



Delivery of product and services thru combination

Over **6 million** customers

47%

With customers who are legal entities

0.02%

With non-resident customers

0.26%

With domestic PEP customers

42%

With transactions involving foreign* jurisdiction

* Singapore, Hong Kong, UK, USA, Taiwan, Australia, Canada, Germany, Saudi Arabia, Indonesia, Japan, Vietnam and China

Onboarding

11%

Face-to-face

84%

Combination



5%

Use of IT

Investment Houses/Underwriters of Securities (IH/US): Inherent Risk Summary

Variable	Assessment	Risk Rating
Nature, Size and Complexity of Business	<ul style="list-style-type: none"> Transactional volume and value are significant. Majority of transactions are simple. 	Medium-Low
Products and Services	<ul style="list-style-type: none"> Main product is underwriting of public offering of debt and equity securities. 	Medium-Low
Customer Types	<ul style="list-style-type: none"> Majority of customers are business or corporate clients. Has small percentage of legal arrangements as customers. Domestic PEPs constitute a small proportion of the total customers. Non-resident customers make up a small percentage of the total customer base. 	Medium-Low
Delivery Channels	<ul style="list-style-type: none"> Majority of IH/US use a combination of face-to-face and information technology during onboarding of customers. Majority of IH/US use a combination of face-to-face and non-face-to-face methods in delivering their products and services. A significant number utilize domestic/overseas 3rd party intermediaries/agents in delivering products or services. 	Low
Country Risk	<ul style="list-style-type: none"> A significant number of IH/US have transactions involving foreign jurisdictions. IH/US deal mainly with institutions and intermediaries based in low-risk countries. 	Medium
Operational Vulnerabilities	<ul style="list-style-type: none"> Majority of IH/US use banks to conduct their financial transactions. Only a small percentage of IH/US use money service businesses (MSBs). Cash is not a prevalent method to conduct transactions. 	Medium-Low
AML/CFT Systems and Controls	<ul style="list-style-type: none"> Number of STRs filed by IH/US has dramatically decreased in 2019. IH/US which are banks or with bank affiliation have strict customer acceptance and close monitoring of customer transactions. Limited role of the AML/CFT supervisors in the past three (3) years. Lack of statistics and other information relating to ML/TF activities in the IH/US sub-sector. 	Medium

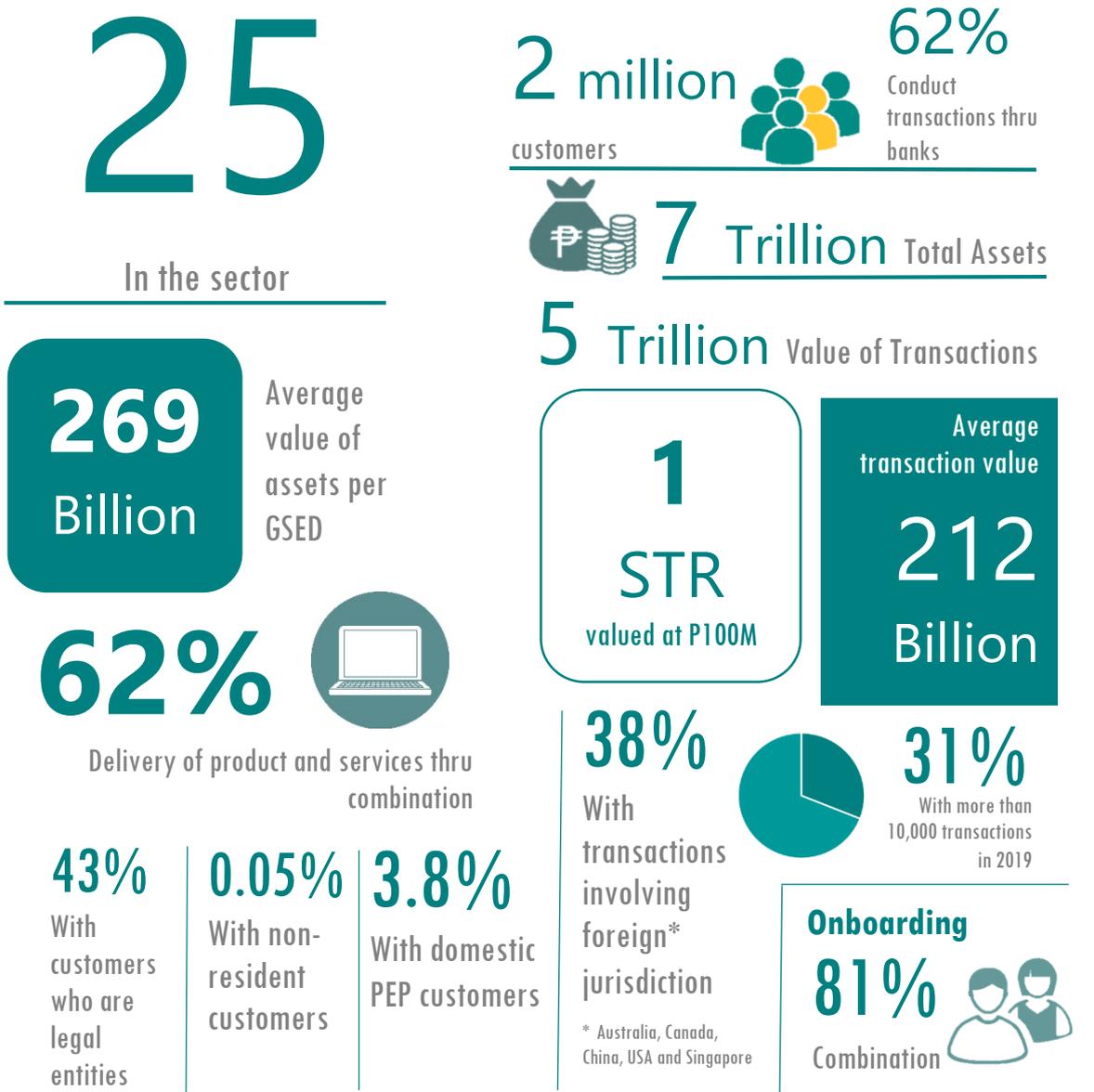
OVERALL VULNERABILITY ASSESSMENT

The overall vulnerability of IH/US to ML/TF is assessed as MEDIUM-LOW. Transactional volume and value of this sub-sector appears to be significant. Involvement of a number of legal entities in the STRs filed by IH/US indicates the vulnerability of the sub-sector for being abused for crime by legal entities. A significant number of IH/US use domestic and/or overseas intermediaries/agents and have transactions involving foreign jurisdictions. The decreasing trend of STR reporting of this sub-sector suggests the need to enhance AML/CFT supervision and oversight.



Government Securities Eligible Dealer (GSED)

‘Government Securities Eligible Dealer (GSED)’ is an SEC-licensed securities dealer belonging to a service industry supervised/regulated by Securities and Exchange Commission, Bangko Sentral ng Pilipinas or Insurance Commission which has met P100M unimpaired capital and surplus account, the statutory ratios prescribed for the industry and has the infrastructure for an electronic interface with the Automated Debt Auction Processing System (ADAPS) and the official Registry of Scripless Securities (Ross) both of the Bureau of the Treasury (BTr) using Bridge Information System and acknowledge by the BTr as eligible to participate in the primary auction of government securities.



Government Securities Eligible Dealers (GSEDs): Inherent Risk Summary

Variable	Assessment	Risk Rating
Nature, Size and Complexity of Business	<ul style="list-style-type: none"> The significant volume and value of transactions in this sub-sector are mainly attributed to buying of/purchase of sovereign bonds in huge amounts. Majority of transactions are simple. 	Medium-Low
Products and Services	<ul style="list-style-type: none"> Products and services offered by GSEDs include a wide range of financial and advisory services such as such equities, debt, fixed income securities, investment funds, derivatives, CAT bonds, treasury bills, Fix spot, and insurance-linked securities. 	Medium-Low
Customer Types	<ul style="list-style-type: none"> Customers are both individuals and corporate. Almost half of the GSEDs deal with 51 or more legal entities as customers. Has a small percentage of legal arrangements as customers. Number of Domestic PEPs as customers appears to be significant. Non-resident customers make up a small percentage of the total customer base. 	Medium-Low
Delivery Channels	<ul style="list-style-type: none"> Majority of GSEDs use a combination of face-to-face and non-face-to-face methods during onboarding of customers. Majority of GSEDs use a combination of face-to-face and non-face-to-face methods in delivering their products and services. Majority of GSEDs utilize domestic intermediaries/agents in onboarding customers and/or delivering products or services. 	Medium-Low
Country Risk	<ul style="list-style-type: none"> Low exposure to non-resident customers and majority of the customers are local based. 	Low
Operational Vulnerabilities	<ul style="list-style-type: none"> Majority of GSEDs use banks to conduct their financial transactions. Use of money service businesses (MSBs) and cash is not a prevalent method to conduct transactions. 	Low
AML/CFT Systems and Controls	<ul style="list-style-type: none"> GSEDs are covered by periodic examination by the BSP. Have established internal AML/CFT controls and policies. 	Low

OVERALL VULNERABILITY ASSESSMENT

The overall vulnerability of GSEDs is assessed as **LOW**. GSEDs is a function usually provided by firms which are banks and thus covered by the bank's internal audit unit and the periodic examination of the BSP. Inherent risks of the sector are mitigated by strict customer acceptance and close monitoring of customer transactions. The periodic examinations of the BSP includes the review of AML/ CFT requirements of the covered person. For the 16 GSEDs surveyed for this risk assessment, all the GSEDs have indicated to be examined by the regulating authority in the past 3 years.

**Rating:
Medium**

Investment Company Advisers/Mutual Fund Distributors/Investment Companies (ICAs/MFDs/ICs)

Investment company is any issuer which is or holds itself out as being engaged primarily, or proposed to be engaged primarily, in the business of investing, reinvesting, or trading of securities. There are two (2) types of Investment Companies, the open-end and the closed end, wherein the former is offering for sale or has outstanding any redeemable security of which it is the issuer, while the later offers for sale fixed number of non-redeemable securities that are offered in an IPO and traded in an organized market.

Investment Company Adviser licensee, also called as the Fund Manager, is a stock corporation that is engaged in the business of managing the daily operations of an Investment Company in the investment, administration and accounting of fund assets and the monitoring of the activities of third-party service providers such as custodian, transfer agent, and distributors.

99

In the sector



91%

Conduct transactions thru banks

942,030
customers



841.2 B

Total assets per IC/MF

9.28 B

Total assets per ICA

154.37 B

Total assets per MFD

100.4
Billion

Total Value of transaction

1.44B

Average transaction value

62
STR

Total STRs Value

202
Million

22%

With more than 10,000 transactions in 2019

12.36 B

Average value of assets per IC/MF

773.58 M

Average value of assets per ICA

11.03 B

Average value of assets per MFD



90.91%

Delivery of product and services thru combination

97.78%

With transactions involving foreign* jurisdiction

Onboarding



93% **7%**

Combination Use of IT

47.4%
With customers who are individuals

47.4%
With non-resident customers

82.8%
With 1-10 domestic PEP

*Singapore, USA, China, Hongkong, Canada, Australia, UK, Japan, Saudi Arabia, and UAE

Investment Company Advisers/Mutual Fund Distributors/Investment Companies (ICAs/MFDs/ICs): Inherent Risk Summary

Variable	Assessment	Risk Rating
Nature, Size and Complexity of Business	<ul style="list-style-type: none"> • Transactional volume and value of are significant. • Majority of transactions are simple. 	Medium
Products and Services	<ul style="list-style-type: none"> • Investment products may either be in a form of shares of stocks or units of participation in an investment company. • Proceeds from the distribution of investment products are used to collectively invest in stock or bonds, other collective investment schemes, or indices depending on the investment policies and objective of a particular investment company. 	Medium
Customer Types	<ul style="list-style-type: none"> • Majority of customers are individuals. • None of the covered persons deal with high-net-worth customers, and legal entities. • Domestic PEPs constitute a small proportion of the total customers. • Negligible number of foreign PEPs (only one) • Has small percentage of corporate and legal arrangements as customers. • Non-resident customers make up a small percentage of the total customer base. 	Medium-Low
Delivery Channels	<ul style="list-style-type: none"> • Majority of the covered persons under this sub-sector have indicated to deliver their products and services using a combination of face to face and non-face-to-face-methods 	Medium-Low
Country Risk	<ul style="list-style-type: none"> • Majority of the covered persons under this sub-sector have transactions involving foreign jurisdictions. • None of the transactions involve dealing with high-risk foreign jurisdictions. 	Medium-High
Operational Vulnerabilities	<ul style="list-style-type: none"> • Majority of the covered persons under this sub-sector use banks to conduct their financial transactions. • Cash is a prevalent method to conduct transactions • Minimal number of the covered persons under this sub-sector use money service businesses (MSBs). 	Medium
AML/CFT Systems and Controls	<ul style="list-style-type: none"> • Number of STRs filed by have decreased. • There is limited role of the AML/CFT supervisors in supervising ICs. • Lack of statistics and other information relating to ML/TF activities in the sector. • Majority of of the covered persons under this sub-sector are registered with the AMLC. 	Medium
OVERALL VULNERABILITY ASSESSMENT	<ul style="list-style-type: none"> • The overall vulnerability of ICAs/MFDs/ICs to ML/TF are assessed as MEDIUM. The nature of the business for investment companies lies in the subscription, redemption, and investment/re-investment in securities depending on the investment objectives and classification of a particular investment company. Majority of the covered persons have transactions involving foreign jurisdictions. The low level and decreasing trend of STRs reported by investment company advisers, mutual fund distributors and investment companies suggests that AML/CFT reporting mechanisms need to be strengthened to better detect financial crime and increase reporting to AMLC. 	

V. Consequences Assessment

The consequences of ML/TF occurring in the securities sector are assessed as ***MEDIUM***.

'Consequences' refers to the potential impact or harm that ML/TF and other financial crimes may cause. Financial crime in securities has consequences for customers, individual covered persons, the sector as a whole, the broader Philippine economy, and national and international security.

Financial and indirect consequences for the customers include, for instance, financial losses from accounts and investment portfolios and stress due to fraud-related crime.

The severity of the consequences for covered persons in the securities sector would vary, depending on the extent to which such covered persons understand the ML/TF risks they face, have effective controls and strategies in place to mitigate these risks, and identify and submit STRs. Consequences for individual covered persons include in general: reputational damage, resulting in fewer customers; costs relating to re-gaining customer confidence in the business; increased compliance costs, including, increased audit costs; increased regulatory action, impact on financial performance and growth and consequently, on profits and shareholders' distributions.

Consequences for the securities sector broadly include a diminished level of market integrity leading to a general loss in public trust and confidence in the securities sector, as well as an adverse impact on earnings and revenue across the sector.

ML/TF in the securities sector has the potential to have an impact on the broader Philippine economy. The following impact or harm to the economy is assessed to occur should ML/TF and other financial crimes happen in the securities sector: reduction in taxation revenue, impacting on the delivery of critical government services; adverse impact on the reputation of Philippines's financial market; and making the Philippines's financial market attractive to criminals by providing a safe haven for facilitation of proceeds of crime and/or illegal activity.

The national and international security consequences of terrorist financing in the securities sector is assessed as low, given the relatively low level of terrorism financing activity. However, due to the number of cases related to 'terrorism and conspiracy to terrorism' reported by LEAs, the securities sector must remain vigilant to this threat, as undetected terrorism financing activity could have significant consequences.

VI. Action Plan and/or Mitigating Measures

In light of the findings of this risk assessment, the Commission's action plan to protect covered persons within the securities sector from being misused for money laundering and terrorist financing and mitigate further their risks to ML/TF, are as follows:

- i) The development of regular reporting mechanisms and processes to collect adequate, accurate and up-to-date information and data from the covered persons within the securities sector relating to their business and processes including, for instance, their transactions, customers, products and services, delivery channels, etc.;
- ii) The effective implementation of the AML/CFT risk-based supervisory model through regular off-site and on-site inspections (based on risk-assessment) including risk profiling of covered persons to prevent the abuse of the sector for ML/TF purposes;
- iii) The increase in the conduct of regular outreach activities, including seminars, workshops and conferences, for securities sector to develop their understanding of ML/TF risks facing the sector and to develop their risk-based documented institutional-level risk assessments;
- iv) The issuance of a sectoral-specific AML/CFT guidance to securities sector to develop their understanding of major crime threats and ML/TF vulnerabilities of the sector, as well to promote their compliance with their AML/CFT obligations, including detecting and filing STRs; and
- v) The increase the conduct of regular coordination meetings with the AMLC and the BSP concerning AML/CFT supervision of covered persons in the securities sector.