Jersey Financial Services Commission

Enhanced Customer Due Diligence: Refresher

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- Appreciate this can be complicated and some firms struggle, this is a timely reminder following on from the Gov / JFSC Risk seminar in September.
- Enhanced CDD measures (or "ECDD") means doing more, taking extra steps, applying more measures. Identifying customers, third parties, ongoing monitoring, etc is CDD. ECDD is not a substitute to CDD, but something you do on top to mitigate a recognised risk, when:
  - when **<u>you assess</u>** a customer relationship as higher risk; and
  - when the **<u>MLO specifically requires</u>** it (regardless of your assessment of risk)
- Apply measures to mitigate that additional risk "on a risk-sensitive basis"

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<u>Assess a customer</u> relationship as higher risk:

- There are a number of reasons why a business relationship or one-off transaction might be assessed as presenting a higher risk, for example when they come from higher risk countries
- We see more granular assessments on a customer level but you need to be clear on <u>why</u> you are assessing the customer or the transaction as higher risk
- There are a number of possible measures listed that may address that risk
- Apply on a risk sensitive basis, match the measures against the risk, giving you a bespoke approach.
- Remember – these are suggestions only. There will be others…

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<u>Measures when the law (MLO) specifically requires it</u>

You are obliged to apply ECDD when:

- non-resident
- not physically present
- relevant connection with an “enhanced risk state”
- correspondent banking *
- PEP involvement *
- private banking
- personal asset holding vehicle
- nominee shareholders or bearer share
- nominee LLC interest holders

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Measures when the law (MLO) specifically requires it

- Bear in mind that the law does not say what measures you are to apply – that is up to you, with the exception of correspondent banking and PEPs (see * on previous slide)

AML/CFT Handbook

- Explanation on nature of risk
- Offers a menu of potential mitigating measures, up to you to determine the best way of mitigating the risks – you might come up with something better that isn't in the handbook
- Does not have to be onerous:
    - Non- resident - For clients who are not physically present may be a case of asking why they have come to Jersey / established an overseas relationship, and why their reason makes sense
    - Customer is a personal asset holding vehicle – determine the purpose and rationale for the use of the vehicle, and take reasonable steps to identify source of funds, source of wealth (such as from reliable tax advisors)
    - Complicated structures - they might bring risk, and finding out why they are using that structure is in itself an enhanced measure

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Downsides of applying a ‘one size fits all’ approach

- What we don’t want to see is all ECDD adopting the same approach, not effective or efficient
- What you need to tell the supervisor is that you are tailoring your risk measures to the specific issues around any customer or transaction – no point in confirming ID if that isn’t the issue
- That is the benefit of knowing the exact nature of the risk that is presenting
- If you take that bespoke approach you are in a good position – able to talk about your risk management with specific examples
- We as the supervisor are then in a good position to talk about how industry is managing risk appropriately (to outside bodies; including MONEYVAL).

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Summary

- Why ?
  - Higher risk?
  - MLO requires it?
- What?
  - Set in MLO
  - Menu in HB (<u>**match to risk**</u> !!)