

ADGM Quick Guide - Customer Due Diligence (CDD)

Guide for DNFBPs

Types of Customer Due Diligence



The level of your customer's Money Laundering and Terrorist Financing (ML/TF) risk is dynamic in nature and may change over time depending on several factors. Such factors include customer identification and acceptance, the nature of their business and outcomes of ongoing monitoring. You should always be prepared to change the level of due diligence exercised on a customer whenever the circumstances require.

Customer Due Diligence (CDD), Simplified Customer Due Diligence (Simplified CDD) and Enhanced Customer Due Diligence (Enhanced CDD) is the process of evaluating relevant information of your customer collected during the Know Your Customer (KYC) stage. Further detail on KYC is available in the KYC Quick Guide.



Customer Due Diligence (“CDD”)

CDD includes the collection of identification information and documents to verify a customer's identity, including beneficial owners (if the client is a company). CDD also includes assessing and understanding the purpose and intended nature of the business relationship and then conducting ongoing due diligence on the business relationship throughout the lifecycle of the relationship.



Simplified Customer Due Diligence (“Simplified CDD”)

Simplified CDD refers to applying simplified CDD measures, which may be acceptable when a customer risk rating is assessed as “Low”. Simplified CDD includes reduced verification requirements such as verifying the identity of the customer and any beneficial owners after the relationship is established, more high-level inquiries about the nature of the business relationship and limited ongoing CDD. Simplified CDD involves the following, for example:

- Obtaining copies of verification documents from reliable resources;
- Collecting a reduced amount of information to understand the purpose of the business relationship; and
- Reducing the frequency of ongoing transaction monitoring.



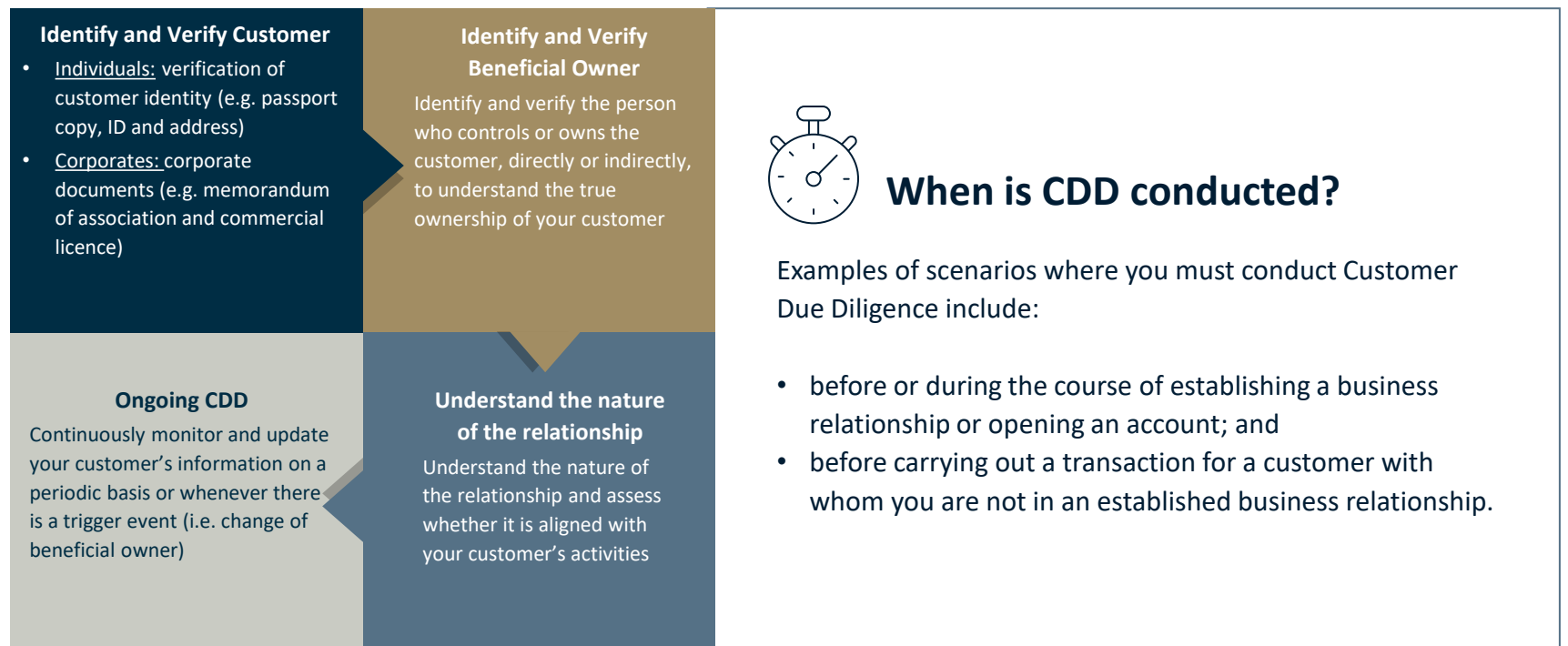
Enhanced Customer Due Diligence (“Enhanced CDD”)

Enhanced CDD refers to applying higher standards for identification documents, a detailed evaluation of the purpose of establishing a business relationship, and increased monitoring of the ongoing business relationship. Enhanced CDD is generally applicable to customers, whose ML/TF risk was assessed as “High”, or where the customer or a beneficial owner of the customer is a PEP, and involves:

- Additional identification information on the customer and beneficial owners;
- Obtaining additional information on the intended nature of the business relationship and transactions (for instance, if sources of funds for a transaction appear to be inconsistent with a customer's ordinary behaviour);
- Identifying and verifying the sources of funds and sources of wealth; and
- Conducting enhanced ongoing monitoring of business relationships and increasing the frequency and level of controls applied.

Overview of Customer Due Diligence

Customer Due Diligence



Simplified Customer Due Diligence

Simplified CDD is typically conducted if the customer meets the following criteria:

- ✓ The customer is rated as Low risk
- ✓ Transactions carried out by the customer are in line with the customer's profile and are low value
- ✓ There is no suspicion of money laundering or terrorism financing

What does Simplified CDD entail?



- **Requiring customer to only provide limited identity verification documents (e.g. passport/ID copy)**
- **Less frequent transaction monitoring on the customer if the transaction is recurring, routine and well-defined within the customer risk parameters**

One-off (occasional) transactions

Depending on the nature of your business, you may deal with customers with whom you do not have an established business relationship, and with whom you conduct one-off or occasional transactions. If such transactions are worth less than USD 15,000 (AED 55,000), depending on your Customer Risk Assessment (CRA) policy, you may consider obtaining basic information about such customers, such as completing a simplified personal information form and collecting minimum KYC documents.

If an occasional transaction (whether single transaction or several transactions that appear to be linked) is equal to or more than USD 15,000 (AED 55,000), depending on the risk rating assigned to your customer:

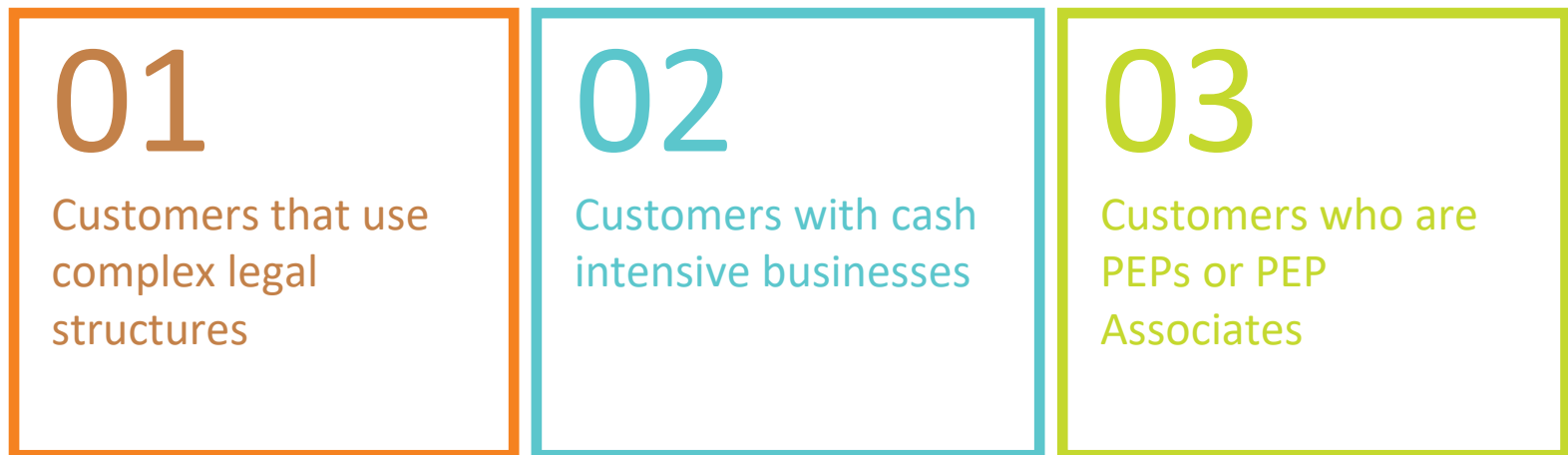
- you must identify and verify the customer's identity including any beneficiaries or controlling persons;
- you must apply appropriate risk-based measures that could include obtaining an understanding of the nature of the customer's business and the purpose of the transaction; and
- where there are doubts over the truthfulness or accuracy of such information, you should consider raising a Suspicious Activity Report.

Overview of Enhanced CDD

Enhanced CDD measures are mandatory when a customer poses higher ML/TF risk.

Determination of customer risk is based on your Customer Risk Assessment (CRA).

Higher risk factors may include, for example:



What does Enhanced CDD entail?

- Obtaining additional identity verification documents and additional information on the nature of the business relationship
- Obtaining information on transactions conducted and determining the transactions that may require further examination
- Updating the CDD profile regularly, conducting enhanced monitoring and increasing the frequency and level of controls applied
- Obtaining senior management approval to commence the relationship
- Verifying the current residential address for customers that are natural persons
- Identifying and verifying the source(s) of funds, i.e. the origin of a company's or individual's funds for the purposes of a specific business relationship or transaction. Verification documents may include bank statements, recently filed business accounts and documents confirming the origin of funds, such as the sale of a house, sale of shares, savings, dividends or inheritance
- Identifying and verifying the source(s) of wealth, i.e. activities that generated an individual's wealth throughout their lifetime. Verification of documents may include those relating to inheritance, investments, ownership of a business or employment
- Ensuring the first payment is paid through the customer's own account at a licensed financial institution that is subject to money laundering regulation and supervision in a jurisdiction that has standards equivalent to those set out in the FATF Recommendations
- Understanding the reason for your customer's complex legal structures or arrangements
- Performing background checks (via a combination of internet searches, public databases and subscription information services) to screen for possible matches on sanctions lists



Upon completion of Enhanced CDD on high-risk customers, your senior management must be involved in the decision making as to whether to onboard (or continue business relationship with) such customers. By involving senior management in the decision-making process, you ensure that all decisions are made in accordance with your firm's risk management policies and procedures and that senior management is fully aware of the potential risks associated with the customer.

Ongoing Customer Due Diligence



Ongoing Customer Due Diligence must be conducted on a recurring basis, depending on the risk associated with your client. The frequency of undertaking ongoing CDD on existing customers will be determined by the risk rating assigned to a particular customer. Customers whose ML/TF risk was assessed as “High” should be reviewed more frequently than customers whose risk is “Low”.



Examples of circumstances that trigger a CDD refresh, as part of your ongoing CDD:



Your customer’s beneficial owner(s) change



An unusual transaction occurs, that is not aligned with your customer’s profile



A material change in the business relationship and/or nature or ownership of your customer

When undertaking ongoing CDD on customers, you must follow the following process:



Monitor all complex and/or unusual transactions to ensure consistency with your customer’s profile. Where complex or unusual transactions identified, enquire into the purpose and background of these



Review the CDD information on file for customers and beneficial owners, including information provided on a periodic basis to ensure the information is valid and re-assess the risk rating assigned to your customer, to ensure it remains appropriate