

# Legal Person Risk Assessment (LPRA) 2024

Labuan FSA LPRA Taskforce

---

15 August 2024

# Objective and Scope

## UNDERSTANDING LABUAN LEGAL PERSONS



## UNDERSTANDING RISK ASSOCIATED WITH LEGAL PERSONS

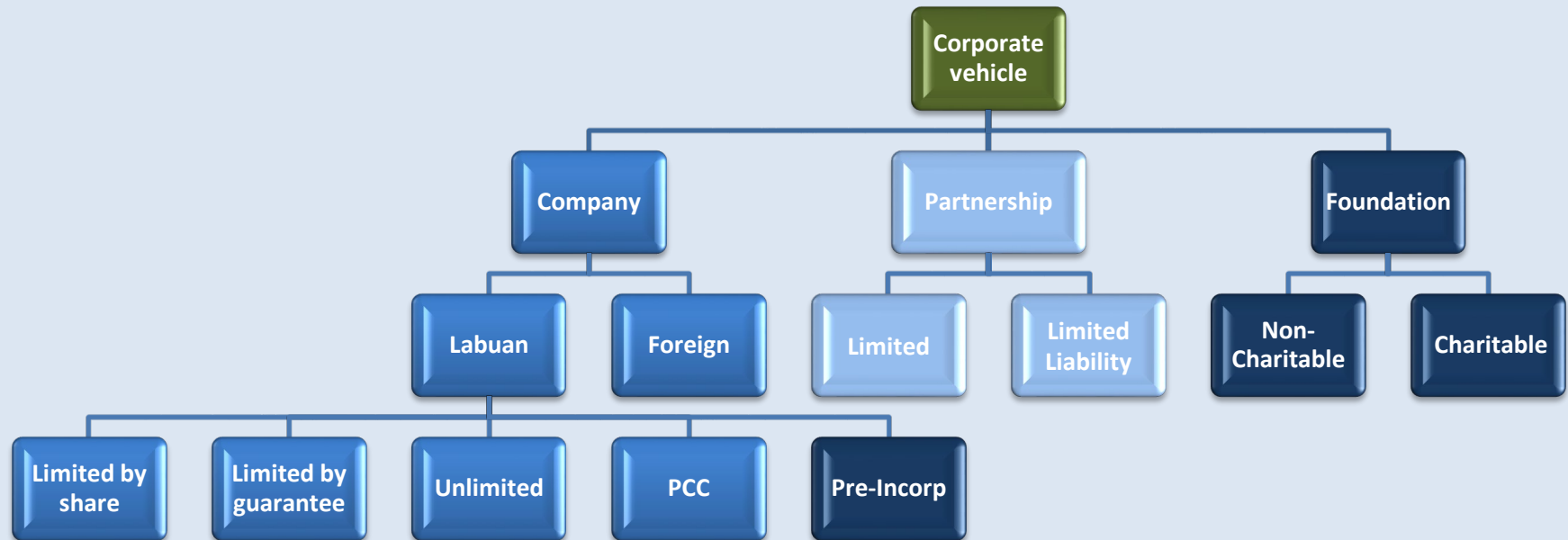
### Objective

1. To assess vulnerabilities of Labuan Legal Persons.
2. To recommend measures to mitigate the ML/TF risks, based on the vulnerabilities surrounding beneficial owners (BOs) and nominees.

### Scope

1. Conduct assessment on Labuan Legal Persons based on the risk assessment methodology.
2. The assessment is based on a 5-year datasets (January 2018 to December 2022).

# Labuan Legal Person



## FATF DEFINITION

**Recommendation 24 FATF** – Legal person refers to any entities, other than natural persons, that can establish a permanent customer relationship with a financial institution or otherwise own property. This can include companies, bodies corporate, foundations, anstalt, partnerships, or associations and other relevantly similar entities that have legal personality.

# Legal Person Landscape



1



*Labuan Company 4,847*

2



*Labuan Foundation 190*

3



*Labuan Partnership 50*

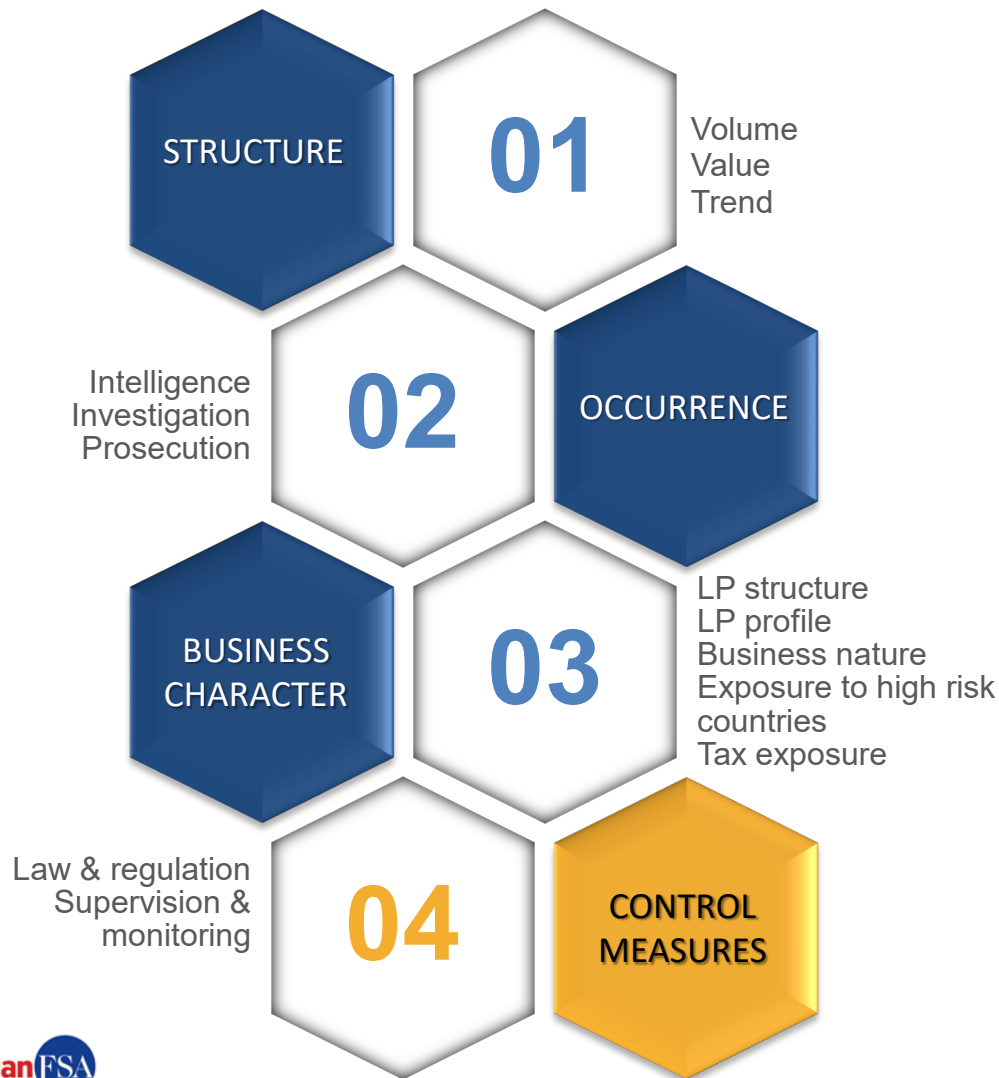
4



***Total Labuan LPs 5,087***

# Methodology

## Inherent Risk and Control Measures



## Assessment Approach

01

### Quantitative Assessment

- Data from Registrar of Companies
- Data from Trust Companies
- Data from LEAs

02

### Qualitative Assessment

- Focus group discussion with Trust Companies
- Desk research on Labuan's exposures

## Risk Rating



Inherent Risk



Control Measures



Net Risk

# Key Findings – Inherent Risk

Labuan LPs have **LOW** vulnerability and likelihood of being abused for ML/TF:

Inherent Risk Indicators	Company		Foundation		Partnership	
	ML	TF	ML	TF	ML	TF
Business Structure (Volume, Value, Trend)						
High Risk Countries (HRCs)						
Government Linked Company (GLCs)						
Politically Exposed Person (PEPs)						
Nominee Arrangements						
Beneficial Owner						
Tax Exposure						
Occurrence - Likelihood of ML/TF						

- ❑ Presence of **high-risks countries** with minimum exposure of **less than 1%** (Iranian and Myanmar)
- ❑ Presence of **GLCs with low exposure** of only **5%** out of total LPs
- ❑ Presence of **PEPs with low exposure** of **3%** of total companies
- ❑ Presence of companies with **complex beneficial owner structure with low exposure** of **3%** of total companies
- ❑ **Low usage of nominee arrangements** with **8%** of total companies.
- ❑ **Low exposure to tax evasion**, as evidenced by only **19 STRs** related to tax offenses over the past 5 years reported on Labuan LPs.
- ❑ Feedback from the LEAs indicates a **low number of investigation papers for ML** (less than 10) and **no papers** opened for TF related crimes.

Inherent Risk Rating

Low

Medium Low

Medium High

High

# Key Findings – Control Measures

Labuan LPs have **STRONG** control measures in place:

Control Measures Indicators	Company		Foundation		Partnership	
	ML	TF	ML	TF	ML	TF
Adequacy of Law and Regulation						
Supervision Capacity						
Market Entry Controls						
Suspicious Transaction Report						

Control Rating

Strong

Acceptable

















Marginal

Weak

- ❑ Strong control measures due **various legislative requirements and compliance measures** imposed considering the low risk posed by Labuan LPs
- ❑ **Robust fit and proper assessment** and screening conducted during onboarding and ongoing monitoring.
- ❑ **Adequate supervisory activities** with consistent oversight capacity
- ❑ Labuan trust companies were assessed to have **adequate control measures** to mitigate risks posed by the sector in the **National Risk Assessment** conducted in 2020 and 2023.
- ❑ Since 2016, Labuan's tax regulatory reform has **imposed substance requirements** to address issues such as brass-plate entity setups, **exchange of information** (FATCA and CRS), proper **record-keeping**, and the **identification of beneficial owners**.

# Overall Risk Rating

Overall, the findings do not differ from the previous risk assessment. Risk rating for Labuan LPs remained at **LOW** net risk.

Labuan Legal Persons	Money Laundering			Terrorism Financing			Overall Net Risk
	Inherent Risk	Control Measures	Net Risk	Inherent Risk	Control Measures	Net Risk	
Labuan Company							
Labuan Foundation							
Labuan Partnership							



**Inherent Risk Rating**

Low

Medium Low

Medium High

High



**Control Rating**

Strong

Acceptable

Marginal

Weak



**Net Risk**

Low

Medium Low

Medium High

High



# Key Recommendations

## Risk Assessment Frameworks

- ☐ Conduct risk assessments guided by the results of the NRA
- ☐ Implement enhanced measures to mitigate the risks identified in the NRA

## Government-Linked Companies (GLCs)

- ☐ Conduct CDD on GLCs and SOCs
- ☐ Implement continuous monitoring of business relationships
- ☐ Report any suspicious activities

## Politically Exposed Person (PEPs)

- ☐ Apply EDD measures, particularly if the legal person is linked to PEPs
- ☐ Implement on-going monitoring of business relationships
- ☐ Report any suspicious activities

## Beneficial Owner

- ☐ Implement due diligence to identify and verify beneficial owners, ownership structures and control mechanisms.
- ☐ Regularly update and review beneficial ownership information

# THANK YOU

---

***[www.labuanfsa.gov.my](http://www.labuanfsa.gov.my)***

**Disclaimer**

The information contained herein is of a general nature and should not be regarded as offering a complete explanation of the business of Labuan IBFC or Labuan FSA.