



AML Briefing

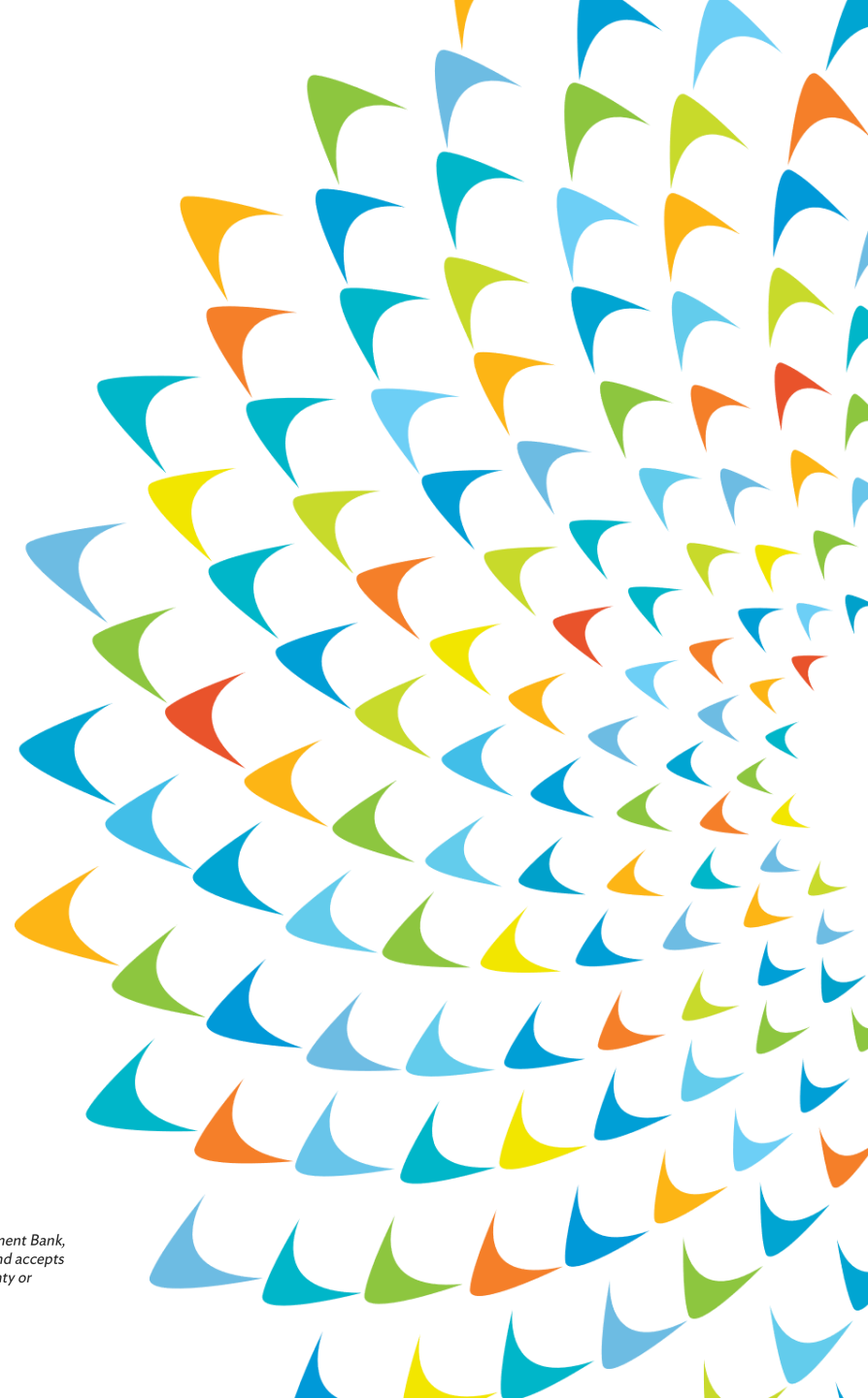
Customer Due Diligence

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1. Briefing on Customer Due Diligence

What is Know Your Customer (“KYC”)

- ❖ Helps the institution to develop a clear picture of who the customer is, what the customer does and why they want to use such products and services.
- ❖ Remember - **Who, What, Where, When, Why, How?**
- ❖ Key components:
 - Accuracy of customer information is important
 - Purpose is not to gather obscure pieces of information about customers
 - Provides context to potential AML transaction monitoring investigations
 - Helps prevent criminals from getting in the door

❖ Process:





1. Briefing on Customer Due Diligence

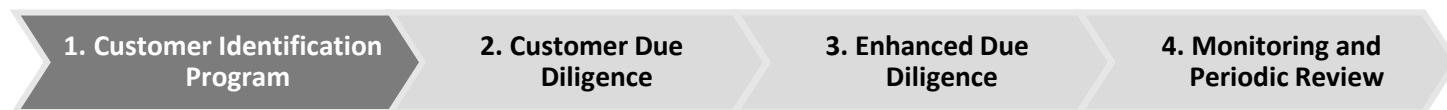


Overview

- ❖ Establishment of the identification of prospective client at the time of account opening (by using IDs, articles of incorporation, etc.)
 - ❖ Verification of the identity of any entity or individual
 - ❖ Maintain record of the customer information
 - ❖ Screening against Lists of known or suspected terrorists or terrorist organizations



1. Briefing on Customer Due Diligence



Required elements of CIP

- ❖ Be written
- ❖ Be appropriate for financial institution's size and type of business.
- ❖ Include reasonable and practical risk-based procedures for verifying the identity of each customer.
- ❖ Be an integrated and active part of the AML compliance program.
- ❖ Be approved by the board of directors



1. Briefing on Customer Due Diligence



CIP roles and responsibilities

- ❖ Who is responsible for collecting customer information
 - ❖ **1st line of defense** – Business units process and risk owners
 - Execute, monitor and report
 - ❖ **2nd line of defense**- Compliance
 - Interpret, design, advise, test and oversight
 - ❖ **3rd line of defense**- Internal Audit
 - Test and verify



1. Briefing on Customer Due Diligence



Documentary verification

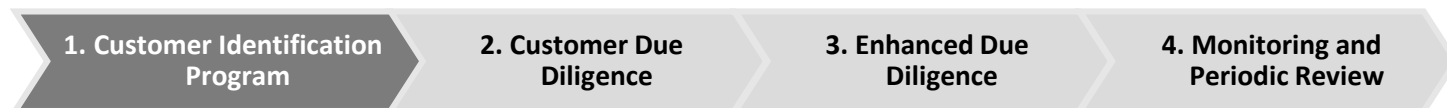
- ❖ Proof of identification
- ❖ Proof of address
- ❖ Tax documents
- ❖ Incorporation and other legal documents

Non-documentary verification

- ❖ Site visits
- ❖ Customer-facing personnel may have conversations with customers to obtain information



1. Briefing on Customer Due Diligence



What information must be collected

- ❖ For individuals:
 - ❖ Legal name
 - ❖ Government identification number
 - ❖ Physical address
 - ❖ Date of birth
- ❖ For entities:
 - ❖ Legal name
 - ❖ Principal place of business
 - ❖ Government identification number
 - ❖ Documents showing the entity's legal existence



1. Briefing on Customer Due Diligence



Customer Due Diligence

- ❖ Financial institutions should verify the identity of customers:
 - ❖ before or during the course of establishing a business relationship or
 - ❖ while conducting transactions for occasional customers.
- ❖ FATF Recommendations on CDD (10 and 22)
 - ❖ Establishing business relations;
 - ❖ Carrying out occasional transactions above the applicable designated threshold (USD/EUR15,000 for FIs and real estate agents; USD/EUR3,000 for casinos) or qualifying wire transfers; or
 - ❖ there is a suspicion of money laundering or terrorist financing; or
 - ❖ the financial institution has doubts about the veracity or adequacy of previously obtained customer identification data
- ❖ CDD & EDD are not mutually exclusive.



1. Briefing on Customer Due Diligence

1.2. Customer Due Diligence



Customer Due Diligence

- ❖ Identify the customer and verify the customer's identity using reliable, independent source documents, data or information
- ❖ CDD should be applied to:
 - ❖ customers;
 - ❖ persons acting on behalf of customers; and,
 - ❖ beneficial owners.
- ❖ Customer refers to any person who enters into a business relationship or carries out an occasional financial transaction with the financial institution (FI).
- ❖ Conduct **ongoing due diligence** throughout course of existing relationship to ensure that the transactions being conducted are consistent with the institution's knowledge of the customer, their business and risk profile (based on materiality and risk).



1. Briefing on Customer Due Diligence



Conducting Due Diligence

- ❖ Public records research
- ❖ Negative news search
- ❖ Research tools
 - ❖ LexisNexis
 - ❖ World-Check
 - ❖ Factiva
 - ❖ Search Engines (Google, Yahoo, etc.)



1. Briefing on Customer Due Diligence



Customer types and required documents:

- ❖ Individual
- ❖ Operating entity
- ❖ Partnership
- ❖ Trust
- ❖ Financial Institution
- ❖ Charities, foundations, NPO, NGOs, other non-profit associations
- ❖ Sole proprietorships, holding companies, private investment companies



1. Briefing on Customer Due Diligence

Customer type: Individual

- ❖ An individual (natural person) that opens an account where that individual is responsible. More than one individual can open an account (e.g., spouses) in which case they are considered joint account holder.
- ❖ No corporate structure since no business is established

Documentation			
CIP	CDD	Documentation	Related parties to verify
<ul style="list-style-type: none"> • Full legal name • Residential address • Mailing address • Date of birth • Social Security Number / Tax Identification Number • Country of citizenship • Country of permanent residence 	<ul style="list-style-type: none"> • Source of wealth • Occupation • Source of funds for account • Nature and purpose of account • Products and services • Joint account holders 	<ul style="list-style-type: none"> • Driver's license • Passport • Other Government Issued ID • Relevant Tax Document 	<ul style="list-style-type: none"> • None



1. Briefing on Customer Due Diligence

Customer type: Operating Entity

- ❖ A company that makes a good or provides a service that it then sells to customers or clients but whose ownership is private. Shares of ownership are privately held and not listed on a stock exchange.
- ❖ A private company can be formed as a corporation (Corp), a limited company (Ltd.) a limited liability company (LLC), a Fund, among others, as long as the shares are privately held and not traded publicly.

Documentation			
CIP	CDD	Documentation	Related parties to verify
<ul style="list-style-type: none"> • Full legal name • Registered address • Mailing address • Tax ID or equivalent • State of registration 	<ul style="list-style-type: none"> • Source of account funds • Source of wealth • Nature and purpose of account • General description of the customer's business, source of wealth • Controlling parties • Beneficial owners • Verification of source of wealth 	<ul style="list-style-type: none"> • Evidence of exchange listing • Evidence of business registration • Certificate of Incorporation • Articles of Incorporation/Formation • Limited Liability Agreement • Relevant Tax Document 	<ul style="list-style-type: none"> • Owners • Investors/members • Signers • Gatekeepers



1. Briefing on Customer Due Diligence

Customer type: Partnership

- ❖ A general partnership, refers to an association of persons or an unincorporated company with the following major features: Created by agreement, formed by two or more persons, and owners are all personally liable for any legal actions and debts the company may face, unless otherwise provided by law or in the agreement. Each general partner is deemed the agent of the partnership.

Documentation			
CIP	CDD	Documentation	Related parties to verify
<ul style="list-style-type: none"> • Full legal name • Registered address • Mailing address • Tax ID or equivalent • State of registration 	<ul style="list-style-type: none"> • Source of account funds • Source of wealth • Nature and purpose of account • General description of the customer's business, source of wealth • Products and services • Beneficial owners • Verification of source of wealth 	<ul style="list-style-type: none"> • Partnership agreement • Verification for source of wealth • Relevant Tax Document 	<ul style="list-style-type: none"> • General Partners • Limited Partners (maybe) • Signers • Gatekeepers



1. Briefing on Customer Due Diligence

Customer type: Trust

- ❖ A trust is a relationship whereby property is held by one party for the benefit of another. A trust is created by a settlor (sometimes grantor, trustor, or trustmaker) who transfers some or all of his or her property to a trustee. The trustee holds that property for the trust's beneficiaries. A trustee can be a person or firm that holds or administers property or assets for the benefit of a third party.

Documentation			
CIP	CDD	Documentation	Related parties to verify
<ul style="list-style-type: none"> • Full legal name • Registered address • Mailing address • Tax ID or equivalent • State of registration 	<ul style="list-style-type: none"> • Source of account funds • Nature and purpose of account • Products and services • General description of the settlor/grantor business, source of wealth • Controlling parties 	<ul style="list-style-type: none"> • Trust Agreement • Relevant Tax Document • Org chart 	<ul style="list-style-type: none"> • Trustees • Settlers/Grantors • Protectors • Beneficiaries • Signers • Gatekeepers



1. Briefing on Customer Due Diligence

Customer type: Financial Institutions

- ❖ Will generally have all the documents required for an operating company and additional requirements based on the products and services offered.

Documentation			
CIP	CDD	Documentation	Related parties to verify
<ul style="list-style-type: none"> • Full legal name • Registered address • Mailing address • Tax ID or equivalent • State of registration 	<ul style="list-style-type: none"> • Nature and purpose of account • Products and services • Source of account funds • Source of wealth • Name of financial sector regulator • Entity type • Controlling parties • Beneficial owners 	<ul style="list-style-type: none"> • Evidence of exchange listing • Evidence of business registration • Certificate of Incorporation • Articles of Incorporation/Formation • Limited Liability Agreement • Relevant Tax Form • Documentation of entity type • Proof of regulation • Banking License • Completed Wolfsberg Questionnaire • USA PATRIOT Act Certification • Org chart 	<ul style="list-style-type: none"> • Owners • Signers • Gatekeepers



1. Briefing on Customer Due Diligence

Customer type: Charities, foundations, NPO, NGOs, other NP associations

- ❖ Charities and non-government organizations (NGOs) are private non-profit organizations that pursue activities intended to serve the public good. These types of entities are commonly organized to provide basic social services, relieve suffering, promote interests of the poor, bring citizen concerns to governments, encourage political participation, protect the environment, or undertake community development to serve the needs of citizens, organizations, or groups in one or more of the communities that the entity operates.
- ❖ A Charity or NGO can be any non-profit organization (NPO) that is independent from government, i.e. there is no government (local, state, and federal) ownership and/or sponsorship. Because NGOs/NPOs can be used to obtain funds for charitable entities, the flow of funds both in and out of the NGO/NPOs can be complex, making them susceptible to abuse by money launderers and terrorists.

Documentation			
CIP	CDD	Documentation	Related parties to verify
<ul style="list-style-type: none"> • Full legal name • Registered address • Mailing address • Tax ID or equivalent • State of registration 	<ul style="list-style-type: none"> • Products and services • Nature and purpose of account • Source of account funds • Purpose and structure of the organization • Source of wealth • Controlling parties 	<ul style="list-style-type: none"> • Tax Exemption Document • Formation documentation 	<ul style="list-style-type: none"> • Signers • Gatekeepers



1. Briefing on Customer Due Diligence

Customer type: Sole proprietorships, holding companies, private investment companies

- ❖ A Sole Proprietorship is an unincorporated business with one owner who pays personal income tax on profits from the business. There is no separate legal entity created by a sole proprietorship, unlike corporations and limited partnerships. Sole proprietors can do business under their own name or create a separate business/trade name.
- ❖ A Holding Company is a company that owns other companies' outstanding stock. The term usually refers to a company that does not produce goods or services itself; rather, its purpose is to own shares of other companies to form a corporate group. Holding companies can allow the ownership and control of a number of different companies.
- ❖ Private Investment Companies (PICs) are offshore non-operating companies with transaction accounts, particularly offshore corporations located in high-risk jurisdictions. These are usually established by individual customers and others in offshore jurisdictions to hold assets.



1. Briefing on Customer Due Diligence

Customer type: Sole proprietorships, holding companies, private investment companies (continued)

Documentation			
CIP	CDD	Documentation	Related parties to verify
<ul style="list-style-type: none"> • Full legal name • Registered address • Mailing address • Tax ID or equivalent • State of registration 	<ul style="list-style-type: none"> • Source of wealth • Source of funds for the account • Nature and purpose of account • Products and services • General description of the customer's business, source of wealth • Controlling parties • Beneficial owners • Verification of source of wealth 	<ul style="list-style-type: none"> • Formation documentation • Relevant Tax Document 	<ul style="list-style-type: none"> • Owners • Signers • Gatekeepers • If verification is required, collect: <ul style="list-style-type: none"> • Name • Address • Date of birth • SSN/TIN • Domicile • Nationality • Percent owned (Beneficial owner) • Photo ID



2. Enhanced Customer Due Diligence, Sanctions and Politically Exposed Persons



Overview

- ❖ An increased level of due diligence performed on customers identified through the customer risk rating process as presenting higher risk money laundering and/or terrorist financing attributes.
- ❖ The EDD processes should be based on the line of business, products involved and the nature of the client.
- ❖ A more robust level of due diligence includes:
 - ❖ Negative news and media searches
 - ❖ PEP assessment
 - ❖ Due diligence on controlling persons or related parties (e.g. lower threshold on definition of controlling parties)
 - ❖ Additional documentation gathering
 - ❖ Source of wealth evidence
 - ❖ Source of fund evidence
- ❖ Higher frequency of periodic review on customer information and activity
- ❖ Signoff by senior management on reviewed activity



2. Enhanced Customer Due Diligence, Sanctions and Politically Exposed Persons



Being designated high risk does NOT equate to money laundering:

- ❖ Legitimate persons and business entities conduct high volume, high velocity, and/or international transactions that may trigger higher risk ratings
- ❖ Clients are deemed high risk based on potential exposure to money laundering; money laundering is not a certainty
- ❖ Complete & documented information demonstrates that financial institution KNOW their clients
- ❖ EDD can lead to reasonable explanations for client acceptance and transactions.
- ❖ CDD & EDD are not mutually exclusive. Under a risk-based approach, FIs may apply normal CDD for customer acceptance measures and EDD for ongoing monitoring or vice versa.



2. Enhanced Customer Due Diligence, Sanctions and Politically Exposed Persons



Negative news and media searches

- ❖ Negative news is used to find out important information about an individual or organization
- ❖ Negative news may have an impact on risks to the financial institution and transaction activities, and show connections to illicit entities, activities or individuals. At the very least, it can impact reputational risk
- ❖ Assessing the relevance and potential impact of negative media can be subjective and challenging
- ❖ Negative media provides critical information to understand the customer; it can provide warning of previous undesirable activity



What to Look for: Adverse News

Potential Integrity and Reputational Risks

- Allegations, investigations, litigation, convictions, sanctions
- **Assessment of risk:**
Source, veracity, relevance, period/time, location, person/entity involved



Examples:





Which of the following pose a reputational or integrity risk?

- A. Client fined by regulatory body for insider trading.
- B. Client's branch reportedly engaged in supply business in Iran.
- C. A barge owned by client was reported to have spilt oil.
- D. Client was convicted of murder.
- E. Client found guilty of violating international sanctions 10 years ago.
- F. Client operating through a Cayman Islands company.
- G. Client's supplier was reported to engage in child labor.



Counterparty



**Major Shareholder
(parent company)**



**Subsidiary owned by
Major Shareholder**



Subsidiary is involved in corruption cases and some cases were under investigation in three jurisdictions

**Is this a significant
reputational or integrity risk?**

- A.** Yes
- B.** No
- C.** Maybe



2. Enhanced Customer Due Diligence, Sanctions and Politically Exposed Persons



High-risk business/ occupation

- ❖ Non-bank financial institutions (i.e., exchange houses, money transmitters, currency exchangers, check cashers, etc.)
- ❖ Banks domiciled in areas designated as High Intensity Drug Trafficking areas as designated by the U.S. government
- ❖ Casinos and other gaming businesses
- ❖ “Off-Shore” subsidiaries of corporations and banks that are domiciled in secrecy havens or tax havens
- ❖ Cash intensive business



2. Enhanced Customer Due Diligence, Sanctions and Politically Exposed Persons



High-risk geography

- ❖ Drug Producing Countries
- ❖ Drug Transit Countries
- ❖ Drug Consumption Countries
- ❖ Bank Secrecy Jurisdictions – Tax Havens
- ❖ Countries named by FATF as Non-Cooperative
- ❖ Countries with a high level of Public Corruption
- ❖ Countries related to Terrorist Financing
- ❖ Countries with high level of drug production, transit and consumption

What to Look for: Intermediate Jurisdictions

Potential Integrity and Reputational Risks



ASSESSMENT OF RISK

- No satisfactory explanation
- Global Forum rating
- ML/FT high-risk jurisdiction

ADB definition

Jurisdiction that is not the jurisdiction of the UBO's tax residence, domicile, or nationality, and not the jurisdiction of the project host country

What to Look for: Intermediate Jurisdictions

Potential Integrity and Reputational Risks

<http://www.fatf-gafi.org/countries/#high-risk>



HOME ABOUT COUNTRIES PUBLICATIONS

Home / Countries / High-risk and other monitored jurisdictions

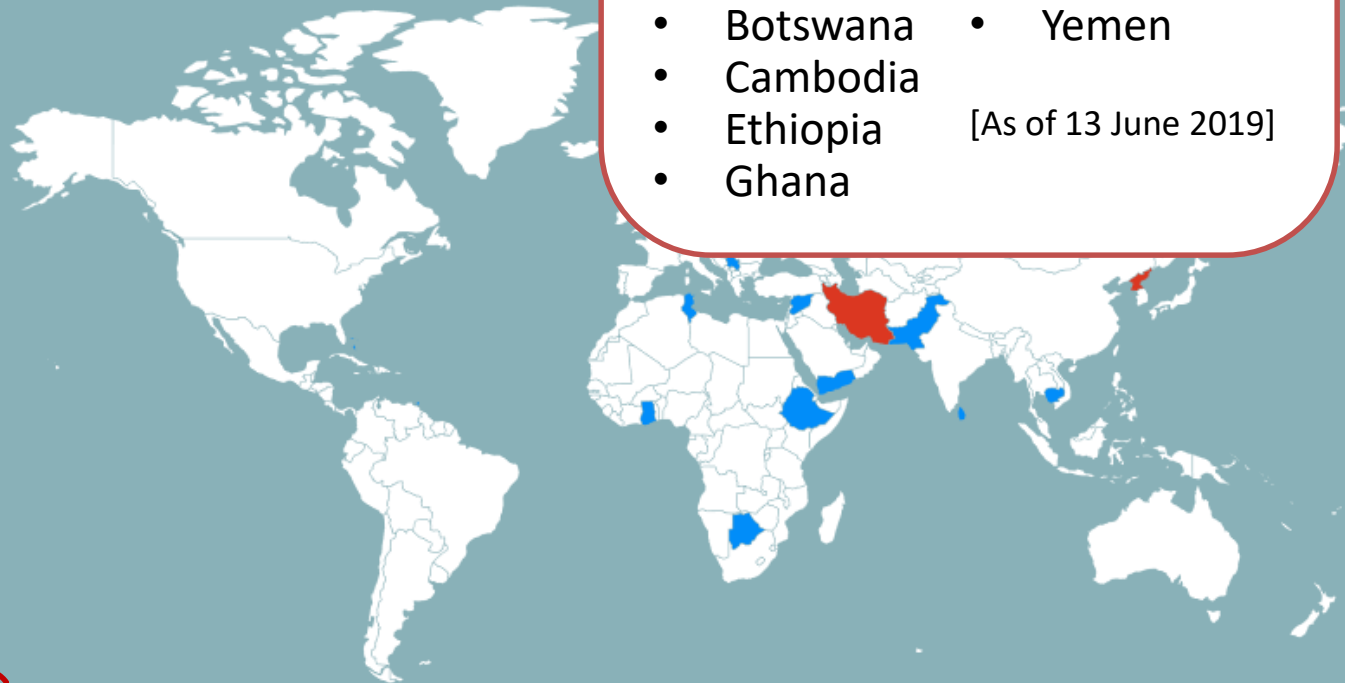
High-risk and other monitored jurisdictions

Show members of:

- FATF
- APG
- CFATF
- EAG
- ESAAMLG
- GABAC
- GAFILAT
- GIABA
- MENAFATF
- MONEYVAL

- High-risk and other monitored jurisdictions

- Democratic People's Republic of Korea (DPRK)
 - Iran
 - Bahamas
 - Botswana
 - Cambodia
 - Ethiopia
 - Ghana
 - Pakistan
 - Serbia
 - Sri Lanka
 - Syria
 - Trinidad and Tobago
 - Tunisia
 - Yemen
- [As of 13 June 2019]



What to Look for: Intermediate Jurisdictions

Potential Integrity and Reputational Risks

[As of 13 June 2019]

<http://www.oecd.org/tax/transparency/exchange-of-information-on-request/ratings/>

Overall Rating Following Peer Reviews against the standard of EOIR (as at March 2019)

Ratings based on First round of reviews	Ratings based on Second round of reviews	Overall rating See details of ratings for each element
China (People's Republic of), Colombia, Finland, Iceland, Korea, Lithuania, Mexico, Slovenia, South Africa, Sweden	Bahrain, Estonia, France, Guernsey, Ireland, Isle of Man, Italy, Jersey, Mauritius, Monaco, New Zealand, Norway, San Marino, Singapore	Compliant
Albania, Argentina, Azerbaijan, Barbados, Belize, Botswana, British Virgin Islands, Brunei Darussalam, Bulgaria, Burkina Faso, Cameroon, Chile, Cook Islands, Cyprus, Czech Republic, El Salvador, Gabon, Georgia, Gibraltar, Greece, Grenada, Israel, Kenya, Latvia, Lesotho, Macao (China), Malaysia, Malta, Mauritania, Montserrat, Morocco, Nigeria, Niue, Pakistan, Poland, Portugal, Romania, Russia, Senegal, Slovak Republic, Saint Lucia, Saint Vincent and the Grenadines, Saudi Arabia, Seychelles, Switzerland, Uganda, Uruguay, Andorra, Antigua and Barbuda, Costa Rica, Dominica, Dominican Republic, Guatemala, Federated States of Micronesia, Lebanon, Nauru, Panama, Samoa, United Arab Emirates, Vanuatu	Aruba, Australia, Austria, The Bahamas, Belgium, Bermuda, Brazil, Canada, Cayman Islands, Denmark, Germany, Hong Kong (China), Hungary, India, Indonesia, Jamaica, Japan, Liechtenstein, Luxembourg, North Macedonia, Netherlands, Philippines, Qatar, Saint Kitts and Nevis, Spain, Turks and Caicos Islands, United Kingdom, United States	Largely Compliant
Anguilla, Sint Maarten, Turkey	Curaçao, Ghana, Kazakhstan	Provisionally* Largely Compliant
Marshall Islands		Partially Compliant
Trinidad and Tobago**		Provisionally* Partially Compliant
		Non Compliant

What to Look for: Intermediate Jurisdictions

Potential Integrity and Reputational Risks

The screenshot shows the European Commission's website. The address bar displays https://ec.europa.eu/taxation_customs/tax-common-eu-list_en. The navigation bar includes 'Commission and its priorities' and 'Policies, information and services'. The main content area features the European Commission logo and the text 'European Commission > Taxation and Customs Union > Taxation and Customs Union'. A red box highlights the title 'EU List of NON-COOPERATIVE TAX JURISDICTIONS'. Below this, a list of jurisdictions is shown: American Samoa, Guam, Namibia, Palau, Samoa, Trinidad and Tobago, and US Virgin Islands. A note indicates the situation as of May 25, 2018. The bottom navigation bar includes links for Home, Business, Citizens, Customs, and Taxation.

Secure https://ec.europa.eu/taxation_customs/tax-common-eu-list_en

Commission and its priorities Policies, information and services

English EN

European Commission > Taxation and Customs Union > Taxation and Customs Union

Home Business Citizens Customs Taxation

EU List of NON-COOPERATIVE TAX JURISDICTIONS

- American Samoa
- Guam
- Namibia
- Palau
- Samoa
- Trinidad and Tobago
- US Virgin Islands

[Situation on May 25 of 2018]

Common EU list of third country jurisdictions for tax purposes

The first ever EU list of non-cooperative tax jurisdictions was [agreed by Member States on 5 December 2017](#).

This list is part of the EU's work to ~~fight tax evasion~~ and avoidance and aims to create a stronger deterrent for countries that consistently refuse to play fair on tax matters.



2. Enhanced Customer Due Diligence, Sanctions and Politically Exposed Persons



Sanction screening

- ❖ Sanctions are the imposition of any of a range of economic restrictions against a country/government, entity or individual determined to pose a threat to national security or international peace and stability. These restrictions can include the blocking of property, prohibitions on commercial dealings or denial of access to the financial system.
- ❖ Watch-list Screening: All customers will need to be checked against applicable sanctions lists from different regulatory agencies and countries, such as:
 - ❖ UN Security Council Consolidated List
 - ❖ Terrorist Screening Database (TSDB) –central terrorist watchlist consolidated by US' FBI
 - ❖ OFAC (Office of Foreign Assets Control) – US Treasury



2. Enhanced Customer Due Diligence, Sanctions and Politically Exposed Persons



Sanctions risk mitigation

- ❖ When confirmed to involve sanctioned jurisdictions, there should be a clear escalation procedure to guide handling staff to obtain approval from a person with relevant authority prior to processing or rejecting the transactions
- ❖ A written record of the rationale for the release of an alert concerning a potential name match or transaction involving a sanctioned jurisdiction should be maintained to demonstrate that relevant staff had checked whether the particulars on the payment messages actually indicated the involvement of designated parties or sanctioned activities

ADB's Sanctions List

How it looks



The screenshot shows the ADB website's 'Anticorruption and Integrity' section. A blue arrow points from the URL <https://www.adb.org/site/integrity/sanctions> to the 'Anticorruption Sanctions List' page. A blue box explains that the list includes entities sanctioned by ADB and those cross-debarred by ADB from other Multilateral Development Banks (MDBs). Two green boxes highlight the 'Published List' and 'Complete List' options. A blue box explains that the 'Published List' is accessible to the general public, while the 'Complete List' is password-protected and accessible to authorized users only. A green box lists the types of violations and entities included in the sanctions list.

Published List (No Login Required)

Accessible to the general public

1. Sanctions violations while ineligible
2. Second & subsequent violations
3. Debarred entities who are uncontactable
4. Cross debarred entities

Complete List (For authorized users only)

Password-protected, accessible to

- ✓ Parties with a "need to know": International/bilateral orgs, government partners
- ✓ ADB Staff
- ✓ BoD

1. Authorized users only
2. Initial violations & published list

ADB's Sanctions List

How it looks



Anticorruption and Integrity

Home

Sanctions List

[Published List](#)

[Complete List](#)

[ADB Required IDD Check](#)

Resources

[ADB Anticorruption Homepage](#)

[Anticorruption FAQs](#)

[Procurement Guidelines](#)

[Consultant Guidelines](#)

[Integrity Principles and Guidelines](#)

Other Sanctions Lists

Complete Sanctions List

Search:

GO

TIP: Use the * for better search results. Type *example* to list all entities containing the

Category: **FIRMS** **INDIVIDUALS** **ALL ENTRIES**

View by: **Name** **Latest Update** **Cross Debarment Effectivity** **Nationality** **Cross-debarred Entities** **Sanction Type**

Filter by: **All** **A** **B** **C** **D** **E** **F** **G** **H** **I** **J** **K** **L** **M** **N** **O** **P** **Q** **R** **S** **T** **U** **V** **W** **X** **Y** **Z**

Name	Address	Sanction Type	Nationality	Effect Date Lapse Date	Grounds
 1947 S.A.	Argentina	Debarred	Non ADB Member Country	30/Jan/2016 28/Dec/2019	Cross Debarment: IADB
 2nd Engineering Company Limited of the 20th Bureau Group of China Railway		Debarred	People's Republic of China	24/Feb/2009 No Date	
 3632491 CANADA INC	95, 5TH AVENUE SW, J7V 5K8, PINCOURT QC Canada	Debarred	Canada	8/May/2013 17/Apr/2023	Cross Debarment: WB
 4246047 CANADA INC	2800 PARK PLACE, 666 BURRARD STREET, V6C 2Z7, VANCOUVER, BC Canada	Debarred	Canada	8/May/2013 17/Apr/2023	Cross Debarment: WB



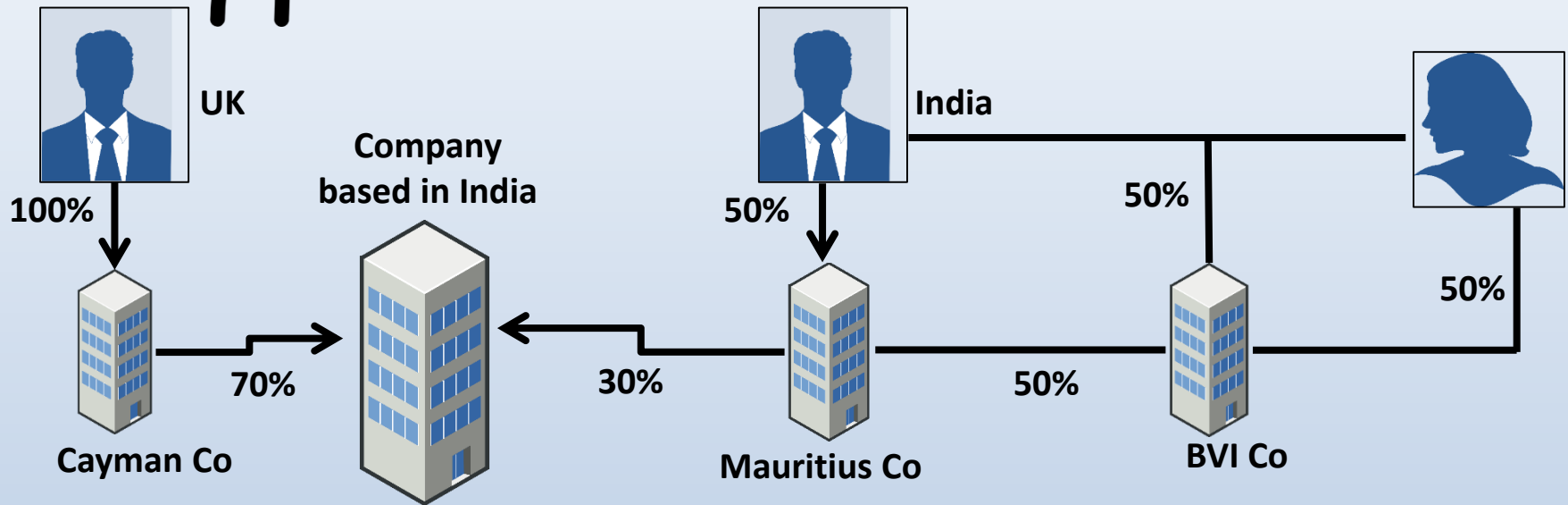
Cross Debarment



A party to the Uniform Framework (2006);
not a party to the Cross Debarment Agreement.



Does this structure pose a significant integrity risk?



- A. Yes
- B. No
- C. Maybe



2. Enhanced Customer Due Diligence, Sanctions and Politically Exposed Persons



Source of wealth

- ❖ Regulators are keen to see financial institutions demonstrate how they are effectively assessing, documenting and mitigating the AML risks of their customers.
- ❖ Adopting a risk based approach, low and medium risk customers typically require less corroboration on SOW.
- ❖ Whereas for PEPs and high risk customers, a greater standard of corroboration is expected to address the additional risk factors which have led to the higher risk rating of these customers.
- ❖ The SOW narrative must be sufficiently informative, coherent and plausible.
- ❖ May possibly attain sufficient information to reasonably understand the wealth origin from open source information, e.g. Google, other media



2. Enhanced Customer Due Diligence, Sanctions and Politically Exposed Persons



Source of wealth

❖ Additional information should be requested if otherwise, e.g.

Description of SoW	Suggested information to obtain	Suggested documentary evidence to obtain
Sale of property	All of the following: <ul style="list-style-type: none"> Sold property address Date of sale Total sale amount 	One of the following: <ul style="list-style-type: none"> Letter detailing property sale signed by a licensed solicitor or regulated accountant on letter-headed paper Copy of sale contract
Company Sale	All of the following: <ul style="list-style-type: none"> Name and nature of the company Date of sale Total amount Client's share 	<ul style="list-style-type: none"> Letter detailing company sale signed by a licensed solicitor or regulated accountant on letter-headed paper Copy of contract of sale, plus bank statement showing proceeds Copies of media coverage (if applicable) as supporting evidence
Company profits	All of the following: <ul style="list-style-type: none"> Name and address of company Nature of company Amount of annual profit 	<ul style="list-style-type: none"> Copy of latest audited company accounts Confirmation of the nature of business activity and turnover, detailed in a letter from a regulated accountant.



2. Enhanced Customer Due Diligence, Sanctions and Politically Exposed Persons



What does a “good” SOW narrative look like?

- ❖ Depending on the background of the customer type, the following information should be set out:
 - ❖ Information on the customer’s background and how wealth was derived
 - ❖ Financial Assets (summary including the total relationship AUM, investment history, information on existing assets held and where held if known);
 - ❖ Business activities (nature, size, profitability, shareholding, location and history). Where Company Searches on the business have been captured at onboarding, this can also serve to corroborate ownership of the company and support the SOW narrative.



2. Enhanced Customer Due Diligence, Sanctions and Politically Exposed Persons



What does a “good” SOW narrative look like?

- ❖ Professional career (e.g. length of career, position held and estimates on annual income). Where necessary, reference to salary surveys and other public information to support estimates can be used.
- ❖ Some indication of the customer’s Net Worth should be provided.
- ❖ Information on the Source of Funds (i.e. description of the origins and means of the transfer for the monies that are acceptable for the account opening).



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Source of fund

- ❖ The Source of Funds refers to the origin of the particular funds or assets that are the subject of the business relationship between the customer of the FI (e.g. the amount being invested, deposited or remitted)
- ❖ Easier to obtain than SOW but this is not simply restricted to knowing from which FI it may have been transferred.
- ❖ The information should be substantive and establish a source or reason for being acquired



Are they PEPs?



Frank-Walter
Steinmeier



George Walker Bush



David Beckham



Ma-yun



Sheikh Mohammed Bin
Zayed



Angelina Jolie



Are they PEPs?

Frank-Walter Steinmeier

President of Germany,
serving since 19 March
2017

George Walker Bush

American politician who
served as the 43rd
President of the United
States from 2001 to 2009.
He was also the 46th
Governor of Texas from
1995 to 2000

David Beckham

English former professional
footballer; UNICEF goodwill
ambassador for children.

Ma-yun

Chinese business magnate
who is the founder and
executive chairman of
Alibaba Group, a family of
Internet-based businesses
Some FI might consider
Ma Yun as PEP, some
might not – reputational
risk.

Sheikh Mohammed Bin Zayed

the Crown Prince of Abu Dhabi and
Deputy Supreme Commander of
the UAE Armed Forces. He is seen
as being the driving force behind
the UAE's activist foreign policy. He
is seen as its' de factor ruler.

Angelina Jolie

American actress, filmmaker, and
humanitarian. Special Envoy to
the United Nations High
Commissioner for Refugees.



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Political Exposed Persons (“PEP”)

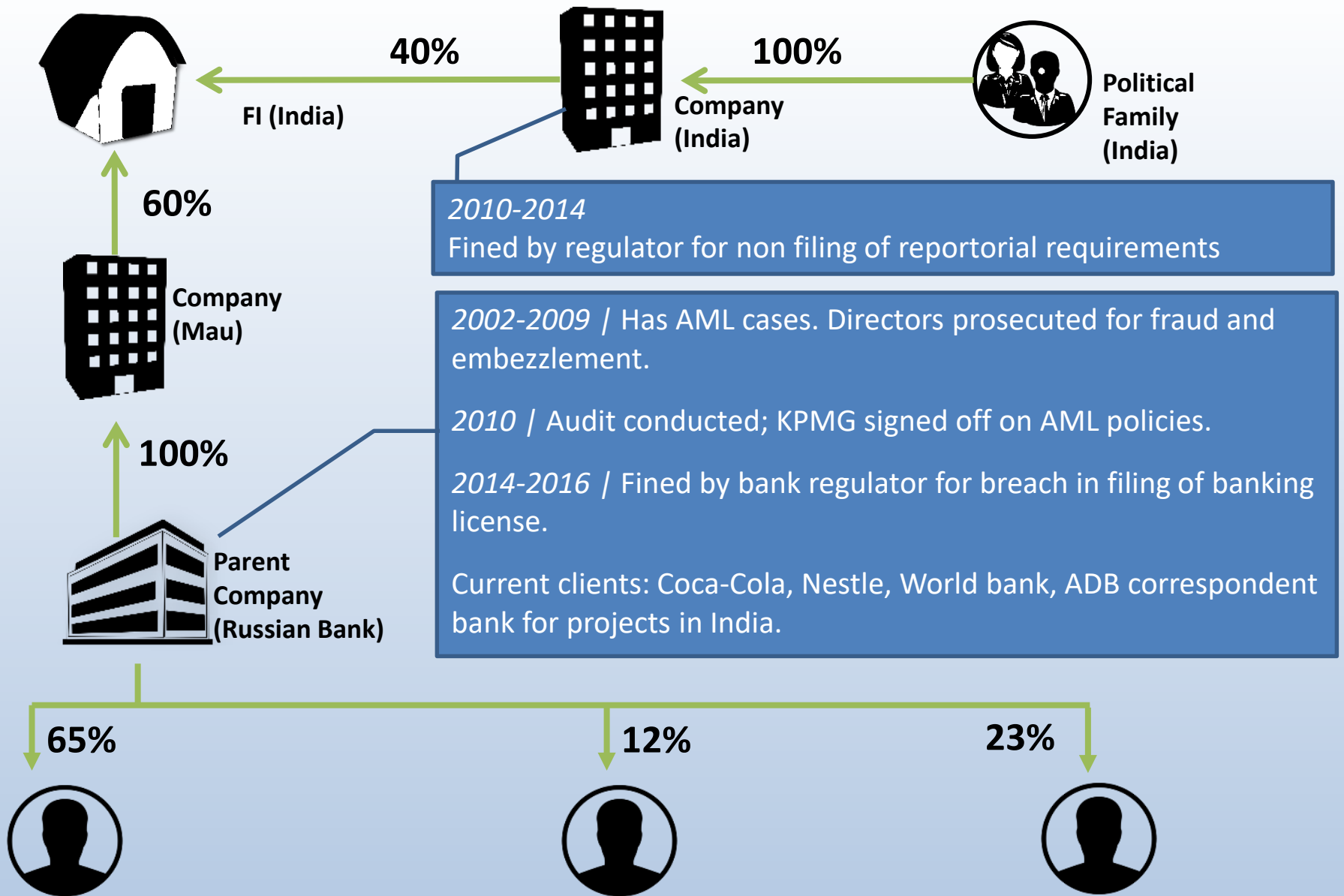
- ❖ FATF considers foreign and domestic PEPs, and those in international jurisdictions
- ❖ Primary PEP - PEP himself/herself who holds a senior, prominent, or important position with substantial authority over policy, operations, or the use or allocation of government-owned resources such as:
 - ❖ A current or former senior official in a branch of a foreign government
 - ❖ Senior official in a major political party
 - ❖ Senior executive of a government-owned entity
- ❖ Secondary PEP
 - ❖ Immediate close family members
 - ❖ Close associates
 - ❖ PEP entities



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- ❖ PEPs and customers associated with PEPs create higher risk for financial institutions because of their prominent political profile which may increase exposure to bribery and corruption
- ❖ Examples of information sources to identify PEPs
 - ❖ Internet search
 - ❖ Commercial database
 - ❖ In-house database
 - ❖ Customer self-declaration and Relationship Manager knowledge
- ❖ Approval:
 - ❖ Senior management approval is required for PEP accounts
 - ❖ Detailed analysis and evaluation to understand the ML risk posed to the institution by that particular PEP before granting approval
- ❖ Establish Source of Wealth and Source of Funds
- ❖ Conduct enhanced ongoing monitoring of the business relationship





Parent
Company
(Russian Bank)

65%



12%



23%



- Russian oligarch/businessman
- With connections to Putin and with many other interests
- Owns 30% of JV investigated for corruption (India)
- CEO & board members are under criminal investigation in 3 jurisdictions

- Panamanian lawyer
- Provides incorporation

- Indian billionaire
- Owns a football club involved in

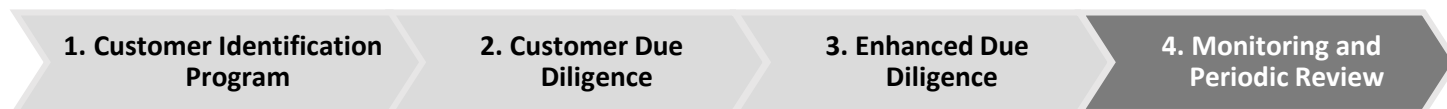
What are the potential reputational and integrity risks?

- Associated with some companies listed in ICIJ for tax avoidance

- Owns 50% of a company where EBRD made a 20% investment for 2015



2. Enhanced Customer Due Diligence, Sanctions and Politically Exposed Persons



Monitors

- ❖ Regulatory expectations require a financial institution to revisit and review a customer relationship and monitor transactional activity
- ❖ A review of a customer account may entail the following:
 - ❖ a customer's transactional history
 - ❖ the customer's existing risk rating
 - ❖ take any necessary action to bring the information up to date with current Business Unit requirements.
 - ❖ more frequent periodic intervals for high risk account



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Periodic Review

- ❖ Each customer's KYC profile will undergo periodic review based on risk rating and periodic review intervals vary by institution and customer base, e.g.
 - ❖ High risk – Once a year
 - ❖ Medium risk – Once every two years
 - ❖ Low risk – Once every three years
- ❖ Periodic Review is conducted to verify that the customer's KYC file:
 - ❖ Is up to date and
 - ❖ Does not include any additional risk factors which would alter the risk rating or monitoring of the account



Thank you

