



BANGKO SENTRAL NG PILIPINAS

**OFFICE OF THE DEPUTY GOVERNOR
FINANCIAL SUPERVISION SECTOR**

MEMORANDUM NO. M-2019- 021

To : ALL BSP SUPERVISED FINANCIAL INSTITUTIONS

Subject: Reminder on Sound Risk Management Practices when Dealing with Virtual Currency Exchanges

Pursuant to Parts 9 and 8 of the Manual of Regulations for Banks (MORB) and Manual of Regulations for Non-Bank Financial Institutions (MORNBFI), respectively, BSP-supervised financial institutions (BSFIs) are reminded to ensure the soundness and adequacy of their risk management policies and practices when dealing with money service businesses (MSBs), including Virtual Currency Exchanges¹ (VCEs) which are considered as MSBs required to register with the BSP under Circular No. 944 dated 6 February 2017. As a safeguard against unregistered VCEs, BSFIs, upon onboarding and during transaction monitoring, should exercise extra caution and vigilance as well as perform enhanced due diligence, as necessary, in accordance with their Money Laundering and Terrorist Financing Prevention Program (MTPP) as prescribed under existing regulations. BSFIs should, therefore, observe the following, among others:

1. Deal only with VCEs registered with the BSP for the appropriate authority to engage in a specified business activity;
2. Conduct risk assessment of the VCEs, considering relevant factors such as business operations, types of customers, product/service availed, distribution channels, jurisdictions they are exposed to and expected account activity;
3. Perform enhanced due diligence, as warranted, which includes, among others,
 - a) Obtaining proof of the VCEs' registration with the BSP and periodically update registration status;
 - b) Evaluating and understanding the business operations, distribution channels, customer profile, and MTPP of the VCEs, and obtaining the purpose of the BSFI account and anticipated account activity;
 - c) Verifying registration with the AMLC to comply with the reporting requirements; and
 - d) Obtaining additional information and conducting validation procedures as provided under existing rules and regulations; and
4. Perform continuing account and transaction monitoring, which includes but is not limited to,
 - a) Proactively monitoring VCEs' transactions, based on appropriate parameters or alerts scenarios that capture their financial profile and behavioral account activities. Similarly, there should be transaction

¹ VCEs are companies or businesses offering services or engaging in activities that provide facility for the conversion or exchange of fiat currency to VC or vice versa.

monitoring system for personal accounts of the owners or proprietors of the VCE; b) Implementing robust systems to identify unusual movements of funds or transactions of the VCEs for further investigation and determination if filing of suspicious transaction report is warranted; c) Periodically updating the counterparty risk assessment based on risk and materiality, to ensure that their risk profile remains current and relevant; and d) Establishing policies and guidelines, with defined criteria or grounds, such as material non-compliance with AML/CFT obligations, particularly covered and suspicious transaction reporting, for termination of business relationship as a result of ongoing monitoring.

BSFIs are further reminded that violation of any of the rules provided in Parts 9 and 8 of the MORB and MORNBFi, respectively, shall be subject to applicable sanctions and penalties provided under Sections 941 and 4811Q of the MORB and MORNBFi, respectively.

For guidance and strict compliance.


CHUCHI G. FONACIER
Deputy Governor

23 July 2019