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Exam : **Advanced CAMS Audit**

Title : Advanced CAMS-Audit Certification Exam

Version : DEMO

1.The auditor identifies that the bank launched trade finance services this year. The target clients are multinational companies who actively support China's belt and road initiatives.
Which scoring themes would be affected? (Select Two.)
A. 11.2
B. 11.3
C. 12.1
D. 12.2
E. 13.1
Answer: AB
Explanation:
Identification of Themes Relevant to Trade Finance Services:
Trade finance services for multinational companies participating in China's Belt and Road initiatives involve transactions with potential geopolitical, regulatory, and economic risks.
These transactions generally encompass cross-border activities, high-value accounts, and potentially politically exposed persons (PEPs).
Scoring Theme A (11.2): Economic Activity and Geographical Risks:
As these services involve international trade, they are inherently linked to economic activity and geographical risks. FATF guidelines indicate the necessity to evaluate regions with different AML/CFT maturity levels. This is consistent with theme 11.2, focusing on the understanding and mitigation of risks associated with economic and geographical contexts.
Scoring Theme B (11.3): Customer Due Diligence and Enhanced Measures for High-Risk Profiles: The target clientele includes multinational companies, which might require enhanced customer due diligence (EDD), especially when engaging with entities or PEPs from countries with varying regulatory controls.
FATF Recommendations and Basel Committee insights emphasize robust customer identification, verification, and ongoing monitoring, aligning with theme 11.3’s requirements. Not Affected Themes:
C (12.1): This theme pertains more to specific reporting or transaction monitoring requirements that might not directly relate to the initiation of trade finance services.
D (12.2) and E (13.1): These themes are typically associated with procedural adjustments rather than the scoring of risk profiles.
Advanced CAMS-Audit Framework Alignment:
Advanced CAMS-Audit highlights the role of structured compliance frameworks in mitigating risks tied to strategic initiatives like the Belt and Road.
Evaluators assess the institution's alignment with FATF, Basel Committee, and regional guidelines to ensure adherence to best practices for risk mitigation. Conclusion:
The scoring themes A (11.2) and B (11.3) are significantly influenced by the introduction of trade finance services targeting multinational corporations under China's Belt and Road initiatives. This is due to the intertwined economic and geographical risks and the requisite enhanced due diligence measures for high-risk customer segments.

2.The auditor identifies that the bank has launched trade finance services this year. When rating the various themes of the risk mitigants, which are expected to be impacted by the launch of these services? (Select Three.)
A. M1.1
B. M1.2

C. M2.1
D. M3.2
E. M4.2
F. M5.2
Answer: A, C, E
Explanation:
M1.1 - Risk Identification and Assessment
Trade finance introduces new types of risks such as exposure to cross-border transactions, multiple parties, and complex financial instruments. These elements necessitate a reassessment of existing risk frameworks to identify new vulnerabilities, including trade-based money laundering (TBML). As detailed in the CAMS-Audit guidance, financial institutions must periodically update their risk assessments to reflect changes in products and services.
M2.1 - Enhanced Due Diligence (EDD) on High-Risk Customers
Trade finance clients often involve politically exposed persons (PEPs), entities in high-risk jurisdictions, or complex supply chains. According to FATF Recommendation 10 and CAMS standards, banks must enhance customer due diligence measures, including obtaining additional information on the customer's source of funds, beneficial ownership, and the nature of the business.
M4.2 - Transaction Monitoring Systems
The complexity of trade finance transactions requires robust monitoring systems capable of identifying unusual patterns indicative of money laundering or terrorist financing. These systems must be calibrated to flag discrepancies in trade documentation, over- or under-invoicing, and deviations from expected trade flows, as emphasized in the FATF Recommendations and CAMS-Audit references.
References from Advanced CAMS-Audit Documents: AML/CFT-document references specify the need for updated risk assessments and transaction monitoring systems aligned with international AML standards for new services.
FATF Recommendations provide a framework for enhanced due diligence and risk-based approaches for trade finance.

3.Following completion of testing and tuning of the parameters and thresholds of the transaction monitoring model which final step should the team recommend as necessary to verify effective model functioning?
A. Model validation
B. Audit continuous monitoring
C. Data validation
D. Regulatory approvals
Answer: A
Explanation:
Purpose of Model Validation:
Model validation ensures that the transaction monitoring model is functioning as intended, effectively identifying suspicious transactions and mitigating AML/CFT risks.
It encompasses testing data accuracy, parameter relevance, threshold efficacy, and compliance with regulatory requirements.
Process:
Validation includes end-to-end reviews, statistical evaluations, and expert assessments of model outputs.

According to FATF and Basel Committee standards, model validation is a critical component of the AML framework.
Irrelevance of Other Options:
Audit continuous monitoring focuses on ongoing oversight, not the specific confirmation of initial model functionality.
Data validation addresses data quality but does not verify operational model performance.
Regulatory approvals are necessary for compliance but are not a step in verifying model functioning.

4.What model test verifies that alerts indicative of potentially suspicious activity are not missed due to threshold settings?
A. Black-box configuration
B. Above-the-line
C. Gap analysis
D. Below-the-line
Answer: D
Explanation:
Understanding Below-the-Line Testing:
Below-the-line testing evaluates scenarios where alerts were not generated but could have been if the thresholds were set differently.
This testing method focuses on identifying potential gaps in the detection model that might lead to missed alerts for suspicious activities.
Significance in AML/CFT Compliance:
This type of test ensures the system's thresholds are not too restrictive, which could result in legitimate suspicious activities being overlooked.
It provides insight into whether the system needs re-calibration to balance false positives and missed detections.
Process of Below-the-Line Testing:
Data Sampling: Analyze transactions that fall just below the alert generation threshold.
Scenario Analysis: Identify whether these transactions exhibit patterns consistent with suspicious activities.
Model Adjustment: Adjust thresholds to optimize the trade-off between sensitivity and specificity.
Advanced CAMS-Audit
Reference: CAMS-Audit guidelines detail below-the-line testing as an integral part of tuning and validating monitoring models. It ensures that monitoring systems align with risk appetite and operational realities.
FATF guidance on dynamic model validation highlights the importance of continuous review and adaptation of thresholds to evolving typologies and risks.
Case Example and Regulatory Perspective:
Advanced CAMS-Audit recommends below-the-line tests especially in high-risk sectors, ensuring robust detection mechanisms.
Regulatory expectations, as per FATF and Basel guidelines, require proactive measures to address model gaps that below-the-line testing can identify.

5.Which recommendation should the audit team provide to address transaction monitoring (TM) issues?

A. Switch off those detection scenarios that are producing too many false positives.
B. Apply the same thresholds across all client types to ensure alignment of risk coverage.
C. Perform a coverage assessment of the current suite of TM detection scenarios against the bank's money laundering and terrorist financing risks
D. Provide training for first-line staff on how to review and disposition TM alerts.
Answer: C
Explanation:
Importance of Coverage Assessment:
Coverage assessment ensures that the TM scenarios address the full spectrum of identified money laundering (ML) and terrorist financing (TF) risks relevant to the organization.
This aligns with FATF Recommendations on risk-based approaches and the effectiveness of transaction monitoring systems.
Key Reference Justification:
Basel Committee guidelines stress that financial institutions must regularly review their transaction monitoring coverage to ensure alignment with the risk landscape.