

Compliance seen through
the Eyes of Investors and
Financial Services



Why is Knowing the Customer important for banks

- Know your customer (KYC) is critical for banks to comply with Anti-Money Laundering legislation and regulation.
- Banks have a duty to vet all users of their products, and the transactions they handle on their behalf, in order to prevent money laundering by denying monies which derive from illegal activity or black listed countries and prevent funds being applied to the financing of terrorism.
- The Office of Foreign Assets Control (OFAC) has become increasingly concerned with the origin of monies associated with those nations or persons listed on the Specially Designated Nationals and Blocked Persons Lists.
- Banks that do not comply (both in spirit and letter) with KYC legislation and regulation, or OFAC rules, are breaking the law and therefore may face fines and/or restrictions on doing business.
- The vital question and decision which follows the acquisition of a good understanding of a client is: “Do we still believe this client justifies our support or is there a significant risk that our services could be taken advantage of to further criminal ends?”

The background

- The vast majority of crime is either facilitated by money or has money as its object.
- If banks could avoid handling the proceeds of crime, criminal activity would be greatly reduced.
- Countries such as the UK 'all crimes jurisdictions', i.e. the proceeds of any crime are covered by legislation – theft, bribery, drugs, smuggling, tax evasion, human trafficking, terrorist activity etc.
- Regulation is tightening year on year:
 - The 4th EU Money Laundering Directive was implemented in UK law last year
 - The 5th EU Money Laundering Directive has been circulated in draft
 - The 6th EU Money Laundering Directive is being scoped

What we do

- For all our corporate customers:
 - We seek to *identify and verify owners and controllers* of companies
 - We *screen* these owners and controllers to see if there is any history of *irregular activity*
 - We look to understand and document the client's *nature of business, sources and application of funds* as well as the *original source of wealth* of the ultimate owners.
 - We *monitor ongoing transactions* to ensure they are consistent with our understanding of the client's activities and the risks remain manageable

- For clients in higher risk sectors:
 - We undertake *enhanced due diligence*
 - We look at whether or not our clients have *appropriate controls* in place (e.g. Correspondent Banking)
 - We increase our *ongoing monitoring of activity* to ensure confidence