

CHAPTER 7

PRACTICE QUESTIONS FOR CERTIFICATION EXAMINATION

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Disclaimer: This set of practice questions is meant to indicate neither the length nor composition of the actual CAMS Examination. Unlike the questions on our Examination, these were not subjected to psychometric screening or approved by the Examination Task Force and doctorate level psychometrician. They are merely questions that were considered for inclusion in the CAMS Examination, and, though not approved, offer an indication of the types of questions we pose.

- 1. Which of the following is the most common method of laundering money through a legal money services business?**
 - A. Purchasing structured money instruments.
 - B. Smuggling bulk-cash.
 - C. Transferring funds through Payable Through Accounts (PTAs).
 - D. Exchanging Colombian pesos on the black market.

2. In general, the three phases of money laundering are said to be: Placement

- A. Structuring and manipulation.
- B. Layering and integration.
- C. Layering and smurfing.
- D. Integration and infiltration.

3. Which statement is true?

- A. Bust-out schemes are popular in creating large bankruptcy frauds where businesses secure increasing loans in excess of the actual value of the company or property and then run with the money, leaving the lender to foreclose and take a substantial loss.
- B. Cuckoo smurfing is a significant money laundering technique identified by the Financial Action Task Force, where a form of structuring uses nested accounts with shell banks in secrecy havens.
- C. In its revised 40 Recommendations of 2003, the FATF issued for the second time a list of “designated categories of offense” that asserts crimes for a money laundering prosecution.
- D. E-cash is not attractive to the money launderer because it cannot be completely anonymous and does not allow for large amounts to be “transported” quickly and easily.

4. Which of the following is an indication of possible money laundering in an insurance industry scenario?

- A. Insurance products sold through intermediaries, agents or brokers.
- B. Single-premium insurance bonds, redeemed at a discount.
- C. Policyholders who are unconcerned about penalties for early cancellation.
- D. Policyholders who make full use of the “free look” period.

5. Which of the following activities are typically associated with the black market peso exchange (BMPE) money laundering system?

- 1. Converting illicit drug proceeds from dollars or euros to Colombian pesos.
 - 2. Converting illicit drug proceeds from Colombian pesos to dollars or euros.
 - 3. Facilitating purchases by Colombian importers of goods manufactured in the United States or Europe through peso brokers.
 - 4. Facilitating purchases by European or U.S. importers of goods manufactured in Colombia through peso brokers.
- A. 1 and 3 only
 - B. 1 and 4 only
 - C. 2 and 3 only
 - D. 2 and 4 only

6. What is the Right Of Reciprocity in the field of international cooperation against money laundering?

- A. The legal principle that financial institutions that have referred customers to other financial institutions can share information about these customers with the other institutions.
- B. A rule of the Basel Committee allowing properly regulated financial institutes of another member state of the Basel Committee to do business without additional supervision to the degree that the other state grants the same right.
- C. The right of each FATF member country to delegate prosecution of a case of money laundering to another member that is already investigating the same case.
- D. A rule in the law of a country allowing its authorities to cooperate with authorities of other countries to the degree that their law allows them to do the same.

7. The greatest risk for money laundering is for casinos that

- A. Provide their customers with a wide array of gambling services including pooled accounts.
- B. Operate outside the financial intelligence unit in a non-Egmont member country to avoid mutual legal assistance treaties.
- C. Allow customers with credit balances to withdraw funds by check in another jurisdiction.
- D. Only send suspicious transaction reports to the financial intelligence unit of the country it operates in.

8. Which statement is true regarding exempt accounts?

- A. They have sweep features to settle transactions between financial institutions and provide an alternative to traditional banking instruments.
- B. With these accounts, a distinction is granted to certain customers of a financial institution permitting the institution to waive its responsibility to report certain transactions otherwise required.
- C. They do not necessarily need to be documented and the financial institution that secures the exemptions is not required to monitor their financial transactions, unless they involve NCCT countries.
- D. These are checking accounts that are maintained for respondent banks through a network or mechanism that operates outside the regulated system, permitting reduced due diligence by the financial institution.

9. Dirty money, derived from criminal activities of Belgian Criminal A, is sent to a foreign bank account of Corporation B. Then in Belgium, a new investment Company C is incorporated. Criminal A is appointed as a director of Company C. Company C borrows money from the foreign Company B and buys real estate in Belgium. The real estate is rented to third parties. Director (Criminal) A also rents an apartment in the building. With the funds generated by the rent, Company C pays off the loan to Corporation B, and the salary of Director A. Criminal A now converted his dirty money in legal funds. This laundering method is commonly referred to as what?

- A. Offsetting real estate transactions.
- B. Loan back.
- C. Cuckoo smurfing.
- D. Loan manipulation.

10. A new customer approaches a bank to open a commercial account. The customer provides an address for the account located across the city from the branch. When asked by the account representative if the customer requires any additional banking services the customer responds he/she is also interested in opening a personal investment account. The account representative refers the customer to their broker-dealer. The customer tells the firm representative she has never had a brokerage account before and has a few questions about how an investment account works. The customer asks how deposits can be made into her account, if there are any reporting requirements, and how to go about moving balances out of the account using wire transfers. No questions are asked about fees associated with these transactions. Which of the following items would be considered suspicious?

1. The customer asks many questions about the brokerage account, but none of them are related to investing.
2. The customer is opening a commercial account and at the same time a personal investment account.
3. The address of the account holder and the branch where the customer came to open the account are not close to each other.
4. That the customer appears unconcerned about the fees.

- A. 1, 2, and 3 only
- B. 1, 2, and 4 only
- C. 1, 3, and 4 only
- D. 2, 3, and 4 only

- 11. International trade in goods and services can be used as either a cover for money laundering or as the laundering mechanism itself. What is MOST important for the launderer when engaging in this method? The ability**
- A. To over- or under-invoice the goods.
 - B. To sell the exported goods for as much as possible.
 - C. To use goods that do not need to be declared.
 - D. To use high-value assets such as luxury cars or boats.
- 12. Which of the following statements is true? Correspondent banking is MOST vulnerable to money laundering when the correspondent account is**
- A. Maintained for foreign financial institutions that are banks.
 - B. Not used to provide services directly to third parties.
 - C. Maintained for a foreign bank that does not have a physical presence in any country.
 - D. Maintained for a foreign private bank that is publicly traded and is a qualified intermediary.
- 13. Which statement is true? Lawyers _____**
- A. In FATF member countries can generally not be used to serve as formation agents to set up trusts, front companies or shell companies.
 - B. And similar professional “gatekeepers” are called money services businesses.
 - C. Can generally not be used to act as a nominee shareholder for a beneficial owner.
 - D. Can be abused by launderers by using the accounts they set up for them for the placement and layering of funds.

14. The Third EU Money Laundering Directive of 2005 applies to which of the following firms?

- A. Auditors, estate agents based in the EU.
- B. U.S. Financial institutions covered by the USA Patriot Act.
- C. Shell firms inside and outside the EU.
- D. EU based high value good dealers who deal in cash of 10,000 Euro or more.

15. According to the EU Directives of 2001, an independent legal professional is obligated to report suspicion of money laundering in a client relationship when

- A. Representing a client in a legal matter.
- B. Ascertaining the legal position for a client.
- C. Participating in financial or corporate transactions.
- D. Obtaining information associated with a judicial proceeding.

16. Which of the following is the most difficult regulatory challenge facing a foreign financial institution with a correspondent banking relationship in the U.S.?

- A. USA Patriot Act.
- B. Basel Due Diligence Principles for Banks.
- C. FATF Guidance on Terrorist Financing.
- D. UN Security Council Resolution on Correspondent Banking.

17. What was the Basel Committee's main motivation to encourage strong Know Your Customer programs in its paper "Customer Due Diligence for Banks?"

1. Mirror FATF's KYC recommendations.
 2. Meet European Union guidelines.
 3. Protect the safety and soundness of banks.
 4. Protect the integrity of banking systems.
- A. 1 and 2 only
- B. 1 and 4 only
- C. 2 and 3 only
- D. 3 and 4 only

18. What is the definition of a predicate offense?

- A. Lawful or unlawful activity that involves willful blindness, and if there is an international element to the crime, can lead to a suspicious activity report.
- B. Unlawful activity whose proceeds, if involved in the transaction, can give rise to prosecution for the crime of money laundering.
- C. An interface which is the underlying segment of a suspicious transaction monitoring system.
- D. A specified unlawful activity that is committed through concentration accounts deceiving customers that are not directly related to the account.

19. What is considered a beneficial owner of an account? A person or entity_____

- A. That has direct signatory authority over an account, and whose name appears on the account.
- B. That is ultimately entitled to the funds in the account, even though his name may not appear on the account.
- C. That is the originator and the destination of most (but not all) transactions conducted within the account, but who does not ultimately control such funds.
- D. That is a gatekeeper, has the legal title to the account, and typically transfers the funds to a trust.

20. A bank in Italy holds a business account for an Italian company that sells gold throughout Europe and the Western Hemisphere. The bank knows the purpose of this account is to receive payment for sales. A review of the account shows a pattern of wire transfers coming from payable-through accounts. There is also a pattern of purchases of gold bullion held in Swiss banks. The MOST important factor in assessing whether money laundering is a threat is that the

- A. Customer sells gold in regions where it carries an important or religious significance that adds to the high intrinsic value.
- B. Payments come from third-party accounts.
- C. Payments received are in the form of wire transfers instead of cash.
- D. Account holder maintains gold bullion rather than finished pieces of jewelry.

21. Which of the following should a national legislature consider when criminalizing money laundering in line with the CFATF 19 Recommendations?

1. Do not limit the number of specific predicate offenses for money laundering.
 2. Criminalize conspiracy or association to engage in money laundering.
 3. Indicate whether it is relevant that a predicate offense may have been committed outside the local jurisdiction.
 4. Avoid criminalizing money laundering offenses in which the offender lacks actual knowledge of a criminal connection to funds.
- A. 1, 2, and 3 only
 - B. 1, 2, and 4 only
 - C. 1, 3, and 4 only
 - D. 2, 3, and 4 only

22. Which statements are true about the 3rd EU Directive on Money Laundering of 2005? It

1. Was proposed in order to update European Community legislation in line with the revised Financial Action Task Force (FATF) 40 Recommendations.
 2. Largely replicates the definitions included in the Second Directive, including the definition of a politically exposed person.
 3. Repeats the main customer due diligence requirements of the first and second Directives, but adds more detail to the requirements by, for example, including a specific requirement to identify the beneficial owner if one exists and includes ongoing monitoring requirements.
 4. Requires firms to apply the customer due diligence requirements to existing customers at appropriate times on a risk sensitive basis.
- A. 1, 2, and 3 only
 - B. 1, 2, and 4 only
 - C. 1, 3, and 4 only
 - D. 2, 3, and 4 only

23. The FATF 40 Recommendations say that countries should

- A. Not allow bearer shares and legal persons that are able to issue bearer shares.
- B. Gather statistics on STRs; prosecutions and convictions; on property frozen, seized and confiscated; and on mutual legal assistance, but not necessarily on other international requests for co-operation.
- C. Consider the feasibility of a system where banks and other financial institutions and intermediaries would report currency transactions without indicating a minimum fixed amount.
- D. Not approve the establishment or accept the continued operation of shell banks.

24. Among the Principles for Information Exchange Between Financial Intelligence Units for Money Laundering Cases, issued by the Egmont Group on June 13, 2001, we find which of the following?

- A. Information-sharing agreements must be drafted according to a model issued by the Egmont Group.
- B. Information-sharing agreements should not allow room for case-by-case solutions to specific problems in case of NCCT countries.
- C. Information exchanged between FIUs may be used only for the specific purpose for which the information was sought or provided.
- D. The requesting FIU may make use of the information shared by a disclosing FIU for administrative purposes without the prior consent of the disclosing FIU.

25. In which stage of money laundering would you classify depositing small amounts of cash into several related accounts?

- A. Integration
- B. Structuring
- C. Placement
- D. Construction

26. In which stage of money laundering would you classify the purchase of laundered funds in high value assets and luxury items?

- A. Integration
- B. Structuring
- C. Placement
- D. Construction

27. In most laws criminalizing money laundering, it is stated that:

- A. Financial institutions are not responsible for money laundering or suspicious transactions taking place within their accounts until the government places the customer on a watch list.
- B. Tipping off (telling customers that their accounts/ transactions are under investigation because of suspicion) is not punishable.
- C. The dirty money undergoing money laundering will not be confiscated because of privacy laws.
- D. Employees of financial institution who intentionally ignore clear signs of money laundering may be punished with imprisonment and/or fines.

28. The tactic in which individuals make multiple deposits in small quantities to avoid detection is called:

- A. Paralleling
- B. Integration
- C. Investing
- D. Structuring

29. In which case might a Suspicious Transaction Report NOT be necessary?

- A. A customer who deposits money of suspicious origins and refuses to answer questions from the financial institution's staff.
- B. A customer who tries to move money that is suspected of being derived from criminal activity.
- C. A customer who owns a large supermarket and deposits large amounts of cash several times a day.
- D. A customer whose account is showing transaction activities which are beyond his known financial capability.

30. As part of their role in fighting money laundering, financial institutions should:

- A. Designate a compliance officer.
- B. Depend solely on The State's staff for combating money laundering.
- C. Refuse small cash deposits under the reporting threshold.
- D. Not open accounts for people from high risk jurisdictions.

31. What could happen to compliance officers if they do not comply with the anti-money laundering laws and regulations?

- A. Their employers could face reputation damage, but the employee is immune from penalty.
- B. Loss of job, prison penalties and fines, negative reputation to your employer, etc.
- C. Nothing. Only the financial institution's legal counsel will be responsible for complying with laws.
- D. Nothing. Only the staff directly handling transactions have to worry.

32. What is willful blindness defined as?

- A. Failing to file a Suspicious Transaction Report for dealing with companies or financial institutions from offshore tax havens.
- B. Not following customer identification procedures as set out in the institution's procedures.
- C. Deliberate avoidance of knowledge of the facts or ignoring obvious money laundering red flags.
- D. Deliberate avoidance of a customer based on the assumption that his or her behavior suggested a potential threat as money launderer and/or terrorist.

33. In anti-money laundering terminology a "red flag" is

- A. A warning sign used to bring attention to potentially suspicious, risky transactions or activities.
- B. A general banking term used once the balance is negative / overdue.
- C. The standard flag of countries not cooperative in fighting money laundering and terrorist financing.
- D. An indicator that a customer is listed on an economic sanctions list.

34. The Reporting Officer of a financial institution should:

- A. Report everything that comes his way from anyone in the organization.
- B. Report everything that comes his way from the CEO, MD or Board of Directors.
- C. Review available information related to the customer, transactions, profile, history and file a Suspicious Transaction Report for only those customers where a suspicion of money laundering exists.
- D. Report only what the Reporting Officer's superior agrees should be reported.

35. Which of the following statements is true?

- A. Credit cards are not likely to be used in the layering phase of money laundering because of restrictions in cash payments.
- B. Credit cards are effective instruments for laundering money because the transactions do not create a paper trail.
- C. A launderer can launder money by prepaying his credit card using funds that are already in the banking system, creating a credit balance on his account, and requesting a credit refund.
- D. A launderer can use illicit funds that are already in the banking system to pay his credit card bill for goods purchased, which is an example of placement.

36. Why is a Payable Through Account vulnerable to money laundering?

- A. These are master correspondent accounts that allow the customers of the foreign bank to do a wide range of transactions.
- B. These are correspondent accounts located in a non-cooperative country or territory.
- C. These are nested correspondent accounts at a foreign shell bank with customers with whom the domestic bank did not exercise due diligence.
- D. These are master escrow accounts on which a domestic bank generally does not conduct periodic verification.

37. What is the reasoning behind implementing a “risk-based anti-money laundering approach”?

- A. It will keep the regulators focused on money laundering controls in sectors beyond banks.
- B. Institutions can best detect instances of money laundering by customers where the money laundering risks are high.
- C. A quantitative approach will generate better results than a qualitative approach.
- D. It allows the institution to focus on selling products that have a better return on investment.

38. According to the FATF 40 Recommendations, “Designated non-financial businesses and professions” include

- A. Casinos, real estate agents and dealers in precious stones.
- B. Money service businesses, gatekeepers, and issuers of electronic money.
- C. Dealers in precious metals, lawyers, commodity futures traders.
- D. Life insurance companies, real estate agents and notaries.

39. According to the FATF 40 Recommendations, the threshold for identifying occasional customers at financial institutions is

- A. EURO/US\$ 5,000
- B. EURO/US\$ 10,000
- C. EURO/US\$ 15,000
- D. EURO/US\$ 20,000

40. Tom works as a compliance officer at ABC Bank. He is looking at the transactions of one of the bank's customers, Mr. Brown, the owner of a check cashing company. Over the last six months, Mr. Brown has not made withdrawals of cash against check deposits. He also deposited two checks for US\$2,000 each that were issued by a casino. When checking the KYC file, Tom sees that, when opening the account, Mr. Brown had requested detailed information about fees and commission that are charged by the bank. What should arouse Tom's suspicion the most? Mr. Brown:

- A. Deposited checks from casinos.
- B. Did not make withdrawals of cash against check deposits.
- C. Showed uncommon curiosity about commissions and fees charged.
- D. Does not have an escrow account.

- 41. A small broker-dealer has an AML compliance program that addresses procedures for filing Suspicious Transaction Reports and includes policies, procedures and internal controls for customer identification, monitoring accounts and identifying money laundering red flags. Every employee of the broker dealer is trained via the Internet in January and in July on AML issues. The board does not take the Internet training. Instead, the compliance officer organizes a luncheon for them where an outsider comes in and trains them. The program provides for the appointment of a compliance officer, and once a year the compliance officer conducts an audit to test the program. In what respect does the program need improvement?**
- A. The AML program should be tested by an independent person, not the compliance officer.
 - B. The AML program should be tested more than once per year.
 - C. New employees should be trained as soon as they start, not just twice a year.
 - D. Employees should not be trained via the Internet, because classroom training is better.

42. Susan works as a senior Money Laundering Reporting Officer at XYZ Bank. She is taking a closer look at the activity of several customers. What would arouse her suspicion the MOST?

- A. A customer who owns several check cashing companies in town and rents safe deposit boxes at different branches.
- B. A customer who avoids taking vacations.
- C. A small business that provides financial statements which are not prepared by an accountant.
- D. A customer involved in investment management who guarantees a very high rate of return, well above what other competitors can offer.

43. Which of the following best describes the “alternative remittance system”?

- A. The transfer of values between countries, outside of the legitimate banking system.
- B. A non-electronic data remittance system used in several NCCT countries to report suspicious activities.
- C. Old-fashioned reporting requirements commonly used in non-cooperative countries and territories.
- D. The transfer of funds between two or more financial institutions using concentration accounts.

- 44. An AML compliance officer was reviewing customers at XYZ Bank and one of the customers (Mr. Sam Tropicana) attracted her attention. Through a period of several months cash deposits and withdrawals were transacted through his account with amounts ranging between US \$7,500 and US \$17,000. In addition, Sam deposited two checks, issued by a casino into his account for US \$32,000 each. When opening the account Sam stated that he operated for an Import and Export Company. Which of the following additional items should arouse the suspicion of a money laundering compliance officer the most?**
- A. Sam maintained a personal account as well as the business account.
 - B. Sam's home telephone number was disconnected last month.
 - C. Sam asked for a letter of credit to finance some imports from a new supplier.
 - D. Sam conducted large cash transactions compared to his profile as an import/export business

45. Which of the following statements are true?

- A. Online gambling provides an excellent method of laundering because transactions are conducted primarily through credit or debit cards and the sites are typically unregulated offshore firms.
- B. An institution can know when a credit card is used for online gambling transactions because the cards rely on codes that illustrate the type of transactions.
- C. Online gambling provides an excellent method of laundering because it lends itself to any type of cash movement and there is no face-to-face contact with the customer.
- D. Some banks do no longer allow the use of credit cards for online gambling transactions.

A. 1, 2 and 3

B. 2, 3 and 4

C. 1, 3 and 4

D. 1, 2 and 4

46. What are the three key goals of an anti-money laundering program?

- A. Prevent and detect money laundering and terrorist financing.
Report suspicious activity to proper authorities if the laws or regulations require it.
Train all pertinent employees.
- B. Satisfy regulatory requirements.
Report suspicious activity to proper authorities if the laws or regulations require it.
Train all pertinent employees.
- C. Train all pertinent employees if the laws require it.
Prevent money laundering.
Prevent terrorist financing.
- D. Reduce regulatory burdens.
Help the court systems in convicting money launderers.
Protect the institution.

- 47. An anti-money laundering specialist is employed by a large bank. The account owner is well-known to the specialist and the account has been open at the bank for several years. The specialist noticed that financial instruments have been deposited in a suspicious manner over the last four months, leading him to file two Suspicious Transaction Reports (STRs) on the account. Recently, suspicious activity involving high-risk countries has been detected over the last few days.**

Various law enforcement agencies have called to discuss the STRs with the specialist. The specialist has asked the agents whether they think the relationship with the customer should be terminated. These agents advised that this a business decision for the bank to make. The specialist has kept the legal advisors and upper management apprised of the activity and have provided them copies of the STRs.

Which of the following should the specialist recommend?

- A. Terminate the relationship with this account owner if possible.
- B. Monitor the account for continued suspicious activity.
- C. Contact the account owner again about the nature of suspicious transactions.
- D. Seek guidance from regulators regarding a decision to terminate the account.

- 48. The FATF has consistently noted the use of casinos in money laundering schemes in its annual typologies reports. Some laundering techniques involving casinos include:**
- A. Asking for winners' checks to be made out in the name of third persons or without a payee.
 - B. Abusing casinos by circumventing its gatekeepers.
 - C. Prepaying a casino token or chip by using funds that are already in the casino system, creating a debit balance.
 - D. Extensive gambling via multiple games throughout the casino.
- 49. Which of the following should an anti-money laundering specialist include on an internal investigation log?**
- A. A government order on a customer that garnishes his wages for failure to pay child support.
 - B. Supporting documentation and materials for denying service to a client with a bad credit rating.
 - C. Notes pertaining to activity that is unusual, but for which a Suspicious Transaction Report has not been filed.
 - D. Reference to a memorandum to the company's corporate management relating to budgetary and similar concerns.

50. What is the Right of Reciprocity in the field of international cooperation against money laundering?

- A. The legal principle that financial institutions that have referred customers to other financial institutions can share information about these customers with the other institutions.
- B. A rule of the Basel Committee allowing properly regulated financial institutes of another member state of the Basel Committee to do business without additional supervision to the degree that the other state grants the same right.
- C. The right of each FATF member country to delegate prosecution of a case of money laundering to another member that is already investigating the same case.
- D. Rule in the law of a country allowing its authorities to cooperate with authorities of other countries to the degree that their law allows them to do the same.

ANSWERS

- | | | |
|-------|-------|-------|
| 1. A | 22. C | 43. A |
| 2. B | 23. D | 44. D |
| 3. A | 24. C | 45. D |
| 4. C | 25. C | 46. A |
| 5. A | 26. A | 47. A |
| 6. D | 27. D | 48. A |
| 7. C | 28. D | 49. C |
| 8. B | 29. C | 50. D |
| 9. B | 30. A | |
| 10. C | 31. B | |
| 11. A | 32. C | |
| 12. C | 33. A | |
| 13. D | 34. C | |
| 14. A | 35. C | |
| 15. C | 36. A | |
| 16. A | 37. B | |
| 17. D | 38. A | |
| 18. B | 39. C | |
| 19. B | 40. B | |
| 20. B | 41. A | |
| 21. A | 42. D | |

