



Simplified Due Diligence Guidance

This guide is intended for guidance purposes only and does not replace, nor should it be construed as a substitute for, the provisions contained in the regulations, rules, and instructions in force at the Capital Market Authority. In the event of any conflict between the content of this guide and the provisions of those regulation and rules, the latter shall prevail as the authoritative reference.

Glossary of Terms

AML/CFT/CPF	Anti-Money Laundering, Countering the Financing of Terrorism and Countering 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
Customer risk assessment (CRA)	A process which identifies the risks that each individual customer (individual or legal person) poses to the business.
Customer Due Diligence	The process of obtaining or verifying information on a customer or beneficial owner to enable the FIs or DNFBPs 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 that are reasonably determined to be of higher risk
Financial institution	<p>Any conduct as a business one or more of the financial activities or operations for or on behalf of a customer</p> <p>A. Acceptance of deposits and other repayable funds from the public, including private Banking;</p> <p>B. Lending, financial leasing or any other form of financing;</p> <p>C. Money or value transfer services;</p> <p>D. Issuance and managing means of payment (e.g. credit and debit cards, checks, traveler's checks, payment orders and bankers' drafts, electronic money);</p> <p>E. Issuance Financial guarantees and commitments;</p> <p>F. Activities related to securities as set out in the Capital Markets Law or any trading in:</p>

	<p>1. money market instruments including checks, bills of exchange, and certificates of deposit;</p> <p>2. currencies;</p> <p>3. exchange, interest rate and financial index instruments;</p> <p>4. negotiable securities and financial derivatives;</p> <p>5. commodity future trading;</p> <p>G. Foreign exchange transactions;</p> <p>H. Participation in securities issuing, and provision of financial services;</p> <p>I. Individual and collective portfolio management;</p> <p>J. Safekeeping and administration of cash or liquid securities on behalf of other persons;</p> <p>K. Concluding life insurance contracts and other types of investment related insurance as a provider or an agent or broker of the insurance contract or any other insurance products stipulated in the Law on Supervision of Cooperative Insurance Companies; or</p> <p>L. Investing, administering or managing funds on behalf of other persons.</p>
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
Risk-based Approach (RBA)	Identifying, assessing and understanding ML/TF/PF risks to which an FI is exposed and take AML/CFT/CPF measures commensurate to those risks to mitigated them effectively and efficiently.
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	The application of preventive measures in a streamlined and simplified manner consistent with ML/TF/PF risks posed by a customer, beneficial owner or business relationship. This includes taking simplified due diligence measures to identify and verify a customer, apply a simplified method of monitoring, and take any other simplified measures specified by the financial institution in its policy and procedures.


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.
Trigger Event	A specific event or action that prompts an ad hoc review or update of KYC documentation.

Purpose and Scope

1. The purpose of this Guideline is to assist 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 Simplified Due Diligence (SDD) measures pursuant to Section III of the Anti-Money Laundering Law issued by Royal Decree No. (M.20) dated 05/02/1439H and its Implementing Regulation, Chapter 6 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 SDD 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 subject to AML/CFT/CPF supervision by CMA.

General Requirements in respect of SDD

4. As part of the risk-based approach, FIs must conduct and document a customer risk assessment (CRA) which categorizes customers based on their ML/TF/PF levels. This exercise may result in the identification and classification of customers and business relationships as low risk from an ML/TF/PF perspective. In such low-risk situations, and as provided for by Article 5/5 of the Implementing Regulations of the AML Law and Article 17 of the Implementing Regulations of the CFT Law, an FI may decide to implement simplified measures in accordance with the



results of the CRA. The rationale for implementing SDD measures together with the specific measures applied must be documented.

5. 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 the FI. The KYC file plays a crucial role in demonstrating the extent of scrutiny applied to the customer and also documents any SDD measures implemented by the FI.

6. As part of the overall AML/CFT/CPF programme, FIs should develop risk-based internal policies and procedures in respect of SDD which should at a minimum specify and determine the following;

- i. Circumstances in which SDD is appropriate;
- ii. Specific circumstances in which SDD measures are not permitted;
- iii. Timing of SDD measures;
- iv. Internal approval of SDD measures;
- v. SDD measures which should be applied;
- vi. Frequency and scope of reviews and updates to CDD information for customers classified as low-risk;
- vii. Frequency and extent of monitoring of the business relationship and transactions in respect of low-risk customers.

7. An FIs policies and procedures in respect of SDD should be reasonable and proportionate to the ML/TF/PF risks identified and have consideration of the following;

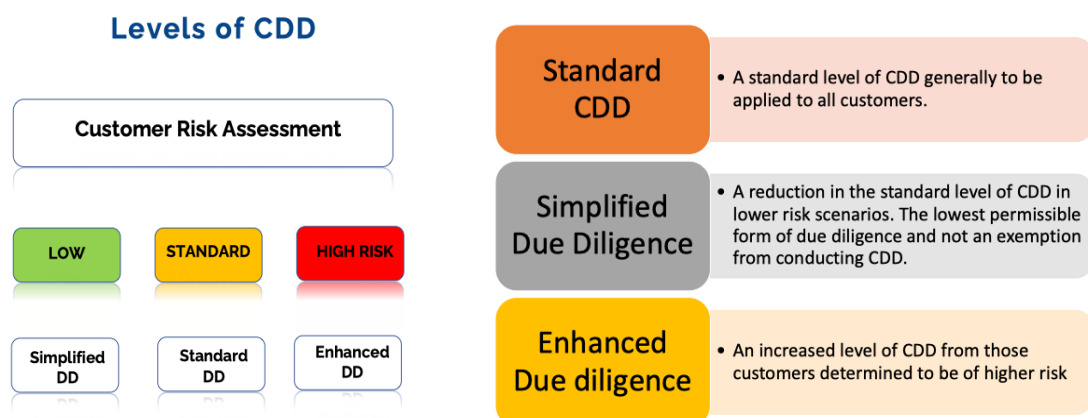
- i. The results of the FIs ML/TF/PF risk assessment (business risk assessment),
- ii. The FIs customer risk assessment,
- iii. ML/TF National Risk Assessment of the Kingdom,
- iv. Any Topical risk Assessments conducted by CMA or other relevant KSA Authorities,
- v. Black lists, grey lists and sanctions lists
- vi. Communication and guidance from the authorities including the Anti-Money Laundering Permanent Committee (AMLPC) and the **Permanent Counter Terrorism Committee (PCTC)**
- vii. International Guidance, typologies and evaluations including the FATF, the Basel Committee, the World Bank, International Monetary Fund, United Nations and Transparency International
- viii. Guidance published by CMA
- ix. Information from professional sectorial bodies

8. Any changes to the policies or procedures related to the application of Simplified Due Diligence (SDD) should be reviewed and approved by the senior management and/or the Board of Directors of the Capital Market Institution.

Levels of Customer Due Diligence

9. Customer Due Diligence (CDD) is the cornerstone of an FI's 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.

10. 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:



11. A Customer Risk Assessment (CRA) must be conducted by all FIs which identifies 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 or triggers 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, including in respect of SDD, exercised on a customer whenever the circumstances warrant it and ensure that the data remains appropriate to the revised risk of the business relationship or occasional transaction.

12. 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 lower risks are identified, an FI may apply simplified measures consistent with the ML/TF/PF risks identified.


Customer Risk Assessment Process



13. 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 and satisfy themselves that the business relationship or transaction qualifies for the specific type of due diligence including simplified treatment.

14. The standard level of CDD which is generally to be applied to all customers to whom services are provided is Standard Due Diligence. 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;
- Understanding and obtaining information on the purpose and intended nature of the business relationship;
- Understand the ownership and control structure for customers who are legal persons.
- 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.



15. In higher risk situations, and as provided for by Article 7 of the AML Law and Article 64 of the CFT Law, standard due diligence is not sufficient and an increased level of customer due diligence is required, which is known as Enhanced Due Diligence. Enhanced Due Diligence requires extra checks and verifications to establish the identity of the customer. 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.

16. Where the FI has assessed the ML/TF/PF risk to be low, it may apply Simplified Due Diligence measures. This 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,TF, PF.

Application of Simplified Due Diligence

17. In general, the full range of CDD measures (Standard due diligence) should be applied to business relationships and occasional transactions. However, there may be certain circumstances where the risks of ML/TF/PF are assessed as lower. In such situations the FI may consider applying SDD when identifying and verifying the identity of the customer and beneficial owner.

18. SDD is a lower level of CDD for those customers that have been reasonably determined by the FI to be of lower risk. FIs should be aware that SDD is not an exemption to CDD rather the application of simplified measures consistent with the ML/TF/PF risks.

19. Where an FI has taken a decision to apply SDD measures, documentary evidence must be retained which outlines the reasons for the decision. The documentation should provide the justification for the decision, including why it is deemed acceptable to apply SDD measures having regard to the circumstances of the business relationship or occasional transaction and the risks of ML/TF/PF.

20. Regardless of the risk level, including low risk, which is posed by the customer or business relationship, the FI must comply with the following;

- a. Identify and verify the customer or person acting on its behalf and of the beneficial owner
- b. Understand the nature and purpose of the relationship
- c. Understand the ownership and control structure of the customer who is a legal person
- d. Conduct ongoing due diligence.

21. Simplified due diligence is never permitted where there is a suspicion of ML/TF/PF or where specific higher-risk scenarios apply.

22. Where subsequent information indicates increased risk, FIs should immediately review the customer's risk classification and apply Standard or Enhanced Due Diligence as appropriate.

Examples of Simplified Due Diligence Measures

SDD Measure		Factors to consider
1.	Adjusting the quantity of information obtained for identification or verification of customer identification	<ul style="list-style-type: none"> • Requesting fewer identity documents • Verifying identity on the basis of information obtained from one reliable credible and independent source
2.	Verifying the identity of the client and the beneficial owner during the establishment of the business relationship	<ul style="list-style-type: none"> • Setting defined thresholds or time limits above or after the identity of the customers and beneficial owners must be verified. In doing this FIs should ensure the following; <ul style="list-style-type: none"> ⇒ This does not result in an exemption from SDD i.e. FIs must ensure that the customer or beneficial owners identify must ultimately be verified ⇒ Thresholds or time limits are set at a reasonably low level ⇒ There are systems and processes in place to detect when the threshold or time limit has been reached. Such systems and processes may be manual or automated in nature. ⇒ They do not defer CDD or delay obtaining relevant information from the customer where there is any applicable legislation which does not permit this
3.	Inferring the purpose and nature of the transactions or business relationship established based upon the type of transaction carried out or the relationship established,	<ul style="list-style-type: none"> • Requesting less information in determining the rationale for conducting a transaction or business relationship to ensure it has a genuine and legitimate purpose, for example if the product is designed for one particular use only
4.	Adjusting the quality or source of information obtained for identification and verification of customer identification;	<ul style="list-style-type: none"> • Accepting information obtained from the customer rather than an independent source when verifying the beneficial owner's identity (! Note: this is not permitted in respect of verifying the customer's identity)

		<ul style="list-style-type: none"> • Relying on the source of funds to meet some of the CDD requirements where the risk associated with all aspects of the business relationship is low, for example where the funds are state benefit payments or where the funds have been transferred from an account in the customers' name from a FI in the KSA.
5.	Adjusting the frequency and scope of transaction monitoring	<ul style="list-style-type: none"> • Conduct less in-depth transaction monitoring • Reducing the number and timing of controls • Monitoring transactions above a certain threshold only • FIs should ensure that the threshold is set at a reasonable level and that they have systems in place to identify linked transactions that together would exceed that threshold. • A process should be in place to review the monitoring thresholds and parameters on a regular basis to ensure they remain relevant to the institution's risk and customer profile • ! Note: SDD does not remove the obligation to conduct transaction monitoring
6.	Reduce the frequency of review and updating of customer risk profile and data, documentation and information obtained on the customer	<p>CDD reviews should be performed on a risk-sensitive basis, but for lower risk customer FIs may adjusting the frequency of CDD updates and reviews of the business relationship</p> <ul style="list-style-type: none"> ⇒ For example, only when trigger events occur such as the customer seeking a new product or service, negative media, change in beneficial owner, change in customer behaviour or regulatory request. ⇒ When a certain threshold is reached, ⇒ FIs should ensure that this does not result in a de facto exemption from keeping CDD information up to date ⇒ ! Note: SDD does not remove the obligation to conduct ongoing monitoring of the business relationship

! Note: The simplified measures which are implemented should be proportionate to the lower risk factors (e.g such measures could relate to customer acceptance measures, aspects of ongoing monitoring, or both)

! Note: In all cases in which SDD is applied, FIs should ensure that they obtain adequate, substantiated information on the customer which is commensurate with the level of identified risk.

! Note: FIs should ensure that they obtain sufficient information about the nature and purpose of the business relationship or transaction to enable them to identify any unusual or suspicious transactions

! Note: FIs should note that the application of SDD measures does not exempt them from reporting suspicious transactions to the SAFIU.

! Note: FIs should note that SDD measures does not remove the obligation of ongoing monitoring of the business relationship, although the extent of this may be adjusted to reflect the low ML/TF/PF risk.

Examples of lower ML/TF/PF risk situations

23. When making a determination as to the overall level of ML/TF/PF risk posed by a customer or business relationship and before applying simplified measures an FI should have consideration of the below risk factors:

- a. Customer Risk
- b. Product and Service Risk
- c. Transaction Risk
- d. Distribution Channel Risk
- e. Geographic Risk

24. Below are examples of lower risk sub-factors which FIs may have regard to when assessing the overall level of ML/TF/PF risk posed by a customer or business relationship. FIs should note that these examples are provided for guidance purposes only and do not indicate an automatic entitlement to apply SDD measures.

Examples of Lower Customer Risk Factors

Customer is a long-standing client whose previous transactions have not given rise to concern or suspicion and the product or service sought is in line with the customers risk profile.

Customer is a KSA public administration or public enterprise with clear ownership and control.

Customer is a KSA government body.

Customer is a company listed on a regulated market and subject to disclosure requirements.

Customer is a financial institution in KSA or from a jurisdiction with an effective AML/CFT/CPF regime and is supervised for compliance with AML/CFT/CPF obligations.

Customer is an institutional investor whose status has been verified by a government agency.

Customer is an individual who is resident in a geographical area of low risk.

Customers who are employment based or with a regular source of income from a known source which supports the activity being undertaken.

Examples of Lower Product/Service Risk Factors

Products that make it easy to identify if the product is being used as expected

Product has limited functionality, e.g cannot be realised for the benefit of a third party, fixed term savings product with low savings thresholds.

Product does not allow or strictly limits cash withdrawals.

Product that only allows transactions from customers with identification, or where all funds flow back to the customer.

Product design that does not permit withdrawals or includes significant fees or other penalties for early withdrawals.

Fund is open to small-scale investors only with investments capped.

Product can only be used domestically.

Product is accepted as a means of payment for limited types of low-risk services or products.

Low value limits on payments, loading or redemption.

Funds used in the transfer come from an account held in the payers name at an FI in the KSA.

The product requires that the funds for purchase or reloading are verifiably drawn from an account held in the customer's name at an FI in the KSA.

The product requires that the funds for purchase or reloading are verifiably drawn from an account held in the customer's name at an FI in the KSA.

The product limits the number of payments, loading or redemption, including cash withdrawals

Examples of Lower Geographic Risk Factors

Customer does not have links to a country with limited AML/CFT/CPF regulation or enforcement.

Transaction does not involve a high-risk jurisdiction.

Country with no international sanctions, embargoes or trade restrictions.

Corruption or organized crime is not associated with the country.

Country not affiliated with terrorist activity.

Country has a stable financial system.

Countries identified by credible sources, such as mutual evaluations, as having effective AML/CFT systems.

Examples of Lower Distribution Channel Risk Factors

There is a direct relationship between the FI and the customer.

Products/services are distributed directly by the FI.

Intermediary is a regulated person subject to AML/CFT/CPF obligations and AML/CFT/CPF supervision.

Product is only available to customers who meet specific eligibility criteria, e.g state benefit recipients, specific saving products etc.

Agents are themselves regulated FIs.

Examples of Lower Transactional Risk Factors

All funds flow back to the customer.

Customers who make payments directly from their account at another FI subject to AML/CFT/CPF obligations and AML/CFT/CPF supervision.


Payments made with verified banking records.

There is no overpayment facility.

Situations where Simplified Due Diligence is not permitted

25. The discretion to apply SDD measures is not permitted in the following situations;
- i. Where an FI's ML/TF/PF risk assessment changes and it no longer considers that there is a low degree of ML/TF/PF risk;
 - ii. Where there are doubts about the veracity or accuracy of previously obtained information;
 - iii. Where the FI has a suspicion of ML/TF/PF or where specific higher-risk scenarios apply or;
 - iv. In relation to any business relationship or occasional transaction where the risk has been assessed as anything but low.

Simplified Due Diligence & On-going Monitoring



26. CDD and SDD 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.

27. In lower risk situations, it may be appropriate to conduct less frequent ongoing reviews of customers' account activity. The triggers for alerts may be set at a higher level depending on the risk the customer presents to the business to reflect the appropriate level of control to be exercised. 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.

Simplified Due Diligence and Suspicious Activity Reporting

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

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

29. In addition to the above, in all such cases the FI should consider submitting a suspicious transaction report to the Directorate of Financial Intelligence.

30. 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, stating the reasons as to why due diligence was not performed.



Thank You