



Enhanced Due Diligence Guidance

Capital Market Authority

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Glossary of Terms	
AML/CFT/CPF	Anti-Money Laundering, Countering the Financing of Terrorism and Counter ing Proliferation Financing
Business Relationship	Any relationship with a continuing nature, which is established between an FI and its customer related to the activities or services the FIs provide to them
Beneficial Owner	Any natural person who ultimately owns or exercises direct or indirect control over a customer or on whose behalf a transaction is being conducted
Correspondent Relationship	A relationship between a correspondent institution and a respondent institution through a current or other account or related services, such as cash management, international funds transfers, cheque clearing, foreign exchange services, trade finance, liquidity management, or short-term borrowing. The definition shall also cover correspondent relationships established for securities transactions or funds transfers
Customer risk assessment (CRA)	A process which identifies the ML/TF/PF risks that each customer (natural) or legal person) poses to the business and results in risk categorization.
Customer Due Diligence	The process of obtaining, identifying and verifying information on a customer or beneficial owner to enable the FI to assess the extent to which the customer exposes it to a range of risks
Enhanced Due Diligence	An increased level of CDD for those customers and transactions that are reasonably determined to be of higher ML/TF/PF risk
Financial Action Task Force (FATF)	An intergovernmental organization that sets international standards and promotes policies to combat money laundering, terrorist financing, and the financing of proliferation of weapons of mass destruction
High-Risk Country/Jurisdiction	A country or jurisdiction identified as having significant strategic deficiencies in its AML/CFT/CPF regime, as recognized by the Financial Action Task Force (FATF) in its public statements, or as otherwise designated by the competent authorities in the Kingdom of Saudi Arabia, including the Anti-Money Laundering Permanent Committee (AMLPC) and the Permanent Terrorism Counter Committee (PCTC)



Politically Exposed Person (PEP)	<p>A person who is or has become assignee with a prominent public function in the Kingdom or a foreign country; or with a senior management position in an international organization.</p> <p>It shall comprise the following:</p> <p>a. Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state-owned corporations, and important party officials</p> <p>b. Directors, deputy directors, and members of the board or equivalent function, of any international organization.</p>
Risk-based Approach (RBA)	Identifying, assessing and understanding ML/TF/PF risks to which an FI is exposed and taking AML/CFT/CPF measures proportionate to those risks to mitigate them effectively and efficiently.
Shell Bank	A bank that is incorporated or licensed in a country in which it has no physical presence and that is unaffiliated with a regulated financial group that is subject to regulation and supervision
Source of Funds	The direct origin of a customers' funds or financial assets used in a particular transaction or activities that occur within the business relationship
Source of Wealth	The means by which the customer has acquired their entire body of wealth
Simplified Due diligence	A reduction in the standard level of CDD in recognised lower ML/TF/PF risk scenarios
Standard Due Diligence	The standard level of CDD which is generally to be applied to all customers to whom services are provided
Transaction	Includes any disposition of funds, properties, cash or in-kind proceeds including but not limited to depositing, withdrawing, transferring, selling, purchasing, loaning, committing, extending of credit, mortgaging, gifting, financing, or exchanging of funds in any currency, whether in cash or checks, payment orders, sticks, bonds or any other financial instruments; or using safe deposit boxes and any other disposition of funds.

Purpose and Scope

1. The purpose of this Guideline is to assist all financial institutions (FIs) in the Kingdom of Saudi Arabia in understanding and complying with their AML/CFT/CPF obligations in respect of the application of Enhanced Due Diligence (EDD) measures pursuant to Article 5 and Article 7 of the Anti-Money Laundering Law issued by Royal Decree No. (M.20) dated 05/02/1439H and its Implementing Regulation, Article 64 of the Law on Combatting Terrorism Crimes and Financing (AML/CFT Law) issued by Decree No. (M/21) dated 12/02/1439H and its Implementing Regulation.
2. This Guideline is intended to assist FIs in implementing their EDD obligations. Any measures or examples provided are not exhaustive and this Guideline does not set limitations on the steps to be taken by FIs in order to meet their statutory obligations.
3. This Guideline applies to all FIs which are subject to AML/CFT/CPF supervision by CMA.

Supervisory Expectations

4. The AML/CFT Law sets out a number of specific situations in which EDD is required. However, FIs should note that EDD should also be applied based upon the risk identified in the FI's own risk assessment; where there are doubts about the veracity or accuracy of the customer's risk profile or information and data previously obtained on the customer and where there is a suspicion of ML/TF/PF.
5. All FIs must conduct and document a customer risk assessment (CRA) which categorizes customers based on their ML/TF/PF levels. Risk-based CDD measures (including EDD) should then be applied in accordance with the results of the CRA.
6. FIs are required to maintain a Know Your Customer (KYC) file for each customer. This file serves as a record of customer information and analyses conducted by compliance teams. The KYC file plays a crucial role in demonstrating the extent of scrutiny applied to the customer, including assessments of the source of funds and wealth. Additionally, it documents any EDD measures implemented by the FI.



7. As part of the overall AML/CFT programme, FIs should develop risk-based internal policies and procedures in respect of EDD which should at a minimum specify and determine the following;
 - a. The circumstances in which EDD is appropriate;
 - b. The timing of EDD measures;
 - c. The EDD measures which should be applied;
 - d. The frequency and scope of reviews and updates to CDD information for customers classified as high-risk;
 - e. The frequency and extent of monitoring of the business relationship and transactions in respect of high-risk customers.

8. An FIs policies and procedures in respect of EDD should be reasonable and. proportionate to the risks identified and have consideration of the following;
 - a. The results of the FIs ML/TF/PF risk assessment (business risk assessment);
 - b. The FIs customer risk assessment;
 - c. National ML/TF Risk Assessment of the Kingdom;
 - d. Any Topical risk Assessments conducted by CMA or other relevant competent authorities;
 - e. Black lists, grey lists and sanctions lists
 - f. Communication and guidance from the authorities including the Anti-Money Laundering Permanent Committee (AMLPC) and the Permanent Counter Terrorism Committee (PCTC)
 - g. Communications and Guidance from CMA;
 - h. International Guidance, typologies and evaluations including the FATF, the Basel Committee, the World Bank, International Monetary Fund, United Nations and Transparency International;
 - i. Information from professional sectorial bodies

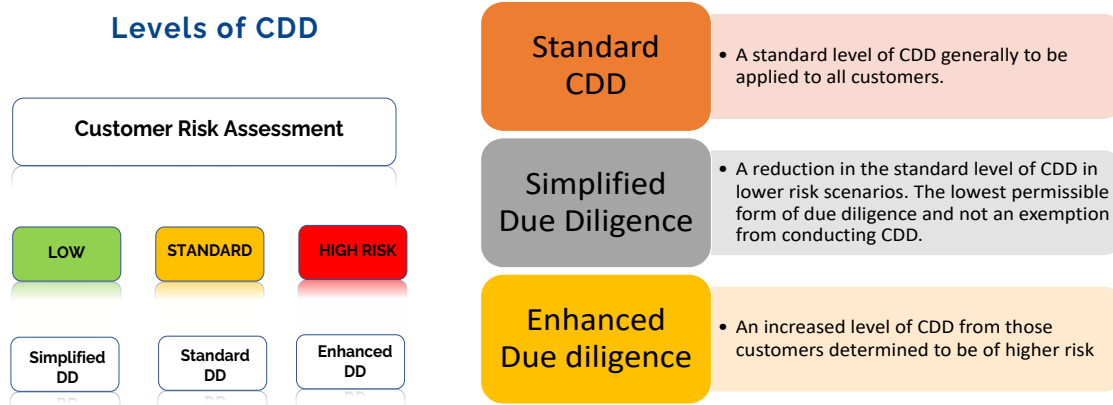
9. Supervisory Expectations are based upon national AML/CFT/CPF obligations, international FATF standards and best practice.

Overview of the levels of Customer Due Diligence¹

10. Customer Due Diligence (CDD) is the cornerstone of an FIs AML/CFT/CPF framework. It is the process through which an FI develops an understanding of its customers and business relationship and the ML/TF/PF risks which they pose to the business. CDD involves identifying and verifying the identity of the customer, including the beneficial owner and understanding the purpose and intended nature of the business relationship.

¹ FATF Recommendation 10 – Customer Due Diligence

11. There are 3 levels of CDD which an FI may apply to a customer depending on the risk posed by that customer or business relationship:



12. A Customer Risk Assessment (CRA) is the starting point for identifying the level of CDD which should be applied in relation to that customer and business relationship. FIs should note that customer risk classifications are not static and are subject to change depending on many factors such as a change in behaviour, new information which has come to light or where there are doubts about the veracity of previously obtained information. Therefore, FIs should always be prepared to increase the type and level of due diligence exercised on a customer whenever the circumstances warrant it.

13. Article 7 of the AML Law, Article 64 of the CFT Law, Article 7/14 Implementing Regulation to the AML Law and Article 17/2 of the Implementing Regulation to the CFT Law requires FIs to determine the extent and depth of due diligence measures required based on the level of risk of the customer or business relationship. Where higher risks are identified, an FI is obliged to apply enhanced due diligence measures consistent with the risks identified.

14. The appropriate level of due diligence should be applied in line with the specific situation and the risk indicators which have been identified. All FIs should reasonably determine the CDD requirements appropriate to each client based on their customer risk assessment.

15. **Standard due diligence** is the standard level of CDD which is generally to be applied to all customers to whom services are provided. Examples of minimum standard due diligence are provided for in Article 7/2 of Implementing Regulation to the AML Law and Article 17 of Implementing Regulation to the CFT Law and include:



- Identifying and verifying the customer's identity or person purporting to act on behalf of the customer using reliable and independent source documents, data or information;
- Identifying the beneficial owner and taking reasonable measures to verify the identity, including understanding the ownership and control structure of the customer where the customer is a legal person;
- Understanding and obtaining information on the purpose and intended nature of the business relationship;
- Conducting ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the business and risk profile of the customer.

16. **Simplified due diligence** is a reduction in the level of standard CDD in recognised lower ML/TF/PF risk scenarios and is provided for in Article 5/5 of Implementing Regulation to the AML Law and 17/2 of Implementing Regulation to CFT Law. It is the lowest permissible form of due diligence and must only be used where an FI has determined that the customer presents a low risk of ML or TF. Simplified due diligence is not an exemption from conducting CDD. Simplified due diligence is not permitted where there is a suspicion of ML/TF/PF or where specific higher-risk scenarios apply. Example of simplified due diligence includes;

- Limiting the extent, type or timing of CDD measures
- Obtaining fewer elements of client identification data
- Altering the type of verification carried out on client's identity
- Simplifying the verification carried out on client's identity
- Inferring the purpose and nature of the transactions or business relationship established based on the type of transaction carried out or the relationship established
- Verifying the identity of the client and the beneficial owner after the establishment of the business relationship
- Reducing the frequency of client identification updates in the case of a business relationship
- Reducing the degree of on-going monitoring and scrutiny of transactions

17. In higher risk situations, neither standard due diligence or simplified due diligence is sufficient and an increased level of customer due diligence is required, which is known as **Enhanced Due Diligence**. Enhanced Due Diligence requires additional checks and verifications to establish the identity of the customer and beneficial owner. It also requires obtaining additional information on and conducting a more detailed analysis on the nature and purpose of the business relationship as well as increased monitoring of the relationship. Examples of EDD measures are provided throughout the document.

Overview of CDD Process



Situations when EDD is required

18. EDD is an increased level of CDD for those customers and transactions that are reasonably determined to be of higher risk. It is not a set of measures intended as a substitute for CDD, rather these measures are applied in addition to CDD.

19. The objective of EDD, is to allow the FI to gain a deeper understanding and knowledge of the customers profile, transaction patterns and risk profile. It is also intended to provide a more granular understanding and picture of the purpose of the transaction, the economic rationale and the consistency with the declared activity.

20. FIs should apply EDD measures to high-risk customers, even if there is no established business relationship, e.g walk-in customers. Examples of higher-risk customers may include legal persons with complex ownership structures, non-resident legal persons, customer activity related to a high-risk sector, individuals from sanctioned countries, high net worth individuals.

21. There are certain circumstances which require FIs to implement EDD measures which are provided for in the AML/CFT Law;

- 01 **Customers who are foreign PEPs or close associates or family members of foreign PEPs and domestic PEPs in the case of a higher risk of ML/TF/PF**
Article 8 AML Law & Article 8/5 Implementing Regulation to AML Law
- 02 **Customers and transactions from high-risk countries**
Article 11 AML Law & Article 66 CFT Law
- 03 **Complex or unusually large transactions without a clear economic or legal purpose**
Article 13(3) AML Law & Article 69 CFT Law
- 04 **Where an FI has assessed the ML/TF risk as being higher**
Article 7 AML Law, Article 64 CFT Law & Article 7/14 Implementing Regulation to AML Law, Article 17 Implementing Regulation to CFT Law
- 05 **Cross-border correspondent relationships**
Article 9 of AML Law, Article 68 CFT Law and 9/1 Implementing Regulation to AML Law

22. As provided by Article 7 of the AML Law, Article 64 CFT Law, Article 7/14 of the Implementing Regulation to AML Law and Article 17 Implementing Regulation to CFT Law, EDD measures should also be applied in circumstances where an FI has assessed the risk of ML or TF to be higher.

23. EDD should also be applied by FIs if there are doubts about the veracity of a customer's ML/TF/PF risk classification or previously obtained information on that customer.

24. In all cases in which EDD is applied, FIs should ensure that they obtain adequate, substantiated information on the customer which is commensurate with the level of identified risk. Therefore, FIs should ensure that they follow a risk-based approach in the implementation of EDD measures.

25. FIs should document all EDD measures implemented together with the justification for taking such measures and maintain these records in line with the FIs record keeping obligations under the AML/CFT Law.



Examples of Enhanced Due Diligence Measures

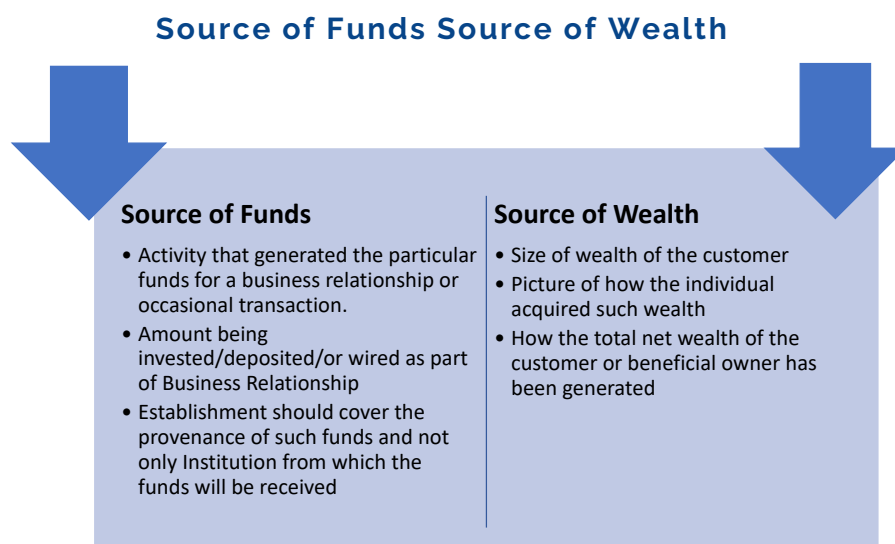
EDD Measure		Examples of information requested
1.	Request and assess additional information on identity of customer & verification of information using multiple reliable and independent sources	<ul style="list-style-type: none"> • Additional forms of identity documentation • Information on customer reputation and background • Information on family members and close business partners • Additional information on occupation and present business activities including financial statements, anticipated volume of total sales, list of major customers and suppliers. • Information on past business activities, • Conduct adverse media searches, • Additional information on individuals with control of the customers or account such as signatories or guarantors • If the FI is part of a group, verification of identity of customer, banking references • Request supporting documents from sources such as a government authority, court of law, local authorities and public sector bodies, regulated professionals.
2.	Request additional information on nature and purpose of transaction or business relationship to ensure legitimate for example...	<ul style="list-style-type: none"> • Information that determines the rationale for conducting a transaction or business relationship to ensure it has a genuine and legitimate purpose • Number, size, type and frequency of transactions that are likely to pass through the account • Information on the customers primary trade area and if international transactions are expected to be routine and the expected source and destination of these transactions • Reason for customer seeking specific product or service, in particular if unclear why the customer's needs cannot be met in another way or jurisdiction; • Destination and source of funds • Proximity of customers residence, place of business or employment to the FI
4.	Conducting additional searches using external independent and open sources	<ul style="list-style-type: none"> • Background checks including for example, open internet sources, social media searches, company websites, government databases, public records, credit bureau etc.
5.	Obtain additional information on Source of Funds and Source of Wealth	<ul style="list-style-type: none"> • For example, bank statements, payslips, tax returns, independent reports (further examples of potential documents outlined in Section below)



6.	Obtain senior management approval to establish a new business relationship or continue an existing the relationship	<p>Internal policies and procedures should set out;</p> <ul style="list-style-type: none"> • The types of customers subject to approval by senior management; • The reporting and escalation process to senior management; • The timelines for obtaining senior management sign-off; • The level of seniority required to approve the relationship <p>The decision reached by senior management should be documented.</p>
7.	Increase the frequency and scope of transaction monitoring	<ul style="list-style-type: none"> • If monitoring thresholds are used, the FI should set lower thresholds for transactions connected with the business relationship. • Conduct more in-depth transaction monitoring • Increasing the number and timing of controls • Request explanations for deviations in customer transactional profile or account activity • A process should be in place to review the monitoring thresholds and parameters on a regular basis and selecting patterns of transactions that need further examination to ensure they remain relevant to the institution's risk and customer profile
8.	Increase the frequency of review and updating of customer risk profile and data, documentation and information obtained on the customer	<ul style="list-style-type: none"> • FIs are required to ensure that documents, data and information obtained under the CDD process is kept up-to-date by conducting reviews of existing records. CDD reviews should be performed on a risk-sensitive basis. For higher-risk customers, reviews should be conducted on a more frequent basis as well as on a trigger basis, for example if there is a change in customer behaviour.
9.	Lowering the threshold of ownership to ensure complete understanding of control structure of the entity	<ul style="list-style-type: none"> • This allows an FI to identify a broader range of individuals who may own or control an entity thus assisting in identifying potential ML/TF/PF activities.
10.	Requiring payment of funds to be drawn on an account in the customers' name at an FI that is regulated	<ul style="list-style-type: none"> • Allows verification of customer identity and the origin of funds before they are used within the FI.

Establishing Source of Funds (SOF) and Source of Wealth (SOW)

26. Understanding how a customer has obtained the funds that they are using to conduct a specific transaction and make investments is an important part of the CDD process. This assists an FI in determining whether there is a suspicion that the customer's funds could be derived from the proceeds of crime or are relevant to the investigation of a criminal offence.
27. An FI's internal procedures should clearly outline the triggers and situations which warrant SOF and SOW checks.
28. SOF and SOW are separate concepts and it is important that FIs are clear on the distinction between SOF and SOW. Furthermore, as part of their EDD measures, FIs should request separate information and documentation in relation to both SOF and SOW. Checks should be conducted on a risk sensitive basis.
29. On the basis of the information and documentation received, the FI should assess the legitimacy and reasonableness of the customer's SOF and SOW. Although minor discrepancies in the timeline of wealth accumulation are typical, substantial gaps or noteworthy inconsistencies can pose difficulties in establishing credibility. In such instances, an FI may opt to seek additional clarification from the customer. This might involve requesting supplementary documentation or initiating independent inquiries to ensure a more thorough understanding.



30. The **Source of Funds** is the direct origin of a customer's funds or financial assets used in a particular transaction or activities that occur within the business relationship. Establishing the origin of funds covers the provenance of funds and should not be limited to knowing from which financial institution the funds may have been transferred.

31. When a customer is considered to be of higher risk, FIs should also make inquiries into their **Source of Wealth**. The SOW refers to the means by which the customer has acquired their entire body of wealth and not just the funds involved in a transaction or business relationship. This gives the FI a broad picture of the customers wealth and how such wealth was acquired over time.

32. In establishing the SOW, FIs must ascertain why the customer has the funds or assets and how they came to accumulate them. It establishes the economic, business, personal or commercial activities that generated or significantly contributed to the customers overall wealth. Examples of SOW includes:

- Family or generational wealth such as legal settlements, pension or retirement benefit scheme pay-outs
- Business ownership and operations, business properties and other commercial assets
- Income from acquiring and selling investments, for example real estate, securities, patents, franchises and virtual assets.

Examples of documents/information which an FI should obtain to establish Source of Wealth/Source of Funds ²	
Bank Statements	Audited financial accounts
Payslips	Sale/purchase agreement
Tax returns	Share registries
A Will (or certified copy)	Records pertaining to business ownership
Court Order (re legal proceedings and settlements)	Documents detailing share transactions, business activities, bequest of a gift, insurance payouts, inheritances, trading in digital currencies, compensation from a legal ruling, etc.
A trust deed (or certified copy)	Where the entity is part of a group, obtaining reliable information from another member of the group with which the customer or beneficial owner has a connection
Obtaining information from a reliable third party (for example, a professionally qualified solicitor, accountant or tax advisor) who has an office in a country or territory connected with the customer	Where the customer has been introduced to the firm, obtaining information from the introducer
Where information is publicly available or available through subscription databases, obtaining information from a reliable public or private third-party source	Internet research and review of publicly available information, including annual reports of the company, information on website of the company, information provided on the stock exchange

² Documents obtained by FIs are based upon the risk level which has been identified by the FI

33. FIs should assess the reasonableness of relying on self-declarations made by customers regarding the SOF and SOW. The decision to request specific documents should be risk-based and consider factors such as inconsistencies between self-declaration and actual account pattern, discrepancies between the declared information and information from public or reliable sources, the customer being a Politically Exposed Person (PEP), originating from a high-risk jurisdiction, or involvement in other high-risk scenarios. In cases of elevated risk, requesting additional documentation becomes necessary.

34. Additionally, it would not suffice to accept information provided by a customer or beneficial owner on an application form without further scrutiny, especially when vague answers are given. For instance, generic responses like 'employment' or 'salary' should be clarified. The FI should verify the SOF and SOW, particularly in high-value transactions or high-risk relationships, by understanding the customers or beneficial owners' employment details and income.

35. The obligation to establish the SOF and SOW extends beyond the initial phase of a business relationship. Ongoing monitoring should include assessing whether the transactional activity aligns with the risk profile, product nature, and the FIs understanding of the customer's and beneficial owner's SOW.

36. The following sections outline situations when EDD measures should be applied by FIs as prescribed by the AML/CFT Law and Implementing Regulations. FIs are reminded that EDD should also be applied in situations where the FI has identified a higher ML/TF/PF risk.

EDD Measures for Politically Exposed Persons (PEPs)

37. It is globally recognised that the positions held by PEPs are vulnerable to abuse for ML/TF/PF and are classified as high-risk from an AML/CFT/CPF perspective. The higher ML/TF/PF risks to which PEPs are exposed stem from the public nature of the positions which these individuals hold and the influence which they exercise. Due to their position and influence, it is recognized that many PEPs are in positions that potentially can be abused for the purpose of committing money laundering offences and related predicate offenses, including corruption and bribery, as well as conducting activity related to terrorist financing. Where a PEP also has connections to countries or business sectors where corruption is widespread, the risk is further increased.



38. Article 8 of the AML Law and Implementing Regulation requires implementation of appropriate internal procedures and risk management systems to determine whether a customer or beneficial owner is or was a PEP. In this respect, FIs must:

- a) Identify the customer and the beneficial owner to determine whether they qualify as PEP
- b) Conduct background and screening checks on the PEP customer using means, data and information which are of reliable and independent source, be it publicly available, private or external specialised providers. Reliance on publicly available information is permitted, on the condition that an FI considers and assess the reliability of the sources and duly document and retain all the research conducted. These checks are to be conducted at the on-boarding stage or while conducting transactions for occasional customers and, following a risk-based approach, for existing customers, for which screening can take place alongside on-going monitoring, or when a business relationship is reviewed.

39. Article 8/5 of the Implementing Regulation to the AML Law requires that a financial institution or designated non-financial business and profession shall in relation to politically exposed persons from a foreign country, obtain senior management approval before establishing or continuing such a business relationship; take reasonable measures to establish the source of wealth and the source of funds of the politically exposed person; and conduct enhanced ongoing monitoring on the business relationship; and the same applied in relation to politically exposed persons from the Kingdom, in case of a higher risk of money laundering.

40. The ML/TF/PF risks, and therefore the EDD requirements also extend to members of PEPs immediate families and close associates. In accordance with Article 8/2 and 8/3 of the Implementing Regulation to the AML Law, a family member of a PEP is considered to be any individual who is related to a PEP by blood or marriage up to the second degree. A close associate of a PEP includes any natural person who is known to have a joint beneficial ownership of a legal entity or legal arrangement, who is in a close business relationship with the PEP or who has a beneficial ownership if a legal entity or legal arrangement which is set up for the benefit of a PEP.

41. Article 8/5 requires an FI to apply the following EDD measures to foreign PEPs and also to domestic PEPs where the ML/TF/PF risks are higher;

- i. **Obtaining Senior Management Approval** – Senior Management should approve the establishment or continuation of business relationship with PEPs or before carrying out an occasional transaction for a PEP. FIs should, in their internal procedures provide for the following;
 - reporting and escalation of PEP relationships to senior management where relevant;
 - the timelines for obtaining senior management sign-off and



- the level of seniority required to approve a PEP relationship. The Senior Manager approving a PEP business relationship should have sufficient seniority and oversight to take informed decisions on issues that directly impact the FI's ML/TF/PF risk profile.
 - ii. FIs should take adequate measures to establish the **SOF and SOW** to ensure that they are not proceeds derived from bribery, corruption or any other criminal activity that could be associated with a PEP. FIs should also assess the legitimacy of the SOF and SOW which may include making reasonable inquiries into the individual's professional and financial background. When determining the SOW and SOF FIs should at a minimum consider the activities that have generated the total net worth of the PEP customer and the origin and means of transfer for funds that are involved in the transaction (for example, occupation, business activities, proceeds of sale, corporate dividends etc.). See section on SOF and SOW for further information.
42. FIs should conduct **enhanced on-going monitoring** of the relationship with PEPs. This involves the following;
- Screening PEP customers for new or emerging information
 - Reviewing and updating the customer file more frequently (for example, every six months or annually depending on exact risk profile of the PEP)
 - Performing transaction activity analysis to ensure transaction activity is aligned with your knowledge on the PEP's customer profile, including declared SOW/SOF and purpose of business relationship
43. Regarding customers who are no longer PEPs, the treatment of these individuals should be based upon an assessment of risk by the FI. Possible risk factors are the level of (informal) influence that the individual could still exercise; the seniority of the position that the individual held as a PEP; or whether the individual's previous and current function are linked in any way (e.g., formally by appointment of the PEPs successor, or informally by the fact that the PEP continues to deal with the same substantive matters).

Enhanced Due Diligence Measures for High-Risk Countries and Transactions

44. In accordance with Article 11 of the AML Law and Article 66 of the CFT Law, when FIs are required to apply EDD measure proportionate to the risks involving business relationships and transactions with customers linked to a high-risk jurisdiction which is identified by the FI or by the Anti-Money Laundering Permanent Committee (AMLPC).
45. FIs are also required to apply any countermeasures prescribed by the AMLPC with respect to high-risk countries.
46. FIs should with aware of and have regard to business relationships and transactions with customers from countries identified as high-risk. In respect of these jurisdictions the FATF calls on all members and urges all jurisdictions to apply EDD and in the most serious cases, countries

are called upon to apply counter-measures to protect the international financial system from the ongoing ML/TF/PF risks emanating from the country.

47. To fulfill these obligations, FIs should have in place adequate policies and procedures in relation to the application of EDD measures and risk-proportionate effective countermeasures to customers and Business Relationships associated with high-risk countries which may include the following;

- The FI's risk appetite with respect to customers and transactions from high-risk countries;
- Procedures for assessing and categorizing country risk and identifying high-risk countries, including the FATF list of high-risk countries, any countries identified as high-risk by the AMLPC and any communications regarding weaknesses in the AML/CFT systems of other countries by CMA or any other competent authority;
- Roles and responsibilities in relation to the monitoring and risk management of high-risk country customers and transactions;
- Procedures for enhanced investigation of transactions involving high-risk countries for possible PEP associations.

Enhanced due Diligence Measure for Complex or unusually large transactions

48. FIs should have in place adequate policies and procedures to identify unusual transactions or patterns of transactions. Examples of such transactions or patterns of transactions include;

- Those that are larger than the FI would normally expect based on its knowledge of the customer or business relationship
- An unusual or unexpected pattern compared with the customers normal activity or the pattern of transactions associated with similar customers, products or services;
- Of a complex nature compared with other similar transaction associated with similar customer types, products or services and the FI is not aware of an economic rationale or lawful purpose or doubts the veracity of the information it has been given

49. In accordance with Article 13(3) of the AML Law, when an FI detects such transactions EDD measures should be applied to help the FI determine whether these transactions give rise to suspicion. Such EDD measures should include;

- Taking reasonable and adequate measures to understand the background and purpose of these transactions, for example by establishing the source and destination of the funds or finding out more about the customer's business to ascertain the likelihood of the customer making such transactions;
- Monitoring the business relationship and subsequent transactions more frequently and in a more in-depth manner. An FI may decide to monitor individual transactions where this is commensurate to the risk it has identified.



50. FIs should pay particular attention to the role of any related parties involved in the transaction, ensuring that their involvement is adequately understood and documented.

51. Where no legitimate economic rationale or lawful purpose can be reasonably established, FIs should consider filing an STR with SAFIU.

Enhanced Due Diligence Measures for Cross-border Correspondent Relationships

52. Correspondent relationships include correspondent relationships between banks and between banks and other FIs including relationships established for securities transactions or funds transfers.

53. Where a correspondent institution processes and executes transactions on behalf of customers of a respondent institution, the correspondent institution often faces a heightened level of ML/TF/PF risk due to the correspondent institution not having a direct relationship with the customer of the respondent institution. Additionally, as the various supervisory and regulatory activities which govern the operation FIs across the globe vary, FIs should be aware that not all foreign FIs are subject to the same robust AML/CFT requirements as in the Kingdom which means that they may pose a heightened risk of ML/TF/PF.

54. In accordance with the AML/CFT Law FIs are prohibited from entering into or maintaining correspondent relationships with shell banks, or with institutions that allow their accounts to be used by shell banks

55. Article 9 of the AML Law and Article 9/1 of the Implementing Regulation require FIs to implement EDD measures in relation to Cross-border Correspondent relationships. The specific EDD measures which are required are as follows:

- a. Gather sufficient information about the respondent institution to understand fully the nature of the respondent's business, and determine from publicly available information the reputation of the institution and the quality of supervision, and whether the respondent institution has been subject to a money laundering investigation or regulatory action;
- b. Assess the respondent institutions controls
- c. Obtain approval from senior management before establishing new correspondent relationships
- d. Understand the respective AML/CFT responsibilities of each institution.
- e. Be satisfied that a respondent FI does not allow the use of its account by shell banks.

56. For those FIs who engage in correspondent relationships, to assist in collecting and assessing sufficient information on the FI, including the AML/CFT/CPF controls which are

applied, consideration should be given to developing and implementing a suitable correspondent banking questionnaire.

57. FIs should also establish agreements with FIs with whom they have a correspondent relationship which outlines the products and services covered, responsibilities of each party in respect of ML/TF/PF risk mitigation, due diligence procedures and conditions related to any permitted third-party usage of the correspondent account.

58. FIs should periodically review and update their due diligence information in relation to the FIs with which they maintain correspondent relationships, commensurate with the risks involved. In the event of a deterioration in the risk profile of a FI with which a correspondent relationship is maintained, including the discovery of material adverse information concerning the institution, FIs should ensure that senior management is informed and appropriate risk-based measures are taken to assess and mitigate the ML/TF/PF risks involved.

Other situations which the FI has identified as being of higher ML/TF/PF risk

59. In addition to the circumstances explicitly identified under the AML/CFT Law, FIs are obliged to apply EDD measures to effectively manage and mitigate the risks arising from other situations which they have identified as higher-risk. In such situations, FIs should make a documented and informed decision regarding the application of appropriate EDD measures to each specific high-risk situation and should ensure that they are proportionate to the identified risk. For example, in certain high-risk situations, an FI may consider it appropriate to focus on enhanced ongoing monitoring throughout the business relationship as the most appropriate EDD measure. In this respect, FIs should have regard to the illustrative examples of EDD measures provided in this document when determining the most suitable approach.

60. When implementing such EDD measures, FIs should pay particular attention to the reasonableness, accuracy and completeness of the information obtained. FIs should evaluate this information for possible inconsistencies and for potentially unusual or suspicious circumstances.

Enhanced On-going Monitoring

61. CDD and EDD are not static and FIs are required to understand the customer and transactional behavior on an ongoing basis. A continuous adjustment of the customer profile is also required, based upon additional information arising from the transactional and overall customer behavior and any new data or information which comes to light during the business relationship. FIs are expected to perform CDD reviews on a risk-sensitive basis, For higher-risk customers, reviews should be conducted on a more frequent basis as well as on a trigger basis, for example if there is a change in customer behaviour.



62. In higher risk situations, it is appropriate that there should be a more frequent ongoing review of customers' account activity. The triggers for alerts may be set at different levels depending on the risk the customer presents to the business to reflect the appropriate level of control to be exercised. FIs using automatic solutions for transaction monitoring should calibrate their monitoring parameters and alert thresholds to distinguish higher-risk customers and PEPs from other normal business relationships. FIs should also have in place a process to review the monitoring thresholds and parameters on a regular basis to ensure they remain relevant to the FIs risk and customer profile.

Enhanced Due Diligence and Suspicious Activity Reporting

63. If an FI is unable to comply with the required identification and verification requirements under Article 7/8 of the Implementing Regulation to the AML Law and Article 17/6 Implementing Regulation to the CFT Law it is not permitted to;

- open the account;
- establish the business relationship or carry out the transaction;
- should terminate the existing relationship where relevant.

64. In addition to the above, in all such cases the FI should evaluate and consider submitting a suspicious transaction report to the Directorate of Financial Intelligence (SAFIU).

65. The inability of an FI to complete the required CDD measures, including EDD due to, for example, the failure of a customer or beneficial owner to provide CDD documentation or providing documentation that is false, misleading, fraudulent or forged may be a suspicious indicator.

66. As provided for in Article 7/9 Implementing Regulation to the AML Law and Article 17/7 Implementing Regulation to the CFT Law, if an FI has a suspicion of ML/TF/PF, and reasonably believes that performing due diligence may tip off the customer, it may opt not to carry out due diligence measures and submit a suspicious transaction report to the Directorate of Financial Intelligence (SAFIU), stating the reasons as to why due diligence was not performed.



ANNEX 1

Examples of potentially Higher-Risk situations³

Customer Risk Factors:

- The business relationship is conducted in unusual circumstances (e.g. Significant unexplained geographic distance between the financial institution and the customer).
- Non-resident customers.
- Companies that have nominee shareholders or shares in bearer form.
- Business that are cash-intensive.
- The ownership structure of the company appears unusual or excessively complex given the nature of the company's business.

Country or geographic risk factors:

- Countries identified by credible sources, such as mutual evaluation or detailed assessment reports or published follow-up reports, as not having adequate AML/CFT systems.
- Countries subject to sanctions, embargos or similar measures issued by, for example, the United Nations.
- Countries identified by credible sources as having significant levels of corruption or other criminal activity.
- Countries or geographic areas identified by credible sources as providing funding or support for terrorist activities, or that have designated terrorist organizations operating within their country.

Product, service, transaction or delivery channel risk factors:

- Anonymous transactions (which may include cash).
- Non-face-to-face business relationships or transactions where appropriate risk mitigation measures have not been implemented.
- Payment received from unknown or un-associated third parties

³ FATF Recommendation 10 Customer Due Diligence <https://www.fatf-gafi.org/content/dam/fatf-gafi/recommendations/FATF%20Recommendations%202012.pdf.coredownload.inline.pdf>



Thank You