Module 2 – Risk-Based Approach in AML/CTF

Task Description:

Read the assigned case study carefully. You are required to use the information contained in the case study to answer 10 multiple-choice questions.

Specifically:

- Read the case study in full.
- Answer the 10 multiple-choice questions that follow.
- For each question, select one or more correct answers. Each question may have more than one correct answer.
- Your task is simply to identify and select that correct answer based on the case study.

The questions will assess your ability to:

- Explain what the risk-based approach means in AML and CFT.
- Describe why financial crime risk is not uniform and why controls must be proportionate to risk.
- Distinguish between inherent risk, the effectiveness of controls, and residual risk.
- Explain the role of risk appetite and senior governance in setting boundaries and control expectations.
- Identify key risk drivers, including customer risk, product and service risk, geographic risk, and delivery channel risk.
- Describe how risk level influences due diligence measures, monitoring intensity, and escalation expectations.

Case Summary

- **Entity profile:** Corporate customer applying to a VARA licensed custodial exchange in Dubai
- **Customer:** Al Noor General Trading FZE
- **Onboarding channel:** Remote, submitted via paid introducer
- **Declared business purpose:** Treasury management and overseas supplier payments in USDT

- **Declared monthly turnover through platform:** AED 5,000,000
- **Expected activity profile:** Two to four USDT transfers per month to named overseas suppliers
- **Risk rating at onboarding:** Medium
- **Notes:** Requested Rapid Treasury access immediately and asked for higher withdrawal limits during onboarding

Key risk drivers at onboarding

- **Customer risk:** Layered ownership with offshore entities and incomplete beneficial ownership evidence
- **Product and service risk:** Rapid Treasury enables fast AED to USDT conversion and external wallet withdrawals
- **Jurisdiction risk:** Stated supplier corridors include higher risk geographies under the firm's internal risk matrix
- **Delivery channel risk:** Non face to face onboarding and reliance on introducer documentation pack
- **Control quality signals:** PEP screening possible match closed with minimal documented rationale and generic source of funds narrative

Transaction and behaviour history (10 days)

- Day 1: Account activated with Rapid Treasury enabled
- Day 3: AED 9,800,000 deposit split into three tranches just under AED 3,300,000 from three different UAE accounts not disclosed as counterparties
- Day 3: AED converted to USDT within one hour and withdrawn to two external wallets
- Day 5: AED 12,400,000 deposit converted and withdrawn same day to a new external wallet
- Day 8: USDT received from an external wallet, converted back to AED, then paid out locally to a third party described as consulting services
- Day 10: Customer requests increased withdrawal limits and states delays will cause supplier penalties
- Day 10: Customer insists on using specific external wallets rather than supplier wallets

- Day 10: Customer provides invoices that do not match counterparties and show repeated formatting anomalies

On chain and monitoring signals

- Day 3 to Day 10: Two destination wallets show exposure to a mixing service and a cluster associated with prior fraud reports
- Day 8: Inbound wallet shows links to multiple newly created addresses with short transaction histories
- Day 10: Case opened by first line due to rapid in and out pattern and wallet risk indicators but marked pending information while documents are requested
- Day 10: Informal MLRO awareness but no formal evidence pack escalation recorded