ANTI-MONEY LAUNDERING AND COMBATING OF FINANCIAL CRIME MODULE

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Supplementary Information

AML-C.3 [This Section was deleted in January 2022].

AML-C.3.1 [This Paragraph was deleted in January 2022].

AML-C.3.2 [This Paragraph was deleted in January 2022].

AML-C.3.3 [This Paragraph was deleted in January 2022].

MODULE	AML: Anti-Money Laundering & Combating of Financial Crime
CHAPTER	AML-1: Customer Due Diligence Requirements

AML-1.1 General Requirements

Verification of Identity and Source of Funds

AML-1.1.1 Capital Market Licensees must establish effective systematic internal procedures for establishing and verifying the identity of their customers and the source of their funds. Such procedures must be set out in writing and approved by the Capital Market Licensees senior management and must be strictly adhered to.

AML-1.1.2 Capital Market Licensees must implement the customer due diligence measures outlined in Chapter AML-1 when:

(a) [This Sub-paragraph was deleted in July 2018];
(b) Establishing business relations with a new or existing customer;
(c) A change to the signatory or beneficiary of an existing account or business relationship is made;
(d) Customer documentation standards change substantially;
(e) The Capital Market Licensees has doubts about the veracity or adequacy of previously obtained customer due diligence information;
(f) A significant transaction takes place (as per rule AML-2.2.3);
(g) There is a material change in the way that an account is operated or in the manner in which the business relationship is conducted;
(h) There is a suspicion of Money Laundering or terrorist financing; or
(i) Carrying out accepted crypto-assets transfers and/or wire transfers irrespective of value and/or amount.

AML-1.1.2A Capital Market Licensees must understand, and as appropriate, obtain information on the purpose and intended nature of the business relationship.

AML-1.1.2B Capital Market Licensees must conduct ongoing due diligence on the business relationship, including:

(a) Scrutinizing transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the institution's knowledge of the customer, their business and risk profile, including, where necessary, the source of funds; and

AML-1.1 General Requirements (continued)

(b) Ensuring that documents, data or information collected under the CDD process is kept up-to-date and relevant, by undertaking reviews of existing records, particularly for higher risk categories of customers.

AML-1.1.2C **A capital market licensee must also review and update the customers' risk profile based on their level of ML/TF/PF risk upon onboarding and regularly throughout the life of the relationship. The risk management and mitigation measures implemented by a capital market licensee must be commensurate with the risk profile of the customer or type of customer.**

AML-1.1.3 For the purposes of this Module, 'customer' includes counterparties such as financial markets counterparties, except where Capital Market Licensees are acting as principals where simplified due diligence measures may apply. These simplified measures are set out in section AML-1.10.

AML-1.1.4 The CBB's specific minimum standards to be followed with respect to verifying customer identity and source of funds are contained in section AML-1.2. Enhanced requirements apply under certain high-risk situations: these requirements are contained in sections AML-1.3 to AML-1.7 inclusive. Additional requirements apply where a Capital Market Licensee is relying on a professional intermediary to perform certain parts of the customer due diligence process: these are detailed in section AML-1.8. Simplified customer due diligence measures may apply in defined circumstances: these are set out in section AML-1.10.

Verification of Third Parties

AML-1.1.5 **Capital Market Licensees must obtain a signed statement, in hard copy or through digital means from all new customers confirming whether or not the customer is acting on his own behalf or not. This undertaking must be obtained prior to conducting any transactions with the customer concerned.**

AML-1.1 General Requirements (continued)

AML-1.1.6 Where a customer is acting on behalf of a third party, the Capital Market Licensees must also obtain a signed statement from the third party, confirming they have given authority to the customer to act on their behalf. Where the third party is a legal person, the Capital Market Licensees must have sight of the original Board resolution (or other applicable document) authorising the customer to act on the third party's behalf and retain a certified copy.

AML-1.1.7 Capital Market Licensees must establish and verify the identity of the customer and (where applicable) the party/parties on whose behalf the customer is acting, including the Beneficial Owner of the funds. Verification must take place in accordance with the requirements specified in this Chapter.

AML-1.1.8 Where capital market services are provided to a minor or other person lacking full legal capacity, the normal identification procedures as set out in this Chapter must be followed. In the case of minors, Capital Market Licensees must additionally verify the identity of the parent(s) or legal guardian(s). Where a third party on behalf of a person lacking full legal capacity wishes to open business relations, the Capital Market Licensee must establish the identity of that third party, as well as the person conducting the business.

AML-1.1 General Requirements (continued)

Anonymous and Nominee Accounts

AML-1.1.9 Capital Market Licensees must not establish or keep anonymous accounts or accounts in fictitious names. Where Capital Market Licensees maintain a nominee account, which is controlled by or held for the benefit of another person, the identity of that person must be disclosed to the Capital Market Licensees and verified by it in accordance with the requirements specified in this Chapter.

Timing of Verification

AML-1.1.10 Capital Market Licensees must not commence a business relationship or undertake a transaction with a customer before completion of the relevant customer due diligence ('CDD') measures specified in Chapter AML-1. Capital Market Licensees must also adopt risk management procedures with respect to the conditions under which a customer may utilise the business relationship prior to verification. However, verification may be completed after receipt of funds in the case of non face-to-face business, or the subsequent submission of CDD documents by the customer after undertaking initial customer due diligence provided that no disbursement of funds takes place until after the requirements of this Chapter have been fully met.

Incomplete Customer Due Diligence

AML-1.1.11 Where a Capital Market Licensee is unable to comply with the requirements specified in Chapter AML-1, it must consider whether to terminate the relationship or not proceed with the transaction. If it proceeds with the transaction (to avoid tipping off the customer), it should additionally consider whether it should file a Suspicious Transaction Report.

AML-1.1 General Requirements (continued)

AML-1.1.12 See also Chapter AML-4, which covers the filing of Suspicious Transaction Reports.

AML-1.1.13 The CBB will monitor the application of these requirements to Capital Market Licensees existing customer base.

Suspicious Wallet Addresses

AML-1.1.14 **A crypto-asset licensee must establish and implement policies for identification of wallet addresses that are suspected of ML/TF (suspicious wallet addresses).**

AML-1.1.15 **A crypto-asset licensee must not establish or continue business relationship with or transact with suspicious wallet addresses referred to in Paragraph-1.1.14.**

AML-1.1.16 **Where a crypto-asset licensee identifies or becomes aware of a suspicious wallet address, it must immediately file a Suspicious Transaction Report (STR) and also notify the CBB.**

Non-Resident Accounts

AML-1.1.17 **Capital Market Licensees that establish a business relationship or transact or deal with non-resident customers must have documented criteria for acceptance of business with such persons. For non-resident customers, assessed as high risk, licensees must ensure the following:**

(a) Ensure there is a viable economic reason for the business relationship;
(b) Perform enhanced due diligence where required in accordance with Paragraph AML-1.1.24;
(c) Obtain and document the country of residence for tax purposes where relevant;
(d) Obtain evidence of banking relationships in the country of residence;
(e) Obtain the reasons for dealing with licensee in Bahrain;
(f) Obtain an indicative transaction volume and/or value of incoming funds; and
(g) Test that the persons are contactable without unreasonable delays.

AML-1.1 General Requirements (continued)

AML-1.1.18 Capital Market Licensees must not accept non-residents customers from high risk jurisdictions subject to a call for action by FATF.

AML-1.1.19 Capital Market Licensees must take adequate precautions and risk mitigation measures before onboarding non-resident customers from high risk jurisdictions. The licensees must establish detailed assessments and criteria that take into consideration FATF mutual evaluations, FATF guidance, the country national risk assessments (NRAs) and other available guidance on onboarding and retaining non-resident customers from the following high-risk jurisdictions:

(a) Jurisdictions under increased monitoring by FATF;
(b) Countries upon which United Nations sanctions have been imposed except those referred to in Paragraph AML-1.1.18; and
(c) Countries that are the subject of any other sanctions.

AML-1.1.20 Capital Market Licensees must establish systems and measures that are proportional to the risk relevant to each jurisdiction and this must be documented. Such a document must show the risks, mitigation measures for each jurisdiction and for each non-resident customer.

AML-1.1 General Requirements (continued)

AML-1.1.21 Capital Market Licensees must establish a comprehensive documented policy and procedures describing also the tools, methodology and systems that support the licensee's processes for:
(a) The application of RBA;
(b) Customer due diligence;
(c) Ongoing transaction monitoring; and
(d) Reporting in relation to their transactions or dealings with non-resident customers.

AML-1.1.22 Capital Market Licensees must ensure that only the official/government documents are accepted for the purpose of information in Subparagraphs AML-1.2.1 (a) to (f) in the case of non-resident customers.

AML-1.1.23 ~~Customers residing outside Bahrain, are subject to the enhanced customer due diligence measures outlined in Section AML-1.3.~~ [This Paragraph has been deleted in XX 2023]

AML-1.1.24 Capital Market Licensees must follow the below CDD and customer onboarding requirements:

	Enhanced Due Diligence	Digital Onboarding
Bahrainis and GCC nationals (wherever they reside) and expatriates resident in Bahrain	No	Yes
Others	Yes	Yes

AML-1.4 Enhanced Customer Due Diligence: Non Face-to-Face Business and New Technologies

AML-1.4.1 **Capital Market Licensees must establish specific procedures for verifying customer identity where no face-to-face contact takes place.**

AML-1.4.2 **Where no face-to-face contact takes place, Capital Market Licensees must take additional measures (to those specified in section AML-1.2), in order to mitigate the potentially higher risk associated with such business. In particular, Capital Market Licensees must take measures:**
(a) To ensure that the customer is the Person they claim to be; and
(b) To ensure that the address provided is genuinely the customer's.

AML-1.4.3 There are a number of checks that can provide a Capital Market Licensees with a reasonable degree of assurance as to the authenticity of the applicant. They include:

(a) Telephone contact with the applicant on an independently verified home or business number;
(b) With the customer's consent, contacting an employer to confirm employment via phone through a listed number or in writing;
(c) Salary details appearing on recent bank statements
(d) Independent verification of employment (e.g.: through the use of a national E-KYC application, or public position held;
(e) Carrying out additional searches (e.g. internet searches using independent and open sources) to better inform the customer risk profile;
(f) Carrying out additional searches focused on financial crime risk indicator (i.e. negative news);
(g) Evaluating the information provided with regard to the destination of fund and the reasons for the transaction;
(h) Seeking and verifying additional information from the customer about the purpose and intended nature of the transaction or the business relationship; and
(i) Increasing the frequency and intensity of transaction monitoring.

AML-1.4 Enhanced Customer Due Diligence: Non Face-to-Face Business and New Technologies (continued)

AML-1.4.4 Capital market services provided using digital channels or internet pose greater challenges for customer identification and AML/CFT purposes. Capital Market Licensees must identify and assess the money laundering or terrorist financing risks relevant to any new technology or channel and establish procedures to prevent the misuse of technological developments in Money Laundering or terrorist financing schemes. The risk assessments must be consistent with the requirements in Section AML-C.2. Capital Market Licensees which provide screen based trading or online services to their customers must set-up programmes or systems to highlight unusual transactions to enable the Capital Market Licensees to report all such transactions.

New Products, Practices and Technologies

AML-1.4.5 Capital Market Licensees must identify and assess the money laundering or terrorist financing risks that may arise in relation to:

(a) The development of new products and new business practices, including new delivery mechanisms; and

(b) The use of new or developing technologies for both new and pre-existing products.

AML-1.4.6 For purposes of Paragraph AML-1.4.5, such a risk assessment must take place prior to the launch of the new products, business practices or the use of new or developing technologies. Capital Market Licensees must take appropriate measures to manage and mitigate those risks.

AML-1.4.7 Capital Market Licensees, while complying with the requirements of Paragraphs AML-1.4.5 and AML-1.4.6, must pay special attention to new products, new business practices, new delivery mechanisms and new or developing technologies that favor anonymity.

AML-1.4 Enhanced Customer Due Diligence: Non Face-to-Face Business and New Technologies (continued)

Enhanced Monitoring

AML-1.4.8 **Customers on boarded digitally must be subject to enhanced on-going account monitoring measures.**

AML-1.4.9 The CBB may require a licensee to share the details of the enhanced monitoring and the on-going monitoring process for non face-to-face customer relationships.

Licensee's digital ID applications

AML-1.4.10 **Capital Market Licensees may use its digital ID applications that use secure audio-visual real time (live video conferencing/live photo selfies) communication means to identify the natural person.**

AML-1.4.11 **Capital Market Licensees must maintain a document available upon request for the use of its digital ID applications that includes all the following information:**

(a) A description of the nature of products and services for which the proprietary digital ID application is planned to be used with specific references to the rules in this Module for which it will be used;

(b) A description of the systems and IT infrastructure that are planned to be used;

(c) A description of the technology and applications that have the features for facial recognition or biometric recognition to authenticate independently and match the face and the customer identification information available with the licensee. The process and the features used in conjunction with video conferencing include, among others, face recognition, three-dimensional face matching techniques etc;

(d) "Liveness" checks created in the course of the identification process;

(e) A description of the governance arrangements related to this activity including the availability of specially trained personnel with sufficient level of seniority; and

(f) Record keeping arrangements for electronic records to be maintained and the relative audit.

AML-1.4 Enhanced Customer Due Diligence: Non Face-to-Face Business and New Technologies (continued)

AML-1.4.12 Capital Market Licensees that intends to use its digital ID application to identify the customer and verify identity information must meet the following additional requirements:

(a) The digital ID application must make use of secure audio visual real time (live video conferencing/ live photo selfies) technology to (i) identify the customer, (ii) verify his/her identity, and also (iii) ensure the data and documents provided are authentic;

(b) The picture/sound quality must be adequate to facilitate unambiguous identification;

(c) The digital ID application must include or be combined with capability to read and decrypt the information stored in the identification document's machine readable zone (MRZ) for authenticity checks from independent and reliable sources;

(d) Where the MRZ reader is with an outsourced provider, the licensee must ensure that such party is authorized to carry out such services and the information is current and up to date and readily available such that the licensee can check that the decrypted information matches the other information in the identification document;

(e) The digital ID application has the features for allowing facial recognition or biometric recognition that can authenticate and match the face and the customer identification documents independently;

(f) The digital ID solution has been tested by an independent expert covering the governance and control processes to ensure the integrity of the solution and underlying methodologies, technology and processes and risk mitigation. The report of the expert's findings must be retained and available upon request;

(g) The digital ID application must enable an ongoing process of retrieving and updating the digital files, identity attributes, or data fields which are subject to documented access rights and authorities for updating and changes; and

(h) The digital ID application must have the geo-location features which must be used by the licensee to ensure that it is able to identify any suspicious locations and to make additional inquiries if the location from which a customer is completing the onboarding process does not match the location of the customer based on the information and documentation submitted.

AML-1.4 Enhanced Customer Due Diligence: Non Face-to-Face Business and New Technologies (continued)

AML-1.4.13 Capital Market Licensees using its digital ID application must establish and implement an approved policy which lays down the governance, control mechanisms, systems and procedures for the CDD which include:

(a) A description of the nature of products and services for which customer due diligence may be conducted through video conferencing or equivalent electronic means;
(b) A description of the systems, controls and IT infrastructure planned to be used;
(c) Governance mechanism related to this activity;
(d) Specially trained personnel with sufficient level of seniority; and
(e) Record keeping arrangements for electronic records to be maintained and the relative audit trail.

AML-1.4.14 ~~Capital Market Licensees must obtain CBB's prior approval if it wishes to onboard customers residing outside the GCC through a digital onboarding process.~~ [This Paragraph has been deleted in XX 2023]

AML-1.4.15 Capital Market Licensees must ensure that the information referred to in Paragraph AML-1.2.1 is collected in adherence to privacy laws and other applicable laws of the country of residence of the customer.

AML-1.4.16 Capital Market Licensees must ensure that the information referred to in Subparagraphs AML-1.2.1 (a) to (f) is obtained prior to commencing the digital verification such that:

(a) The licensee can perform its due diligence prior to the digital interaction/communication and can raise targeted questions at such interaction/communication session; and
(b) The licensee can verify the authenticity, validity and accuracy of such information through digital means (See Paragraph AML-1.4.18 below) or by use of the methods mentioned in Paragraph AML-1.2.3 and /or AML-1.4.3 as appropriate.

AML-1.4 Enhanced Customer Due Diligence: Non Face-to-Face Business and New Technologies

AML-1.4.17 Capital Market Licensees must also obtain the customer's explicit consent to record the session and capture images as may be needed.

AML-1.4.18 Capital Market Licensees must verify the information in Paragraph AML-1.2.1 (a) to (f) by the following methods below:

(a) Confirmation of the date of birth and legal name by digital reading and authenticating current valid passport or other official original identification using machine readable zone (MRZ) or other technology which has been approved under paragraph FC-1.4.10, unless the information was verified using national E-KYC application;

(b) Performing real time video calls with the applicant to identify the person and match the person's face and /other features through facial recognition or bio-metric means with the office documentation, (e.g. passport, CPR);

(c) Matching the official identification document, (e.g. passport, CPR) and related information provided with the document captured/displayed on the live video call; and

(d) Confirmation of the permanent residential address by, unless the information was verified using national E-KYC application capturing live, the recent utility bill, bank statement or similar statement from another licensee or financial institution, or some form of official correspondence or official documentation card, such as national identity card or CPR, from a public/governmental authority, or a tenancy agreement or record of home visit by an official of the licensee.

AML-1.4 Enhanced Customer Due Diligence: Non Face-to-Face Business and New Technologies

AML-1.4.19 For the purposes of Paragraph AML-1.4.18, actions taken for obtaining and verifying customer identity could include:

(a) Collection: Present and collect identity attributes and evidence, either in person and/or online (e.g., by filling out an online form, sending a selfie photo, uploading photos of documents such as passport or driver's license, etc.);

(b) Certification: Digital or physical inspection to ensure the document is authentic and its data or information is accurate (for example, checking physical security features, expiration dates, and verifying attributes via other services);

(c) De-duplication: Establish that the identity attributes and evidence relate to a unique person in the ID system (e.g., via duplicate record searches, biometric recognition and/or deduplication algorithms);

(d) Verification: Link the individual to the identity evidence provided (e.g., using biometric solutions like facial recognition and liveness detection); and

(e) Enrolment in identity account and binding: Create the identity account and issue and link one or more authenticators with the identity account (e.g., passwords, one-time code (OTC) generator on a smartphone, etc.). This process enables authentication.

AML-1.4.20 Not all elements of a digital ID system are necessarily digital. Some elements of identity proofing and enrolment can be either digital or physical (documentary), or a combination, but binding and authentication must be digital.

AML-1.4.21 Sufficient controls must be put in place to safeguard the data relating to customer information collected through the video conference and due regard must be paid to the requirements of the Personal Data Protection Law (PDPL). Additionally, controls must be put in place to minimize the increased impersonation fraud risk in such non face-to-face relationship where there is a chance that customer may not be who he claims he is.

Overseas branches

AML-1.4.22 Where Capital Market Licensees intend to use a digital ID application in a foreign jurisdiction in which it operates, it must ensure that the digital ID application meets with the requirements under Paragraph AML-B.2.1.