

**DIRECTIVE 2014/14/EAC
OF THE COUNCIL OF MINISTERS**

Of

(Date of Approval by Council of Ministers)

**DIRECTIVE OF THE EAC ON ANTI-MONEY
LAUNDERING IN THE SECURITIES MARKET**

PREAMBLE

The Council of Ministers of the East African Community

Having regard to the Treaty establishing the East African Community and in particular **Articles 85 (d), 14 and 16;**

Having regard to the recommendations of the Sectoral Council on Finance and Economic Affairs;

WHEREAS Article 31 of the Protocol on the Establishment of the East African Community Common Market provides that for proper functioning of the Common Market the Partner States undertake to co-ordinate and harmonies their financial sector policies and regulatory framework to ensure the efficiency and stability of their financial systems as well as the smooth operations of the payment system;

WHEREAS Article 47 of the Protocol on the Establishment of the East African Community Common Market provides that the Partner States shall undertake to approximate their national laws and to harmonize their policies and systems for purposes of implementing this Protocol and that the Council shall issue directives for the purposes of implementing this Article;

HAS ADOPTED THIS DIRECTIVE

ARTICLE 1

INTERPRETATION

“Beneficial owner” in relation to a customer of a market intermediary, means the natural person who makes final decisions, ultimately controls a customer or the person on whose behalf a transaction is being conducted. This includes the person who exercises ultimate effective control over a body corporate.

“Community” means East African Community established by Article 2 of the Treaty;

“Competent Authority” means the national regulatory agency that is the primary supervising entity of securities markets in the Partner State;

“Council of Ministers” means the Council of Ministers of the Community established by Article 9 of the Treaty;

“Financial Intelligence Unit” is a central, national agency responsible for receiving, (and as permitted, requesting), analysing and disseminating to the competent authorities, disclosures of financial information:

- (a) concerning suspected proceeds of crime and potential financing of terrorism; or
- (b) required by national legislation or regulation, in order to combat money laundering and terrorism financing;

“Market Intermediary” means an entity licensed or approved by a Competent Authority in the Partner State;

“Money Laundering” means-

- (a) the conversion or transfer of property, knowing that such property is derived from criminal activity or from an act of participation in such activity, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such activity to evade the legal consequences of his action;
- (b) the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from criminal activity or from an act of participation in such activity;
- (c) the acquisition, possession or use of property, knowing, at the time of receipt, that such property was derived from criminal activity or from an act of participation in such activity;
- (d) the transportation, transmission, transfer or receipt of a monetary instrument or anything of value to another person, with intent to commit an offence; and

- (e) participation in, association to commit, attempts to commit and aiding, abetting, facilitating and counselling the commission of any of the actions referred to in points (a), (b), (c) and (d).

“Partner States” means the Republic of Burundi, the Republic of Kenya, the Republic of Rwanda, the United Republic of Tanzania, the Republic of Uganda, , and any other country granted membership to the Community under Article 3 of the Treaty.

“Politically Exposed Person (PEP)” is an individual who is or has been entrusted with a prominent function and includes:

- (a) individuals who are or have been entrusted with prominent public functions by a foreign country, for example Heads of State or government, senior politicians, senior judicial, military or government officials, senior executives of state owned corporations, important political party officials;
- (b) individuals who are or have been entrusted domestically with prominent public functions, for example Heads of State or government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials;
- (c) persons who are or have been entrusted with a prominent function by an international organisation, refers to members of senior management or individuals who have been entrusted with equivalent functions, i.e. directors, deputy directors and members of the board or equivalent functions;
- (d) individuals who are related to a PEP either directly (consanguinity) or through marriage or similar (civil) forms of partnership; and
- (e) close associates of a Politically Exposed Person, either socially or professionally;

“Property” means asset of every kind, whether tangible or intangible, corporeal or incorporeal, moveable or immovable, however acquired, and legal documents or instruments in any form, including electronic or digital, evidencing title to, or interest in, such assets, including but not limited to currency, bank credits, deposits and other financial resources, travellers cheques, bank cheques, money orders, shares, securities, bonds, drafts and letters of credit, whether situated in the Community or elsewhere, and includes a legal or equitable interest, whether full or partial, in any such property;

“Shell bank” means a bank that has no physical presence in the country in which it is incorporated and licensed and which is unaffiliated with a regulated financial services group that is subject to effective consolidated supervision;

“Terrorism” means the unlawful use or threatened use of force or violence by a person or an organized group against people or property with the intention of intimidating or coercing societies or governments, often for ideological or political reasons;

“Financing of terrorism” means:

- (a) the provision of, or making available such financial or other related services to a terrorist group or entity which is concerned with terrorist act; or
- (b) entering into or facilitating, directly or indirectly, any financial transaction related to a dealing in property owned or controlled by or on behalf of any terrorist or any entity owned or controlled by a terrorist.

“Suspicious transaction” means transaction in which there are reasonable grounds to suspect that the transaction is related to any criminal offence. They include:

- (a) transactions having unclear economical and business target;
- (b) transactions conducted in relatively large amount cash or conducted repeatedly and unnaturally; and
- (c) transactions conducted differently from the usual and normal transactions conducted by the relevant customer.

“Treaty” means the Treaty for the Establishment of the East African Community and any Annexes and Protocols thereto.

ARTICLE 2 PRINCIPLES

In implementing this Directive Partner states shall ensure that Market Intermediaries:

- (a) have in place documented internal systems to prevent money laundering, report suspicious transactions and appoint a Money Laundering Reporting Officer;
- (b) when establishing a business relationship with an applicant for business, apply appropriate Customer Due Diligence measures including identifying and verifying the identity of the Applicant for Business;
- (c) maintain effective record keeping system and implement effective on-going Customer Due Diligence measures and risk profiling procedures; and

- (d) provide members of their staff with on-going Anti-Money Laundering and Countering of the Financing of Terrorism training.

ARTICLE 3 OBJECTIVE

To harmonize the standards on Anti-Money Laundering measures for Market Intermediaries in the securities markets of Partner States with a view to;

- (a) preventing, detecting and controlling money laundering activities in the Securities market;
- (b) protecting the integrity of the securities market against all forms of abuse, fraudulent and unfair practices;
- (c) ensuring fair, efficient and transparent markets, and reducing systemic risks.

ARTICLE 4 SCOPE

This Directive shall apply to all regional Market Intermediaries licensed or approved by a Competent Authority in the Partner States.

ARTICLE 5 ANONYMOUS ACCOUNTS OF FICTITIOUS PERSONS

A market intermediary shall not deal with any person on an anonymous basis or any person using a fictitious name.

ARTICLE 6 WHEN CUSTOMER DUE DILIGENCE MEASURES ARE TO BE PERFORMED

A market intermediary shall undertake Customer Due Diligence measures when:

- (a) a business relationship is established;
- (b) the transaction is carried out in a single operation or several operations that appear to be linked;
- (c) carrying out occasional transactions that are wire transfers, including those applicable to cross-border and domestic transfers between market intermediaries and when credit or debit cards are used as a payment system to effect money transfer;

- (d) there is a suspicion of money laundering or financing of terrorism, notwithstanding that the market intermediary would otherwise not be required under this Directive to perform Customer Due Diligence measures;
- (e) there are doubts about the veracity or adequacy of previously obtained customers identification data;
- (f) a substantial or significant sum of money relative to the usual activities of the customer is used in the transaction; or
- (g) the source of money is a country where there is no anti-money laundering laws.

ARTICLE 7

IDENTIFICATION OF CUSTOMERS AND BENEFICIAL OWNERS

1. A market intermediary shall:
 - (a) carry out the full range of the Customer Due Diligence measures in this Directive ; and
 - (b) identify all his or her customers and verify their identities using reliable, independently sourced documents, data or information.
2. The type of customer information to be obtained and identification data to be used to verify the information shall include the following:
 - (a) for a customer who is a legal persons, a market intermediary shall verify:
 - (i) the identity of any person purporting to have been authorized to act on behalf of such a customer by obtaining evidence of his identity and verifying the identity of such a person; and
 - (ii) the status of the legal person by obtaining proof of incorporation or similar evidence of establishment or existence and any other relevant information.
 - (b) for other customers , a market intermediary shall identify a beneficial-owner and take reasonable measures to verify his identity using relevant information or data obtained from a reliable source to satisfy itself that it knows who the beneficial-owner is .
3. A market intermediary shall in respect of all customers, determine whether a customer is acting on behalf or for the benefit of another person; and where the customer is acting on behalf or for the benefit of another person, a market intermediary shall take

reasonable steps to obtain sufficient identification-data and to verify the identity of that other person.

4. A market intermediary shall take reasonable measures in respect of customers that are legal persons to—
 - (a) understand the ownership and control structure of such a customer ; and
 - (b) determine the natural persons that ultimately own or control the customer.
5. Where the customer or owner of the controlling interest is a public company listed on a recognized securities exchange, it is not necessary to identify and verify the identity of the shareholders of such a public company.
6. A market intermediary shall obtain information on the purpose and intended nature of the business relationship of its potential customer.

ARTICLE 8

RECORDS AND INFORMATION NEEDED FROM CUSTOMERS

1. For the purpose of Article 7, a market intermediary shall obtain and record the information of the customer including:
 - (a) full name, including any aliases;
 - (b) unique identification number, such as an identity card number, birth certificate number, voter registration card number or passport number, or where the customer is not a natural person, the incorporation number or business registration number;
 - (c) existing residential address, registered or business address, as may be appropriate, and contact telephone number(s);
 - (d) date of birth, incorporation or registration (as may be appropriate);
 - (e) Nationality or place of incorporation or registration (as appropriate); and
 - (f) Occupation/business.
2. Where the customer is a company, the market intermediary shall also identify the directors of the company.
3. Where the customer is a partnership or a limited liability partnership, the market intermediary shall also identify the partners.

ARTICLE 9

RISK BASED APPROACH

1. A market intermediary shall subject all customers to a full range of Customer Due Diligence measures. Provided that a market intermediary may, in certain circumstances, determine the risk attached to a particular type of a customer, business relationship, transaction or products, depending on the type of customer product, transaction or location of the customer and may apply reduced or simplified Customer Due Diligence measures.
2. A market intermediary shall adopt:
 - (a) an enhanced Customer Due Diligence process for higher risk categories of customers, business relation or transactions; and
 - (b) a simplified Customer Due Diligence process for lower risk categories of customers, business relation or transactions.
3. Enhanced Customer Due Diligence process shall include enquiries on the following:
 - (a) the purpose for opening an account ;
 - (b) the level and nature of trading activities intended ;
 - (c) the ultimate beneficial owners ;
 - (d) the source of funds ; and
 - (e) senior management's approval for opening the account.
4. For the purpose of this Article, high risk customers and transactions include non-resident customers; customers from locations known for high crime rate, customers from jurisdictions designated by Financial Action Task Force as high-risk jurisdiction or jurisdictions which do not or insufficiently apply the Financial Action Task Force recommendations, Politically Exposed Persons as well as person or company clearly related to them, companies which have nominee shareholders, complex legal arrangements such as unregulated investment vehicles or special purpose vehicles, wire transfers or non-face-to-face transactions;

ARTICLE 10
APPLICATION OF CUSTOMER DUE DILIGENCE MEASURES TO EXISTING
CUSTOMERS

1. A Market Intermediary shall apply Customer Due Diligence measures to existing customers on the basis of materiality and risk, and shall continue to conduct due diligence on such existing relationships at appropriate times.
2. The appropriate time to conduct Customer Due Diligence by a market intermediary includes where:
 - (a) a transaction of significant value takes place;
 - (b) clients documentation standards change substantially ;
 - (c) there is a material change in the way that the account is operated ; and
 - (d) the institution becomes aware that it lacks sufficient information about an existing client.
3. A Market Intermediary shall keep the clients' identification records available for inspection by a Competent Authority.

ARTICLE 11

RELIANCE ON IDENTIFICATION AND VERIFICATION ALREADY PERFORMED

When a Market Intermediary acquires, either in whole or in part, the business of another financial institution, whether in the Region or elsewhere, the acquiring Market Intermediary shall perform Customer Due Diligence measures on customers acquired with the business at the time of acquisition except where the acquiring Market Intermediary has:

- (a) acquired at the same time all corresponding customer records, including customer identification information, and has no doubt or concerns about the veracity or adequacy of the information so acquired; and
- (b) conducted due diligence enquiries that have not raised any doubt on the part of the acquiring Market Intermediary as to the adequacy of Anti-Money Laundering/Combating the Financing of Terrorism measures previously adopted in relation to the business or part thereof now acquired by the acquiring Market Intermediary.

ARTICLE 12

TIMING OF VERIFICATION

1. A Market Intermediary shall verify the identity of the client beneficial-owner and occasional clients before or during the course of establishing a business relationship or conducting transactions for them.

2. A Market Intermediary shall complete the verification of the identity of the client and beneficial owner following the establishment of the business relationship where:
 - (a) it shall take place as soon as reasonably practicable;
 - (b) it is essential not to interrupt the normal business conduct of the client ; and
 - (c) the money laundering and financing of terrorism risks can be effectively managed.

3. Where a client is permitted to utilize the business relationship before verification, a Market Intermediary shall adopt risk management procedures concerning the conditions under which this may occur and these procedures shall include a set of measures such as:
 - (a) a limitation of the number of transactions;
 - (b) types and amount of transactions that can be performed; and
 - (c) the monitoring of large or complex transactions being carried out outside the expected norms for that type of relationship.

ARTICLE 13

NON-COMPLETING CUSTOMER DUE DILIGENCE MEASURES

Where the Market Intermediary is unable to complete Customer Due Diligence measures, the Market Intermediary shall terminate the business relationship and consider if the circumstances are suspicious so as to warrant the filing of a Suspicious Transaction Report.

ARTICLE 14

ENHANCED DUE DILIGENCE TO POLITICALLY EXPOSED PERSONS

A Market Intermediary shall, in relation to Politically Exposed Persons perform enhanced Customer Due Diligence measures in addition to normal Customer Due Diligence measures, including but not limited to the following:

- (a) implement appropriate internal policies, procedures and risk management systems;

- (b) make a determination to establish or continue business relations where the customer or beneficial owner is a Politically Exposed person or subsequently found to be or subsequently becomes a Politically Exposed Person;

(c) take reasonable measures to establish the source of wealth and source of funds of the customer or beneficial owner, and

(d) conduct, during the course of business relations, enhanced monitoring of business relations with the customer.

ARTICLE 15 RELATIONSHIP WITH A SHELL BANK

1. A market intermediary shall not establish correspondent relationships with a shell bank.
2. A market intermediary shall take all necessary measures to satisfy itself that a correspondent market intermediary in a foreign country does not permit its accounts to be used by shell banks.

ARTICLE 16 MEASURES TO PREVENT THE MISUSE OF NEW TECHNOLOGIES AND NON-FACE-TO-FACE TRANSACTIONS

1. A Market Intermediary shall put in place:
 - (a) policies or take such measures as may be needed to prevent the misuse of technological developments such as Credit or Debit Cards, to facilitate money laundering or financing of terrorism schemes; and
 - (b) policies and procedures to address any specific risks associated with non-face to face business relationships or transactions.
2. The Market Intermediary shall implement policies and procedures referred to in this Article when establishing customer relationships and when conducting ongoing due diligence.

ARTICLE 17 RECORD KEEPING

1. A market intermediary shall:
 - (a) maintain all necessary records of transactions, for at least seven years following completion of the transaction or longer if requested by the Competent Authority or any Financial Intelligence Unit within the Community in specific cases;

- (b) maintain records of the identification data, account files and business correspondence for at least seven years following the termination of an account or business relationship or longer if requested by the Competent Authority or any Financial Intelligence Unit within the Community in specific cases;
- (c) ensure that all clients-transaction records and information are available on a timely basis to the Competent Authority or any Financial Intelligence Unit within the Community; and
- (d) keep the necessary components of transaction-records which shall include customers' and beneficiaries' names, addresses or other identifying information normally recorded by the Market Intermediary, the nature and date of the transaction, the type and amount of currency involved, the type and identifying number of any account involved in the transaction.

ARTICLE 18

ENSURING CUSTOMER INFORMATION IS KEPT UP-TO-DATE

A Market Intermediary shall periodically review the adequacy of customer identification information obtained in respect of customers and beneficial owners and ensure that the information is kept up to date, particularly for higher risk categories of customers.

ARTICLE 19

COMPLEX AND UNUSUAL LARGE TRANSACTIONS

1. A Market Intermediary shall pay special attention to all complex, unusual large transactions or unusual patterns of transactions that have no apparent or visible economic or lawful purpose.
2. Transactions or patterns of transactions under Paragraph (1) of this Article shall include:
 - (a) significant transactions relative to a relationship;
 - (b) transactions that exceed certain limits;
 - (c) very high account turnover inconsistent with the size of the account balance; or
 - (d) transactions which fall out of the regular pattern of the account's activity.
3. A Market Intermediary shall examine as far as possible the background and purpose for such transactions and set forth their findings in writing which findings shall be made available to the Competent Authority or any Financial Intelligence Unit within the

Community, and kept for at least seven (7) years from the end of the business relationship.

ARTICLE 20

INTERNAL PROCEDURES, POLICIES AND CONTROLS

1. A Market Intermediary shall establish and maintain internal procedures, policies and controls to prevent money laundering and financing of terrorism and to communicate these to their employees and agents.
2. The procedures, policies and controls instituted under Paragraph (1) shall cover Customer Due Diligence, record retention, detection of unusual and suspicious transactions, staff screening and training and reporting obligations.
3. In formulating its policies, procedures and control, a Market Intermediary shall take into consideration money laundering and financing of terrorism threats that may arise from the use of new technologies, especially those that favour anonymity.
4. A Market Intermediary shall develop appropriate compliance management arrangements, including at least, the appointment of a management level officer as the Anti-Money Laundering/ Combating the Financing of Terrorism officer. The Market Intermediary shall ensure that the Anti-Money Laundering/ Combating of Financing of Terrorism officer, as well as any other persons appointed to assist him, have timely access to all customer records and other relevant information which they require to discharge their functions.
5. A Market Intermediary shall maintain an audit function that is adequately resourced and independent, and which will be able to regularly assess the effectiveness of the Market Intermediary's internal policies, procedures and controls, and its compliance with regulatory requirements.
6. A Market Intermediary shall have in place screening procedures to ensure high standards when hiring employees and agents.
7. A Market Intermediary shall take all appropriate steps to ensure that its staff and agents are regularly trained on Anti-Money Laundering/ Combating the Financing of Terrorism laws and methods and identification of suspicious transactions.

ARTICLE 21

SUSPICIOUS TRANSACTION REPORTING

1. A Market Intermediary shall:
 - (a) be alert to the various patterns of conduct in the Schedule to this Directive that have been known to be suggestive of money laundering and maintain a checklist of such transactions which shall be disseminated to the relevant staff;
 - (b) promptly institute a “Review Panel” under the supervision of the Anti-Money Laundering/ Combating the Financing of Terrorism officer, when any staff of the Market Intermediary detects any suspicious money laundering activity .The officer shall immediately file a suspicious transaction report to the Financial Intelligence Unit in the Primary Jurisdiction; and
 - (c) maintain confidentiality in respect of any investigation and suspicious transaction report that may be filed with the relevant authority in compliance with the provisions of this Directive.
2. A Market Intermediary, its directors, officers and employees whether permanent or temporary are prohibited from disclosing the fact that a report will be filed or has been filed with the Financial Intelligence Unit.
3. A Market Intermediary shall put in place a structure that ensures the operational independence of the Anti-Money Laundering/Combating of Financing of Terrorism officer.
4. A Market Intermediary who suspects or has reason to suspect that funds are the proceeds of a criminal activity or are related to financing of terrorism shall promptly report its suspicions to the Financial Intelligence Unit, provided that all suspicious transactions, including attempted transactions are reported regardless of the amount involved and whether the transactions involve tax matters or other things.

ARTICLE 22

PROHIBITION OF DISCLOSURE

1. A Market Intermediary shall not disclose to the customer concerned or to any other third persons the fact that information has been transmitted in accordance with Article 21 of this Directive or that a Money Laundering or Financing of terrorism investigation is being or may be carried out.

2. The prohibition laid down in Paragraph 1 shall not include disclosure:
 - (a) to the Competent Authorities;
 - (b) to the Financial Intelligence Units;
 - (c) by leave of court; or
 - (d) between organisations in which Partner States are members and impose requirements equivalent to those laid down in this Directive.

ARTICLE 23

ENFORCEMENT AND SANCTIONS

1. The Competent Authority shall report any non-compliance to the Financial Intelligence Unit.
2. The Competent Authority in the Partner State may, upon being satisfied that a Market Intermediary has failed to comply with the provisions of this Directive, impose the following administrative sanctions:
 - (a) require the Market Intermediary to ensure compliance with this Directive within a specified timeframe;
 - (b) a reprimand;
 - (c) restriction or suspension of certain business activities;
 - (d) revocation or suspension of a business licence; or
 - (e) issuing of an order for the Market Intermediary to suspend or remove from office any member of the staff who fails to comply.
3. Before imposing an administrative sanction, the Competent Authority in the Partner State shall give the Market Intermediary notice in writing of the:
 - (a) nature of the alleged non-compliance;
 - (b) intention to impose administrative sanction; and
 - (c) amount or particulars of the intended administrative sanction.
4. The Market Intermediary may, in writing, within a period specified in the notice, make representations as to why the administrative sanctions should not be imposed.
5. The Competent Authority in the Partner State shall ensure that when determining the type of administrative sanctions or measures and the level of administrative pecuniary sanctions, the competent authorities shall take into account all relevant circumstances, including:
 - (a) the gravity and the duration of the breach;

- (b) the degree of responsibility of the responsible natural or legal person;
- (c) the importance of profits gained or losses avoided by the responsible natural or legal person, insofar as they can be determined;
- (d) the losses for third parties caused by the breach, insofar as they can be determined;
- (e) the level of cooperation of the responsible natural or legal person with the competent authority; and
- (f) previous breaches by the responsible natural or legal person.

ARTICLE 24 AMENDMENTS

1. This Directive may be amended by the Council of Ministers.
2. Any proposals for amendment may be submitted in writing by the Partner States to the Secretary General of the East African Community.

ARTICLE 25 TRANSPOSITION

1. Partner States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive not later than one year from the date of the Council of Ministers' approval. They shall forthwith inform the Council of Ministers thereof.
2. When Partner States adopt those measures they shall contain a reference to this Directive or shall be accompanied by such a reference on the occasion of their official publication. The methods for making such reference shall be laid down by Partner States.

ARTICLE 26 ENTRY INTO FORCE

This Directive shall enter into force upon approval by the Council of Ministers.

ARTICLE 27 ADDRESSEES

*This Directive is addressed to the Partner States.
Done in Arusha, Tanzania*

SCHEDULE
SUSPICIOUS INDICATORS FOR MONEY LAUNDERING/ FINANCING OF
TERRORISM

1. Customer Due Diligence

- (a) The customer provides the Market Intermediary with unusual or suspicious identification documents that cannot be readily verified or are inconsistent with other statements or documents that the customer has provided. This indicator may apply to account openings and to interaction subsequent to account opening, such as wire transfers.
- (b) During the account opening process, the customer refuses to provide information to complete Customer Due Diligence, such as occupation or prior financial relationships.
- (c) The customer, whether a person or entity, is reluctant to provide the Market Intermediary with complete information about the nature and purpose of the customer's business, prior financial relationships, anticipated account activity, the entity's officers and directors or business location.
- (d) The customer, whether a person or entity, is located in a jurisdiction that is known as a bank secrecy haven, a tax shelter, or high-risk geographic locations such as narcotics producing jurisdiction.
- (e) The customer is reluctant to meet personnel from the Market Intermediary in person, is very secretive or evasive or becomes defensive when asked to provide more information.
- (f) The customer refuses to identify a legitimate source for funds or provides the securities firm with information that is false, misleading, or substantially incorrect.
- (g) The customer engages in frequent transactions with money services businesses.
- (h) The customer's background, whether a person or entity, is questionable or does not meet expectations based on business activities.
- (i) The customer has no discernable reason for using the Market Intermediary's service or, the Market Intermediary's disadvantageous location does not discourage the customer, for instance a customer lacks roots to the local community or has come out of his or her way to use the Market Intermediary.

- (j) The customer refuses to provide information regarding the beneficial owners of an account opened for an entity, or provides information that is false, misleading or substantially incorrect.
- (k) The customer's address is associated with multiple other accounts that do not appear to be related.
- (l) The customer has a history of changing financial advisors or using multiple firms or banks. This indicator is heightened when the customer uses firms located in numerous jurisdictions.
- (m) The customer is known to be experiencing extreme financial difficulties.
- (n) The customer is, or is associated with, a Politically Exposed Person or senior political figure.
- (o) The customer refuses to invest in more appropriate securities when those securities would require a more enhanced Customer Due Diligence procedure.
- (p) The customer with a significant history with the securities firm abruptly liquidates all of his or her assets in order to remove wealth from the jurisdiction.
- (q) The customer appears to be acting as a fiduciary for someone else but is reluctant to provide more information regarding for whom he or she may be acting.
- (r) The customer is publicly known to have criminal, civil or regulatory proceedings against him or her for crime, corruption or misuse of public funds or is known to associate with such persons. Sources for this information include news items or Internet searches.
- (s) The customer inquires as to how quickly he or she can liquidate accounts or earnings without explaining why or provides suspicious reasons for doing so.
- (t) The customer opens an account or purchases a product without any regard to loss, commissions or other costs associated with that account or product.
- (u) The customer has commercial or other types of relationships with risky persons or institutions.
- (v) The customer acts through intermediaries, such as money managers or advisers, in order not to have his or her identity registered.

- (w) The customer exhibits unusual concern with the Market Intermediary's compliance with the reporting requirements or the Market Intermediary's Anti-Money Laundering and Combating of Financing of Terrorism policies.
- (x) The customer is reluctant to provide the Market Intermediary with information needed to file reports or fails to proceed with a transaction once asked for documentation or learns of any recordkeeping requirements.
- (y) The customer is interested in paying higher charges to the Market Intermediary in order to keep some of his or her information secret.
- (z) The customer tries to persuade an employee of the Market Intermediary not to file a required report or not to maintain required records.
- (aa) The customer funds deposits, withdraws or purchases financial or monetary instruments below a threshold amount in order to avoid any reporting or recordkeeping requirements imposed by the jurisdiction.
- (bb) The customer requests that account openings and closings in his or her name or in the name of family members be done without producing a paper trail.
- (cc) Law enforcement has issued subpoenas¹ regarding a customer or account at the Market Intermediary.

2. Fund Transfers and/or Deposits

- (a) Wire transfers are sent to, or originate from, financial secrecy havens, tax shelters or high-risk geographic locations, such as jurisdictions known to produce narcotics, psychotropic drugs or to be related to terrorism, without an apparent business reason or connection to a securities transaction.
- (b) Wire transfers or payments to or from unrelated third parties or where the name or account number of the beneficiary or remitter has not been supplied.
- (c) Many small, incoming wire transfers or deposits are made, either by the customer or third parties, using cheques, money orders or cash that are almost immediately withdrawn or wired out in a manner inconsistent with customer's business or history.
- (d) Incoming payments made by third-party cheques or cheques with multiple endorsements.

¹ Summons to attend to court.

- (e) Deposit of large amount of small-denomination currency to fund account or exchanges of small notes for bigger notes.
- (f) Wire transfer activity that is unexplained, repetitive, unusually large or shows unusual patterns or with no apparent business purpose.
- (g) The securities account is used for payments or outgoing wire transfers with little or no securities activities such as, where the account appears to be used as a depository account or a conduit for transfers.
- (h) The controlling owner or officer of a public company transfers funds into his personal account or into the account of a private company that he or she owns or that is listed as an authorised signatory.
- (i) Quick withdrawal of funds after a very short period in the account.
- (j) Transfer of funds to financial or banking institutions other than those from where the funds were initially directed, specifically when different countries are involved.
- (k) Transfers or journals between different accounts owned by the customer with no apparent business purpose.
- (l) Customer requests that certain payments be routed through nostro² or correspondent accounts held by the financial intermediary or sundry accounts instead of its own account.

3. Bearer Securities

- (a) The customer requests cashing bearer securities without first depositing them into an account or frequently deposits bearer securities into an account.
- (b) The customer's explanation regarding the method of acquiring the bearer securities does not make sense or changes.
- (c) The customer deposits bearer securities together with a request to journal the shares into multiple accounts that do not appear to be related, or to sell or otherwise transfer ownership of the shares.

² Nostro and vostro are accounting terms used to distinguish an account held for another entity from an account another entity holds. The entities in question are almost always, but need not be, banks.

Unusual Securities Transactions and Account Activity

- (a) Transaction where one party purchases securities at a high price and then sells them at a considerable loss to another party. This may be indicative of transferring value from one party to another.
- (b) A customer's transactions include a pattern of sustained losses. This may be indicative of transferring value from one party to another.
- (c) The purchase and sale of non-listed securities with a large price differential within a short period of time. This may be indicative of transferring value from one party to another.
- (d) Payments effected by administrators and asset managers in cash, bearer cheques or other transferable instruments without identifying who they are for or providing very little information regarding the underlying account holder or beneficiary.
- (e) A company uses cash to pay dividends to investors.
- (f) Use of shell companies to purchase public company shares, in particular if the public company is involved in a cash intensive business.
- (g) Transfer of assets without a corresponding movement of funds, such as through journaling or effecting a change in beneficial ownership.
- (h) A dormant account that suddenly becomes active without a plausible explanation (e.g. large cash deposits that are suddenly wired out).
- (i) A customer's transactions have no apparent economic purpose.
- (j) A customer who is unfamiliar with a financial product's performance and specifications but wants to invest in it nonetheless.
- (k) Transactions that show the customer is acting on behalf of third parties.
- (l) The purchase of long term investments followed by a liquidation of the accounts shortly thereafter, regardless of fees or penalties.
- (m) Transactions involving an unknown counterparty.
- (n) Large sum cash purchases of financial instruments and mutual funds holdings followed by instant redemption.

4. Activity that is Inconsistent with the Customer's Business Objective or Profile

- (a) The customer's transaction patterns suddenly change in a manner that is inconsistent with the customer's normal activities or inconsistent with the customer's profile.
- (b) There are unusual transfers of funds among accounts without any apparent business purpose or among apparently unrelated accounts.
- (c) The customer maintains multiple accounts, or maintains accounts in the names of family members or corporate entities with no apparent business or other purpose.
- (d) The customer enters into a financial commitment that appears beyond his or her means.
- (e) The customer begins to use cash extensively.
- (f) The customer engaged in extremely complex transactions where his or her profile would indicate otherwise.
- (g) Customer's credit usage is in extreme amounts that do not correspond to his or her financial status or collateral, which is provided by an unrelated third-party.
- (h) The time zone in customer's location is not consistent with the times that the trades were executed, with no apparent business or other purpose, or there is a sudden change inconsistent with the customer's typical business activity.
- (i) A foreign based customer that uses domestic accounts to trade on foreign exchanges.
- (j) The customer exhibits a lack of concern about higher than normal transaction costs.

5. Rogue Employees

- (a) The employee appears to be enjoying a lavish lifestyle that inconsistent with his or her salary or position.
- (b) The employee is reluctant to take annual leave.
- (c) The employee inputs a high level of activity into one customer account even though the customer's account is relatively unimportant to the organisation.
- (d) The employee has the authority to arrange and process customer affairs without supervision or involvement of colleagues.

- (e) The management or reporting structure of the financial institution allows an employee to have a large amount of autonomy without direct control over his activities.
- (f) The employee is located in a different country to his direct line of management, and supervision is only carried out remotely.
- (g) A management culture within the financial institution focuses on financial reward over compliance with regulatory requirements.
- (h) The employee's supporting documentation for customers' accounts or orders is incomplete or missing.
- (i) Business is experiencing a period of high staff turnover or is going through significant structural changes.