ADGM Quick Guide – Know Your Customer (KYC)

Guide for DNFBPs

What is KYC?

> KYC is the process of collecting identification information and verifying its validity and legitimacy in order to establish and/or maintain a business relationship. The purpose of KYC is for you to know who you are conducting business with to mitigate money laundering, terrorism financing and sanctions risks, and to comply with local and international regulatory requirements.

Collection and verification of identity

The KYC process involves 2 main parts as follows:

1. Collection of identity information; and
2. Verification of that information via documentation.

Depending on the type of your customer, e.g. individual or corporate, and based on a risk-based approach, the identity information to be collected must include the following:

Individuals	VS	Corporates
• Full Name • Date of birth • Nationality		• Full Legal Name • Registration Number • Jurisdiction of Registration

Similarly, depending on the type of your customer, and based on a risk-based approach, the identity verification documents required include:

Individuals	VS	Corporates
• Passport copy • Emirates ID • Utility bills • Salary certificate		• Memorandum of association • Passport copies of beneficial owners • Passport copies of directors • Commercial Licence

Screening of customers

As part of the KYC process, you are also expected to undertake customer screening (at the point of onboarding and on an ongoing basis).

Screening can be conducted using, for example, a combination of the following tools:

- manual Internet searches;
- publicly accessible or subscription information aggregation services;
- public or private databases; and
- background investigation services.

When screening your customer, you must ensure that you screen the customer against both the United Nations (UN) and the UAE sanctions lists.

If you operate in other jurisdiction(s), you should also consider other applicable unilateral sanctions in those jurisdiction(s).

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Example KYC measures across DNFBP Sectors

Sector	Example of KYC measures*	Examples of the importance of adequate KYC measures
Audit, accounting, tax and insolvency firms	• Collect information and verify your customer's identity • Verify your customer's beneficial ownership • Sanctions Screening • Adverse Media • Complete a customer risk assessment • Collect evidence of your customer's source of funds and source of wealth (i.e. bank statements, audited financials)	*A new corporate client approaches you requesting your firm to perform the audit of its financial statements. When screening the client's beneficial owner, you discover that the beneficial owner is sanctioned in other jurisdictions for serious misconduct, including fraud.* *Based on the information you have identified and assessed, and considering your firm's risk appetite, you decide to reject the relationship with the customer and you file a SAR via goAML to the UAE FIU.*
Dealers in Precious Metals Stones, and/or saleable items**	• Collect information and verify your customer's identity • Verify your customer's beneficial ownership • Sanctions Screening • Adverse Media • Complete a simplified customer risk assessment • Collect evidence of your customer's source of funds and source of wealth (i.e. bank statements, audited financials)	*A walk-in customer wishes to purchase a diamond ring with a total value of AED 75,000 and places a 50% deposit in cash (i.e. below the threshold of AED 55,000). One week later the customer returns and settles the remaining 50% in cash.* *Neither transaction is above the AED 55,000 cash threshold. However, the transactions are related and therefore the AED 55,000 cash threshold applies. Your AML systems and controls must be able to identify that these are related transactions which require you to carry out the KYC process for this customer before completing the purchase.*
Real estate firms	• Collect information and verify your customer's identity • Verify your customer's beneficial ownership • Sanctions Screening • Adverse Media • Complete a customer risk assessment • Collect evidence of your customer's source of funds and source of wealth (i.e. bank statements, audited financials)	*A customer from a high-risk jurisdiction approaches you to purchase a property for a price of AED 2 million, in instalments. In the KYC form, the customer declares that his monthly income is AED 30,000 and his current net worth is AED 1 million.* *As part of the sales agreement, 40% of the payment (i.e. AED 800,000) was paid by a cheque issued from your customer's bank and the remaining 60% will be paid over a period of five (5) years on an instalment plan (1% monthly).* *However, three months later, the customer settled the outstanding amount of the property through a cash payment, with no clear justification for the early settlement or source of funds information. Based on the unjustified change in the customer's profile, your firm's sales manager must file an internal STR to your MLRO highlighting the red flags. Upon the MLRO's assessment, an external STR must be filed to the UAE FIU via goAML.*
Company service providers	• Collect information and verify your customer's identity • Verify your customer's beneficial ownership • Sanctions Screening • Adverse Media • Complete a customer risk assessment • Collect evidence of your customer's source of funds and source of wealth (i.e. bank statements, audited financials)	*A customer from a high-risk jurisdiction approaches your firm to set up a Special Purpose Vehicle (SPV) for the purpose of acting as a holding company to hold property owned by the individual. As part of your KYC form, the customer confirms that he is the sole owner and is not acting on behalf of any other individual. Once the SPV is incorporated and as part of your ongoing monitoring, you identify that the individual is actually acting on behalf of a Politically Exposed Person (PEP) from a high-risk jurisdiction, which was not disclosed at the onboarding stage.* *Based on your firm's AML procedures and risk appetite, you terminate the relationship and file a SAR with the UAE FIU via goAML.*
Law, notary or independent legal firm	• Collect information and verify your customer's identity • Verify your customer's beneficial ownership • Sanctions Screening • Adverse Media • Complete a customer risk assessment • Collect evidence of your customer's source of funds and source of wealth (i.e. bank statements, audited financials)	*A customer approaches your firm requesting legal support with a real estate transaction. During the collection of KYC documentation, you note that the customer was a resident in a high-risk jurisdiction where it appears that the funds originate from. On requesting further information, you note that the client refuses to provide evidence of his source of funds and wealth. As you are unable to verify the customer's source of funds and source of wealth, you reject the client and file a SAR to the UAE FIU via goAML.*

(*) These examples are provided for indicative purposes only and are not exhaustive. The scope and extent of KYC procedures for each specific DNFBP must be determined individually considering a risk-based approach and relevant laws, regulations and rules.

(**) When taking a risk-based approach, the scope or risk rating may be reduced in lower-risk situations, i.e. when a customer requests to buy a piece of jewelry worth less than AED 55,000 with a credit card. A reduced scope may include the collection of an ID copy and completing a simplified information form.

KYC Components

Dealer of high-value goods

Involvement in cash transactions that are equal to or more than USD 15,000 (i.e. AED 55,000)

Real estate agency

Involvement in buying and/or selling property

Company service provider

Providing company formation services, nominee director/shareholder services, and/or registered address services

Law, notary or independent legal firm

Involvement in certain transactions as defined in the ADGM AML Rule 8.1.1(2)(e). For example, transactions relating to buying and selling of real property

Accounting, audit, insolvency or tax firm

Providing accounting, auditing, insolvency or tax services

Components of the KYC process*

01 Gathering and verifying customer information

You must verify the identity of the customer and obtain an understanding of the intended nature of the proposed business relationship and the nature of a customer's business.

02 Risk scoring

You must develop an adequate customer risk assessment framework to be able to assign risk ratings to your customers**.

03 Customer due diligence

You must conduct adequate due diligence on your customers, including screening your customers for potential adverse media and against sanctions lists.

04 Onboarding/rejecting

If concerns arise regarding your customer at the onboarding stage, such as refusing to provide adequate KYC information, your compliance officer or MLRO must consider rejecting the application and recording the findings of the due diligence review.

05 Enhanced Customer Due Diligence ('Enhanced CDD')

You must conduct Enhanced CDD on customers posing a higher risk of money laundering, including PEPs and PEP associates. The fact that an individual is a PEP does not automatically mean that the individual must be assigned a 'high risk' rating. However, you must conduct a detailed assessment to assess the particular circumstances to determine your customer's risk category.

06 Ongoing/periodic review

You must conduct periodic reviews of your customers throughout the relationship. The frequency of your periodic reviews depends on the risk rating assigned to your customer or any trigger event, as applicable.

07 STRs/SARs reporting

You must report an STR/SAR to the UAE FIU via the goAML system when you become suspicious of a transaction or an activity made by your customer.

(*) These categories are provided for indicative purposes only and are not exhaustive. The scope and extent of KYC procedures for each specific DNFBP must be determined individually considering a risk-based approach, risk appetite and relevant laws and regulations and rules.

(**) Please refer to the Customer Risk Assessment (CRA) quick guide, for further information.

Examples of applying a risk-based approach

	Example situation	Minimum KYC procedures*
Jewelry store	A customer wants to buy a piece of jewelry paying with a credit card	Collect minimum information on the customer to enable the firm to record the transaction. For example, customer's name and contact details.
	A customer wants to buy a piece of jewelry worth AED 55,000 or more, paying with cash	The following information and documents must be requested as per your AML KYC procedures: • a copy of a government-issued identity card; • personal information (name, age, nationality, email, mobile number); • certified corporate documents where your customer is an entity (i.e. trade license, memorandum of association); and • submit a Cash Transaction Report (CTR) via the goAML platform.
Audit firm	An audit firm establishing a business relationship with a corporate customer	The following information and documents must be requested as per your AML KYC procedures: • trade licence or certificate of incorporation; • memorandum and articles of association; • proof of registered and operating address; • names of all senior executives, directors and beneficial owners; • certified passport copies for all directors, shareholders and beneficial owners; and • screening of names, including adverse media, sanctions and political exposure.
Real estate firm	A foreign individual is trying to buy a house using virtual assets	The following information and documents must be requested as per your AML KYC procedures: • verifying the identity of the customer, their beneficial owner(s) and their source of funds through independent sources; • screening of customer name, including adverse media, sanctions and political exposure; • bank references or bank account information; and • submit a Real Estate Activity Report ('REAR') on the goAML platform.

(*) These examples are provided for indicative purposes only and are not exhaustive. More procedures may be required depending on the type of customer and the risk rating assigned to the customer based on your Customer Risk Assessment (CRA) methodology, which may include such measures as Enhanced CDD.

Examples on applying the risk-based approach to customer ML/FT risk assessment

Risk factors	Example considerations to assign a high risk rating	Example considerations to assign a low or medium risk rating
Customer risk factors	• Is the business conducted in unusual circumstances? For example, a customer requests to conduct business with no clear economic or legal purpose. • Is the customer resident of, or conducts business in, a high-risk jurisdiction? • Is the customer a corporate that has nominee shareholders? • Is the customer a cash-intensive business? • Does the customer have a complex ownership structure? • Is the customer affiliated with PEPs? Does the customer leverage their ties with PEPs to advance their business interests?	• Is the customer a state-owned company from a low-risk jurisdiction? • Is the customer resident of, or conducts business in, a low-risk jurisdiction? • Is the customer a regulated financial institution? • Is the customer a publicly listed company whose shares are traded on a well-regulated stock exchange?
Product, service, transaction or delivery channel risk factors	• The customer declares that he will be receiving payments from high-risk jurisdictions and unassociated third parties. • Does the service involve the provision of nominee directors and shareholders? • Does the service involve new products or business practices? • Is the customer involved in unregulated and/or unsupervised activities?	• Are the product or service risks mitigated by other factors such as transaction limits or transparency of ownership? • Is the product or service requested highly regulated?
Geographical or country risk factors	Is the customer (or its beneficial owners) associated with: • countries that are identified under increased monitoring according to FATF; • countries that are identified by credible sources as having significant levels of corruption; • countries that are subject to country-based sanctions regimes; or • countries identified by credible sources as providing funding or support for terrorism or having terrorist organisations in their territories?	Is the customer (or its beneficial owners) associated with: • countries that are identified by credible sources as having effective systems to combat money laundering, or • countries having a low level of corruption or other criminal activity?

(*) For more details, please refer to our Quick Guide on Customer Risk Assessments.

When to say "No" to a customer and associated obligations

… when sufficient evidence was not able to be obtained to establish the identity and status of a corporate customer or any of its ultimate beneficial owners

… when sufficient evidence was not able to be obtained to establish the identity of an individual customer

… when potential money laundering, terrorist financing or other financial crime risks are identified in relation to a customer that are beyond your risk appetite

Your MLRO must record and retain the reasons for rejection and decide whether to file a Suspicious Transaction Report ("STR") or Suspicious Activity Report ("SAR") with the UAE Financial Intelligence Unit*.

… when a customer - or an entity/individual holding more than a 50% interest or a controlling interest in the customer or that otherwise controls the customer (in all cases, whether directly or indirectly) - is a confirmed or potential match on the Local Terrorist List or UN Consolidated sanctions list**

You must:

1. freeze assets immediately in any case within 24 hours and refrain from providing funds or other assets or services; and

2. submit a Funds Freeze Report (in case of a confirmed match) or Partial Name Match Report (in case of a potential match) through goAML within 5 working days.

High-Risk Country Reporting

During KYC procedures, you may identify that your prospective or existing customer is involved in transactions related to high-risk countries. While it may not necessarily become a standalone reason for the rejection of a customer, in such cases you are required to file a High-Risk Country Transaction Report or a High-Risk Country Activity Report. More information can be found on the UAE Financial Intelligence Unit website***.

(*) For more information on STR/SAR reporting you may refer to the notices issued by Financial and Cyber Crime Prevention (FCCP), publicly available here

(**) For more details, please refer to Quick Guide on Targeted Financial Sanctions, available on EOCN's Website

(***) https://www.uaefiu.gov.ae/media/vp5kpwmb/goaml-faqs-v1-9-16-11-2021.pdf

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