GLOSSARY RISK-BASED INDUSTRY BASELINE

A

Alert
A signal indicating a potential unusual transaction or potential unusual client behaviour.

Assessment
The process of identifying and evaluating potential risks associated with an alert and event.

Auto-closing
The automatic closure of an alert or event, based on processes banks have in place to mitigate the related risk.

B

Back-testing
The testing and optimisation of a specific approach/process based on historical data.

Bank
A credit institution as defined in Article 4 of the Capital Requirement Regulation. (Regulation (EU) No. 575/2013). Unless determined otherwise the holder of a licence as referred to in Article 3:4 Wft shall be treated in the same way as a bank.

C

Client Due Diligence
Assessment of a client's integrity risks.

Client filtering
The process of screening client data attributes against lists of sanctioned legal/ natural persons, negative news, PEPs, and other relevant factors.

Client monitoring
Client monitoring is the process to continuously screen client on a defined risk trigger set.

Complex entity
A legal entity or arrangement that is less transparent and where ownership, control and profit interests are spread over different roles, e.g. trusts, limited partnerships (e.g. CV), foundations, anstalt, LLCs, funds, cooperatives, etc.

Critical data
The minimum set of client data legally required to perform adequate CDD.

Client
A private individuals or legal entity with whom a client relationship is established, or on whose behalf a transaction is executed. [Article 1.1 Wwft]

E

Event
An event is defined as a change in the client data, behaviour or in the circumstances that apply to a client and/ or client group and that could potentially result in a change in the risk that the client poses to the bank.

Event-Driven Review
Process of conducting a review of a client's risk profile in response to a particular event or change in circumstances that may impact the risk classification of the client.

Entity
An entity is not a private individual and can establish a permanent client relationship with the bank or otherwise own property – e.g. limited liability companies, (private/ limited) partnerships, trusts or other similar legal arrangements.

Expected Transaction Profile
The expected transaction pattern of a client or ETP client group.

H

Handling
Analysing and assessing an alert and event and the recording of this analysis and its outcomes.

Hibernation
Setting aside an alert and event for future review. The alert and event remain open for follow-up actions if the same client generates further alerts or events.

L

Learning loop
The learning loop of a model entails the cyclical progression from model initiation through model validation, monitoring, and updating, ensuring ongoing improvement and adaptation to changing ML/TF risks.

M

Model
The term model refers to a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates (definition as stated in the Federal Reserve's guidance on model risk management SR 11-7).

O

Ongoing Due Diligence
ODD can be seen as the comprehensive set of processes, procedures, actions and measures taken by banks to screen and monitor clients, their transactions and behaviour continuously.

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Periodic review

Process of conducting time-based Client Due Diligence review to assess of a client to assess risk and ensure the risk classification of the client remains accurate and up-to-date.

Precision and recall

Precision and recall are evaluation metrics to assess the effectiveness of a model in identifying relevant cases. Precision measures the accuracy of the alerts, focussing on the ratio of correctly generated alerts to the total number of alerts. A higher precision value indicates fewer false positives. Recall, on the other hand, measures the effectiveness of the alerts and emphasises how many relevant alerts were successfully identified and aims to minimize false negatives.

R

Risk-based approach

A risk-based approach means that banks will use their resources where they are most needed: in files where changes are detected that indicate a change in risk classification, or possible risk trigger have been noticed.

Risk detection mechanisms

Mechanisms such as transaction filtering, client filtering, transaction monitoring and client monitoring that identify potential ML/TF risks the bank is exposed to (including inherent risks identified in the risk assessments).

Risk trigger

A variable that, either on its own or in combination, may increase or decrease the ML/TF risk posed by an individual client relationship or occasional transaction.

T

Transaction

Is an act or a combination of acts performed by or on behalf of a client of which the institution has taken note in the provision of its services to that client.

Transaction filtering

The process of screening transaction data attributes against lists of sanctioned legal/natural persons, and other relevant factors.

Transaction monitoring

The ongoing process of reviewing and analysing transactions to identify potential unusual behaviour.

Triage

The alert and event triage relates to the determination of the extent, method, and prioritisation of the follow-up action (this can also be hibernation).

Triage models (also 'noise reduction' or 'prioritisation' models)

A model that determines the extent, method, and prioritisation of the follow-up action of an alert or event (this can also be hibernation).

Trigger-based ODD framework

An ODD framework in which a risk-based approach is taken by applying a trigger-based way of reviewing alerts and events that enables banks to effectively deploy resources in such a way it has the most risk relevance.

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