

Customer Due Diligence (CDD) - Part 2: Enhanced Due Diligence (EDD)

AMLbites



What does this presentation cover?



Enhanced Due Diligence (EDD)



What do I consider as part of my customer risk assessment?



What should I document ?



Examples/case studies



What additional measures can I take to verify a client or further assess risks ?

When to perform Enhanced Due Diligence?

(MLR 2017/33)

- Specified case your professional body supervisor has identified as higher risk;
- Your firm wide risk assessment has identified a higher risk;
- In any business relationship with a person established in a **high-risk third country**;
- Customer or potential **customer is a PEP, a family member or known close associate of a PEP (in accordance with regulation 35)**;
- Customer has **provided false or stolen identification documentation**; or
- Complex/unusual transactions/no apparent economic purpose.

Enhanced Due Diligence – further guidance

- ICAEW provides guidance on higher risk situations (helpsheet).
 - *Circumstances where there might be high risk of money laundering or terrorist financing.*
- Higher risk third countries.
 - Since 1 January 2021, the UK has had its own standalone list.
- Politically exposed persons (PEPs).
 - Politically exposed person or PEP means an individual who is entrusted with prominent public functions, other than as a middle-ranking or more junior official.
 - Family member.
 - Associated person.

UK list July 2021

- Albania
- Barbados
- Botswana
- Burkina Faso
- Cambodia
- Cayman Islands
- Democratic People's Republic of Korea (DPRK)
- Haiti
- Iran
- Jamaica
- Malta
- Mauritius
- Morocco
- Myanmar
- Nicaragua
- Pakistan
- Panama
- Philippines
- Senegal
- South Sudan
- Syria
- Uganda
- Yemen
- Zimbabwe

[View the UK list](#)

What does EDD involve if High risk country?

- Obtain additional information on the **customer and its ultimate beneficial owners**. Obtain additional information on the **intended nature of the business relationship**.
- Obtain information on the **source of wealth** and source of funds of the customer and the customer's beneficial owner.
- Where there is a transaction, obtain information on the **reasons for the transactions** or obtain the **approval of senior management** for establishing or continuing the business relationship.
- Increase **the monitoring** of the business relationship by increasing the number and timings of controls applied.

What do I consider as part of my risk assessment ?

Client

- Checks to ensure identify PEPs

Services

- Payroll/probate/company formation

Geographical

- Check if high risk third country

Transactions

- Will you handle client money for the client?

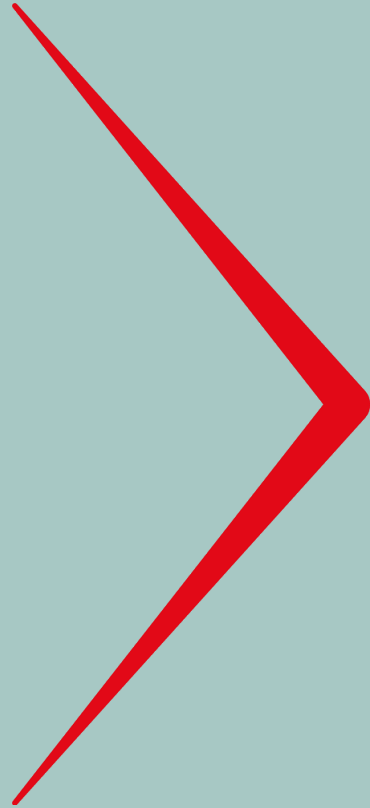
Delivery

- Have you/will you meet the client?

What should I document?

- Identity of client and beneficial owners.
- Document your risk assessment.
 - Conclusion (low/normal/high)
 - Why you have come to that conclusion
- How you have verified the client is who they say they are (risk based).

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Risk assessment

EXAMPLE

Client

- Carpenter by trade.
- Self employed. Not a PEP. Sources of wealth are the business income only. No evidence of living beyond his means.

Delivery

- I have met Bob at his premises.
- He was referred to me by another client as he did work within one of the client's properties.

Services

- We are preparing his accounts and self assessment tax return.
- He does keep good records and we have all bank statements and records of transactions.
- We have advised him of the risks of under declaration of earnings.
- He has agreed to use XERO and we will set him up on this.

Geography

- Locally based, local address and clients are local (UK)

Transactions

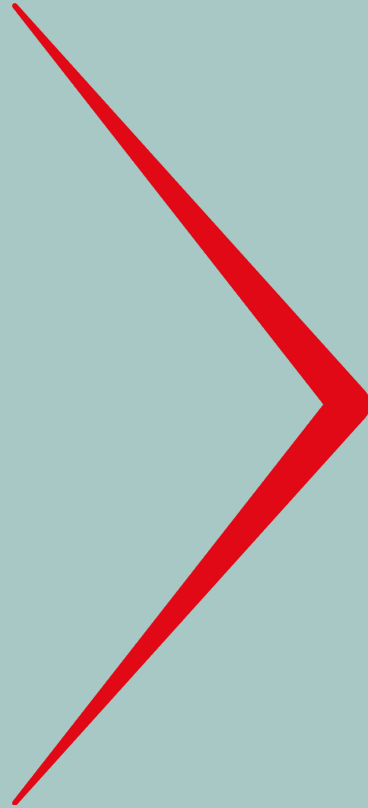
- He does not want us to handle client money.

Conclusion and verification

- Conclusion on risk of money laundering:
 - Low/normal/high
- Verification

Passport provided when I visited the home address (verified).
- Signed
 - Date and signed by partner as approved for take on.

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***Risk
assessment***

EXAMPLE

Client

- Property letting.
- Two beneficial owners.
- We have met one who is UK based (see file notes), but the other is based overseas in Malta and we have not met him.
- Three properties that they own and plan to let out in UK.

Delivery

- We will be dealing with the UK based owner and delivering services to him.
- The other BO lives overseas and we won't be meeting him (UK client says it is his Uncle).

Services

- We are preparing statutory accounts.
- They state they keep good records and we will have all bank statements and records of transactions.
- We will complete the corporation tax return.
- Owners plan to complete their own tax returns (unusual).

Geography

- Although this is a UK based company there is a beneficial owner in Malta.

Transactions

- They have asked if they can use our client account to collect rents and pay some bills while they set up UK account.

Conclusion and verification

- Conclusion on risk of money laundering:
 - Low/Normal/High
 - We need to perform enhanced due diligence as one beneficial owner (BO) is based in Malta. Also they want to access client account and property management is potentially higher risk.
- Verification and EDD
 - Passport provided by one BO when I visited at his home address (verified).
 - Asked about sources of wealth. BO states family wealth but no indication of where the family sourced this wealth.
 - The Maltese individual has provided passport but still unable to see him (even on Zoom) as he says he has no WIFI.
 - The properties are confirmed as owned by the company but they are expensive properties in London and we are unsure as to why the firm has come to us. Neither of the BOs are local to our firm.
 - Vague as to why they want to use our client account and how much might be going through it. They mention overseas investment from the Maltese BO.
 - Checked sanctions lists, neither party appear on these.
 - Electronic verification checks verify UK BO. Not enough information to verify overseas individual, although he does not appear to be a PEP.
- Referred to the MLRO for review
 - **MLRO rejects client acceptance. Unsure about the second BO/source of funds/use of client account/purpose of business.**

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 extra checks can I make?

- Electronic verification
- Client screening
- Media/open source
- Associates – (review companies house data)
- Land registers – source of wealth
- Verification of non beneficial owners who are directors (If not already undertaken)

Simplified Due Diligence

- SDD can be applied when a client is low risk, in accordance with the businesses' risk assessment criteria.
- The business' internal procedures should set out clearly what constitutes reasonable grounds for a client to qualify for SDD.

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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