

Customer Due Diligence

Part 1

AMLbites



What does this video cover?

- Why should I perform customer due diligence (CDD)?
- When do I perform CDD?
- What are the stages of customer due diligence?
 - Customer identification
 - Risk assessment
 - Customer verification
- What should I document?



Why should I perform Customer Due Diligence?

- Regulation 27 of the **Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017** (MLR 2017).
- You also need to be able evidence to your AML supervisor that you've applied the AML requirements appropriately. (Regulation 28 (16)).
- The purpose of CDD is to know and understand a client's identity and business activities so that any MLTF risks can be properly managed.
- Effective CDD is, therefore, a key part of AML defences.



What if I don't perform CDD?

- Risk
 - Inadvertently facilitate money laundering.
 - The vulnerable continue to suffer
 - For example - is your client in the construction industry?
 - Vulnerable to modern slavery and human trafficking.
 - Robust CDD and SAR reporting where necessary could rescue victims of such abuse.
 - Reputational damage to your firm.
 - Investigation and possible regulatory fine by your AML supervisor.
 - Scrutiny by law enforcement.



But I know my clients really well, this is a waste of time

- Performing customer due diligence is a legal requirement.
- **It does not have to be onerous**
 - Risk assess your client and then the level of verification required is proportionate to that risk.
 - If you have done this your supervisor will see evidence that you know your client well and see that you have a proportionate response to verification.



When do I perform CDD?

- At the start of a new business relationship (including a company formation).
- At appropriate points during the lifetime of the relationship.
- When an occasional transaction is to be undertaken.
- When there is either knowledge or a suspicion of MLTF.
- When there is any doubt about the reliability of the identity information, or documents obtained previously for verification purposes.



What are the stages of CDD?



First stage of CDD - Identification

- Who is the client?
- Appropriate identification information for an individual would include full name, date of birth and residential address.
- In the case of corporates and other organisations, identification also extends to establishing the identity of anyone who ultimately owns or controls the client. These people are the Beneficial Owners (BOs).



Beneficial owner

- A beneficial owner can only be a natural person ie, a human being, as distinct from a legal person eg, a company.

Client					
Bodies corporate - Company					
Regulation	Owns or controls (directly or indirectly) more than				Case Studies
	Voting rights	Shares	Capital	Profits	
5(1)	25%	25%	N/A	N/A	1, 2, 3 & 4
Other beneficial owners					
Any individual who:					
<ul style="list-style-type: none">• exercises ultimate control over the management of the body corporate, or• who controls the body corporate					



Risk assessment and verification

- CCAB Guidance

- Businesses should have **different client risk** categories such as: low, normal, and high.
- Once an initial risk assessment has been carried out, **evidence is required to verify** the identity information gathered during the first stage. This is called client verification.
- Degree of verification dependant on risk assessment.
 - higher risk clients, more verification work should be performed.
- **For an individual**, verification may require sight of a passport (with a photocopy taken).
- **For corporates and others**, in addition to the client itself, reasonable verification measures for any individual beneficial owners (BOs) must also be considered on a risk sensitive basis.



People with Significant Control register

- Before establishing a business relationship, -
 - A business must obtain proof of their client's registration on the People with Significant Control ("PSC") register, or an excerpt of the register.
 - Report discrepancy



What documentation will ICAEW expect to see?

- That you have identified your client
 - Documentation that evidences you know who your client is.
 - For example - if it is a company that you know who controls it.
- A risk assessment
 - Documentation that tells us your conclusion on the risk that this client may be involved in money laundering. (We cover this in more detail on CDD 2).
- Verification
 - Based on the risk what have you done to ensure the client is who they say they are and operating in the way they tell you.
 - This might vary from client to client (risk based).



What if I can't complete CDD?

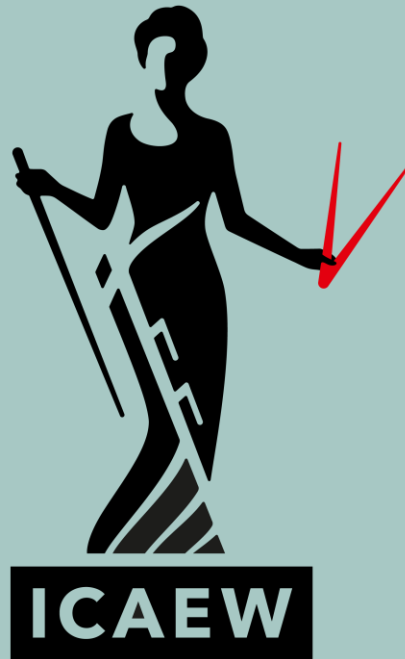
- CDD completed
 - **Before the establishment of a business relationship** or the carrying out of the transaction.
- CCAB
 - If a prospective or existing client refuses to provide CDD information, the work must not proceed.
 - The 2017 Regulations do recognise that CDD will sometimes need to be completed while the business relationship is established, rather than before.
 - delays of this kind are only permissible when there is little risk of MLTF.



Resources

- CCAB guidance
- Covid-19 Supplementary Anti Money Laundering Guidance - Completion of Client Due Diligence (CDD) During Urgent Work - CCAB
- Anti-money laundering client due diligence | AML helpsheets | ICAEW





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