



Bangko Sentral ng Pilipinas

OFFICE OF THE DEPUTY GOVERNOR SUPERVISION AND EXAMINATION SECTOR

MEMORANDUM TO ALL BANKS AND NON-BANK FINANCIAL INTERMEDIARIES PERFORMING QUASI-BANKING FUNCTIONS (NBQBs)

The guidelines on Customer Due Diligence issued under Memorandum to All Banks and NBQBs dated October 1, 2002 are revised as follows:

1. Item 1 on Customer acceptance policy should now be read as:

1. Customer acceptance policy

Banks should develop clear customer acceptance policies and procedures, including a description of the types of customer that are unacceptable to bank management. In preparing such policies, factors such as customers' background, country of origin, public or high profile position, business activities or other risk indicators should be considered. Banks should develop graduated customer acceptance policies and procedures that require more extensive due diligence for high risk customers. For example, the policies may require the most basic account-opening requirements for a working individual with a small account balance, whereas quite extensive due diligence may be deemed essential for an individual with a high net worth whose source of funds is unclear. Decisions to enter into business relationships with high risk customers, *such as individuals holding important/prominent positions, public or private* (see below), should be taken exclusively at senior management level.

2. Paragraph 2 of Item 2 on Customer identification should now be read as:

Banks should establish a systematic procedure for verifying the identity of new customers and should never enter a business relationship until the identity of a new customer is satisfactorily established. Banks should "document and enforce policies for identification of customers and those acting on their behalf".¹ The best documents for verifying the identity of customers are those most difficult to obtain illicitly and to counterfeit, *such as passport, driver's license or alien certificate of registration*. Special attention should be exercised in the case of non-resident customers and in no case should a bank short-circuit identity procedures just because the new customer is unable to present himself for interview. The bank should always ask itself why the customer has chosen to open an account in a foreign jurisdiction.

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3. Item 2.2.3 on Potentate risk should now be read as:

2.2.3 *Reputational risk*

Business relationship with individuals holding important/*prominent positions, public or private*, and with persons or companies clearly related to them may expose a bank to significant reputational and/or legal risks.

Accepting and managing funds from such persons could put at risk the bank's own reputation and can undermine public confidence in the ethical standards of an entire financial centre, since such cases usually receive extensive media attention and strong political reaction, even if the illegal origin of the assets is often difficult to prove. In addition, the bank may be subject to costly information requests and seizure orders from law enforcement or judicial authorities (including international mutual assistance procedures in criminal matters) and could be liable to actions for damages by the state concerned or the victims of a regime. Under certain circumstances, the bank and/or its officers and employees themselves can be exposed to charges of money laundering, if they know or should have known that the funds stemmed from corruption or other serious crimes.

4. Item 2.2.4 on Non-face-to-face customers is hereby deleted in view of the prohibition on the opening of accounts without face-to-face contact under Rule 9.1.f of the Implementing Rules and Regulations of R.A. No. 9160 (Anti-Money Laundering Act of 2001), as amended by R.A. No. 9194.
5. Last paragraph of Item 3 on On-going monitoring of high risk accounts should now be read as:
- Banks should develop a clear policy and internal guidelines, procedures and controls and remain especially vigilant regarding business relationships with *individuals holding important/prominent positions, public or private*, and high profile individuals or with persons and companies that are clearly related to or associated with them.^{5/}
6. Footnote 6 is re-numbered as footnote 4 while footnote 7 should now be read as:

^{5/} It is unrealistic to expect the bank to know or investigate every distant family, political or business connection of a foreign customer. The need to pursue suspicions will depend on the size of the assets or turnover, pattern of transactions, economic background, reputation of the country, plausibility of the customer's explanations etc. It should however be noted that *individuals holding important/prominent positions, public or private* (or rather their family members and friends) would not necessarily present themselves in that capacity, but rather as ordinary (albeit wealthy) business people, masking the fact they owe their high position in a legitimate business corporation only to their privileged relation with the holder of the public office.

For your guidance and immediate implementation.


ALBERTO V. REYES
Deputy Governor

October 17, 2003