## ASEAN+3 Bond Market Forum (ABMF) Informational Session
### On Know Your Customer (KYC) Platform

**Location:**
Auditorium C-D, 1st Floor
Asian Development Bank HQ, Manila, Philippines

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### DAY 2 – 12 October

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<th>TIME</th>
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<tr>
<td>13:45 – 14:00</td>
<td>Welcome remarks by ADB</td>
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| 14:00 – 14:30 | **Session 1:** Introduction: Challenges in KYC/AML Processes in the Financial Services  
- Cases in the Philippines |
| 14:30 – 15:00 | **Session 2:** ASIFMA’s KYC Standardization Survey – Driving Harmonization in the Region  
- Survey to understand and document practices across firms relating to KYC in APAC  
- Help firms benchmark themselves against their peers  
- Facilitate discussions on opportunities to standardize KYC practices and potentially harmonize requirements within and across jurisdictions in APAC |
| 15:00 – 15:15 | Coffee break (Auditorium Gallery)                                        |
| 15:15 – 15:45 | **Session 3:** Solutions available in the market  
Case study 1: SWIFT KYC Utility and LEI |
| 15:45 – 16:15 | **Session 4:** Solutions available in the market  
Case study 2: Thomson Reuter  
- Overview of KYC-landscape  
- Overview of TR’s KYC-utility |
| 16:15 – 17:15 | Panel session  
- Manual to electronic. In what ways can technology offer a practical, more efficient and cost-effective compliance process?  
- Regional efforts and where to focus? |
| 17:15 – 17:30 | Closing by ADB                                                          |
DAY 2
(12 October 2017)

KYC PLATFORM
OPENING REMARKS
Day 2: ASEAN+3 Bond Market Forum (ABMF) Informational session on KYC Platform

Satoru (Tomo) Yamadera
Principal Financial Sector Specialist
ERCD, ADB

26th ABMF Meeting
Manila, Philippines
12 October 2017

Why we need to discuss KYC?

• Increasing regulatory requirement for “Know Your Customer”
  – Financial Action Task Force (FATF) recommendation
  – Identification of beneficial owner of legal person

• Increasing tax information exchange among the authorities.
  – US Foreign Account Tax Compliance Act (FATCA)
  – Common Reporting Standard (CRS) for automatic exchange of financial information.

• Increasing demand for market transparency
  – Markets in Financial Instruments Directive II (MiFID II) and Markets in Financial Instruments Regulation (MiFIR)
    • Client suitability and appropriateness
    • Mandatory use of Legal Entity Identifier (LEI)
Financial Action Task Force (FATF) recommendation and methodology

10. Customer due diligence

- Financial institutions should be prohibited from keeping anonymous accounts or accounts in obviously fictitious names.
- Financial institutions should be required to undertake customer due diligence (CDD) measures when:
  a) establishing business relations;
  b) carrying out occasional transactions above the applicable designated threshold (USD/EUR 15,000) including situations where the transaction is carried out in a single operation or in several operations that appear to be linked;
  c) carrying out occasional transactions that are wire transfers in the circumstances covered by the Interpretive Note to Recommendation 16;
  d) there is a suspicion of money laundering or terrorist financing; or
  e) the financial institution has doubts about the veracity or adequacy of previously obtained customer identification data.


Customer Due Diligence measures under FATF Recommendation and methodology

Specific CDD measures required for legal persons and legal arrangements

10.8 For customers that are legal persons or legal arrangements, the financial institution should be required to understand the nature of the customer's business and its ownership and control structure.

10.9 For customers that are legal persons or legal arrangements, the financial institution should be required to identify the customer and verify its identity through the following information:
   (a) name, legal form and proof of existence;
   (b) the powers that regulate and bind the legal person or arrangement, as well as the names of the relevant persons having a senior management position in the legal person or arrangement; and
   (c) the address of the registered office and, if different, a principal place of business.

10.10 For customers that are legal persons, the financial institution should be required to identify and take reasonable measures to verify the identity of beneficial owners through the following information:
   (a) the identity of the natural person(s) (if any) who ultimately has a controlling ownership interest in a legal person; and
   (b) to the extent that there is doubt under (a) as to whether the person(s) with the controlling ownership interest is the beneficial owner(s) or where no natural person exerts control through ownership interests, the identity of the natural person(s) (if any) exercising control of the legal person or arrangement through other means; and
   (c) where no natural person is identified under (a) or (b) above, the identity of the relevant natural person who holds the position of senior managing official.

10.11 For customers that are legal arrangements, the financial institution should be required to identify and take reasonable measures to verify the identity of beneficial owners through the following information:
   (a) for trusts, the identity of the settlor, the trustee(s), the protector (if any), the beneficiaries or class of beneficiaries, and any other natural person exercising ultimate effective control over the trust (including through a chain of control/ownership); and
   (b) for other types of legal arrangements, the identity of persons in equivalent or similar positions.

Automatic Exchange of Financial Information in Tax Matters

The Common Reporting Standard (CRS), developed in response to the G20 request and approved by the OECD Council on 15 July 2014, calls on jurisdictions to obtain information from their financial institutions and automatically exchange that information with other jurisdictions on an annual basis.

- It sets out the financial account information to be exchanged, the financial institutions required to report, the different types of accounts and taxpayers covered, as well as common due diligence procedures to be followed by financial institutions.
- Information to be exchanged:
  a) the name, address, jurisdiction(s) of residence, tax information number(s) and date and place of birth (in the case of an individual) of account holder and beneficial owner;
  b) the account number;
  c) the name and identifying number (if any) of the reporting financial Institution; and
  d) the account balance or value as of the end of the relevant calendar year or other appropriate reporting period.
- The CRS Schema is virtually identical to the FATCA schema, making use of XML.
Market in Financial Instruments Directive II (MiFID II)

• Client suitability and appropriateness: Suitability has to be assessed against clients’ knowledge and experience, financial situation and investment objectives.
• Client categorization: retail clients, professional, eligible counterparties
• No LEI, No Trade: MiFID II expands reporting requirements, and all entities trading with European counterparties across all asset classes to obtain legal entity identifiers.

How ABMF can contribute to the discussion?

• KYC is becoming more and more important for smoother cross-border securities transactions.
  – Impact to other regions (extra-territoriality)
• Market transparency is important for market development.
  – Sound and sustainable market development
• Technology and standardization can reduce reporting burden and maximize utilization of additional data requirements.
  – CRS schema
  – MiFIR reporting instructions and XML Schema
• In addition, there may be a room for more efficient regional platform.
  – Information required for regulatory compliance may be similar.
• ABMF is the only regional platform to discuss data exchange and standardization among the experts in both public and private sector.
  – Account structure study and identification of information flows
DAY 2
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SESSION 1
Session 1:
Introduction: Challenges in KYC/AML Processes in the Financial Services

- Cases in the Philippines

Nellie Dagdag

12 October 2017, 26th ABMF meeting, ADB Manila


Download the White Paper: Putting the Client at the Center: Changing Dynamics in Client Onboarding and Data Management
What is KYC? KYC Process?

**Identification and verification of the identity of an institution’s (your):**
- Customer or client
- Customer’s clients
- Customer’s parent entity and related entities
- Customers in pipe (prospects)
- Counterparties
  - vendors
  - contractors and agents
  - employees
- Issuers of investments you purchase
- Intermediaries
- etc

**KYC Process involves:**
- Collection and analysis of account information (including beneficial ownership details)
- Matching of client data to watch lists (PEP, OFAC)
- Determination of the client’s risk in terms of the propensity to commit acts of terrorist financing or money laundering
- Establishment of a client’s expected transactional behavior
- Monitoring of a client's transactions against his or her expected behavior

Client Onboarding Process

![Client Onboarding Process Diagram]

Source: Aite Group
Client Onboarding Challenges

Respondent Firms’ Greatest Client Onboarding Challenges (N=16)

- Ongoing data management: 16
- Changing regulatory requirements: 11
- Data capture and collection: 7
- Lack of internal resources: 6
- Siloed systems: 6
- Lack of single view of client: 5
- Data quality: 5
- Workflow integration: 4
- Speed of onboarding: 3
- Recurring processes: 2
- Lack of automation: 2
- Inadequate credit checking processes: 1
- Lack of common taxonomies: 1

Source: Aite Group survey of 16 capital markets participants, August 2014

Regulations, regulations and more

Respondent Firms’ Regulations of Importance in the Next 12 Months (N=16)

- FATCA: 7
- Global OTC derivatives regulation: 5
- MiFID II/MD II: 3
- Basel III/CRD IV/capital rules: 3
- AML/KYC regulation: 2
- AIFMD: 3
- Solvency II: 1
- MSFIA: 1
- UCITS regulation: 1

Source: Aite Group survey of 16 capital markets participants, August 2014
Case for Centralization

Silos arising from:
- Organizational structure (product, functions)
- Disparate systems and databases

Silos and More Silos

Q. Does your firm have a centralized client master file? (N=16)

Source: Aite Group survey of 16 capital markets participants, August 2014
Automation Challenge

Respondent Firms' Level of Automation of Client Onboarding Function (N=18)

Mostly automated 2
Equally manual and automated 3
Mostly manual 11

Source: Atie Group survey of 16 capital markets participants, August 2014

Philippine Case #1: Registry

SINGLE SET OF DOCUMENTS:
- Regardless of Issuer
- Per Issuer
- Per Type of Issuance
- Per Issue
- Per Tranche
- Per Intermediary

CONSIDERATIONS (Why not?):
- Document ownership and accountability
- Different documents needed per issue and different registrars/TA per type
- Different documents per issue (terms, parties)
- Previous tranche may be years ago (updating)
- Primary KYC is done at intermediary level

ISSUER ABC
Investor 1 subscribed to Bond Issue 1 from two underwriters/Brokers (A & B) and Bond Issue 2 from UW/Broker A.

ISSUER KLM
Investor 1 subscribed to Bond Issue 1, Bond Issue 2 and equity issue A (all different UW/brokers).

ISSUER XYZ
Investor 1 subscribed to Bond Issue 1, Bond Issue 2 and equity issue A (all different UW/brokers).
Philippine Case #2: Corporate Action

OBJECTIVES: (1) Pay the correct holder; and (2) withhold the correct tax

ISSUE #1: Lack of standards
- Documents to be submitted (issuer’s interpretation)
- Timing and frequency of submission of taxability status/rate documentation
  - Upon account opening with custodian or depository; subsequent refresh
  - For FI holdings in registry, taxability documents submitted per ISIN
- Omnibus EQ holdings (depository, custodian) needs to be broken down into various tax rate categories for purposes of computing the correct tax to withhold
  - Window for reclassification: 1 business day after Record Date
  - Certain big issuers, require submission of documents for every cash dividend

ISSUE #2: Onerous tax reclaim process
- Offsetting tax dues across CA events not allowed (same or different issuers)

Philippine Case #3: Foreign Investors

- Under Circular 390, AMLA requirement to submit Personal ID in addition to Authorized Signatory List
- Revised implementing rules still pending on the BIR CORTT Form, the form required by BIR for non-residents to apply for preferential tax treaty rates, i.e. reduced tax rate at source
- MOA among custodian banks covering conventions governing pre-matching, deadlines for various settlement activities’, ex-date corporate action claims, cut-offs for local payments and re-registration of certificated shares
Philippine Case #4: Retail Banking*

1. Difficulty in completion of required demographics, especially financial info (fear of tax man, self-employed no tax return)
2. Declared financial info not commensurate with bank balances and income declared or supporting documents
3. Difficult to get documentation and completed Customer Information Sheet form from Private Wealth segment
4. Signatures of IDs submitted often differ from one another
5. Marital status – uncomfortable declaring annulled or legally separated; not amenable to submit court papers
6. For foreign nationals, no mother’s maiden name (e.g., Japan, India)

* Sample only; not a complete list. Based on limited interview with two bank relationship managers.

Sample Technology Solution
The Utility Model

Going Digital – Points for Considerations

- Documentation standards before automation or automate anyway?
- Universal identifiers (national ID system) or automate without it?
- The lawyers’ dilemma:
  - Will electronic and scanned documents be sufficient in courts?
  - Are documents submitted in electronic form (e-submissions) or in scanned format from source (clients/investors) better than physical documents converted into digital forms (scanned) by intermediaries?
- The auditor’s concerns:
  - Hacking
  - Distribution control (ease of sharing is double-edged sword)
  - Version control
  - Electronic storage retrieval issues
  - Safekeeping and retrieval may be as expensive as paper forms
DAY 2
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SESSION 2
ASIFMA is an independent, regional trade association comprising a diverse range of over 100 leading financial institutions from both the buy and sell side, including banks, asset managers, professional firms and market infrastructure service providers.

ASIFMA’s mission is to harness the shared interests of its members to promote the development of deep, liquid and broad capital markets in Asia, which is fundamental to the region’s economic development and growth.

ASIFMA advocates stable, competitive and efficient Asian capital markets and seeks to drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice.
ASIFMA, through its membership in Global Financial Markets Association (GFMA) with global alliance partners AFME in London and Brussels and SIFMA in New York and Washington, D.C., is able to provide insights on global best practices and standards to benefit the region as well as share Asian perspectives with other parts of the world.

- **AFME in Europe** – The Association for Financial Markets in Europe advocates stable, competitive, sustainable European financial markets that support economic growth and benefit society.

- **SIFMA in North America** – The Securities Industry and Financial Markets Association in the US develops policies and practices to strengthen financial markets and encourage capital availability, job creation, and economic growth while also building trust and confidence in the financial industry.

**Current state of KYC**

- **Changing and increasingly stringent regulation**
  Influence of AML regulations in the US, UK and EU on top of local and regional requirements

- **Fragmentation**
  Different jurisdiction-specific regulations and interpretations

- **Greater number of enforcement actions**
  Regulators taking a tougher stance on non-compliance increasing regulatory risk

- **Soaring costs**
  High costs of implementation and maintenance

- **Longer onboarding time**
  Lengthier due diligence process for new clients

- **KYC utilities**
  Emergence of common KYC repositories across institutions and geographies
Harmonization and standardization needed

- KYC/AML compliance is increasingly a concern not only for financial institutions but also for their customers who may have to submit KYC documents to multiple institutions across multiple jurisdictions.

- An issue acute to Asia Pacific is the divergent KYC requirements, standards and documentation among the many jurisdictions in the region.

- If an industry KYC standard were established across the region, it can reduce duplication, improve efficiency and lower the costs for both the financial industry and its participants.

- Adoption of KYC utilities that are inter-operable can facilitate efficiencies in the collection, processing and maintenance of client documentation.

ASIFMA’s KYC work

KYC Workshops

- ASIFMA conducted a number of KYC workshops in Hong Kong, Singapore and India in 2016 and 2017 for its members on the different KYC utilities that are available in the market.

- ASIFMA set up a KYC Working Group to discuss members’ KYC issues and decided to conduct a KYC Standardization Survey.

ASIFMA KYC Standardization Survey

- ASIFMA, supported by PwC, conducted a survey in Q1 2017 to look at how KYC requirements (e.g. data and records that need to be collected) are being complied with across the Asia region.

- The Study aims to:
  - help participating firms benchmark themselves against their peers;
  - set a potential ASIFMA KYC Standard;
  - serve potentially as a basis for advocacy with regulators in the region; and
  - promote the adoption of and inter-operability between different KYC utilities.
Overview of the KYC Survey

Scope
- KYC practice of capital markets trading business for four categories of institutional clients in 12 jurisdictions in Asia

Respondents
- 55 organisations covering 12 jurisdictions, resulting in 238 unique responses
- A good mix of global, regional and local firms, including buy-side members as well as non-members
- Australia (17), China (18), Hong Kong (43), India (16), Indonesia (10), Japan (15), Korea (27), Malaysia (10), Philippines* (7), Singapore (42), Taiwan (25) and Thailand (8)

Process
- Electronic survey followed by in-depth data analysis by PwC
- Interviews with selected respondents were carried out
- A Report of the Survey was issued on 30 August 2017 with separate reports for each of the 11 jurisdictions* covered by the Report.

* Responses on the Philippines were excluded from the data analysis and the final Report due to low response rate and insufficient data.

Key themes identified from analysis

1. How do organisations approach KYC and how long it takes to onboard customers?
2. Who do organisations consider relevant to the KYC process?
3. How do organisations manage foreign languages, documentation and screening requirements?
4. How do organisations interpret Source of Wealth?
5. What are organisations’ perspectives on key risk factors?
6. How do organisations define their KYC policy framework?
7. Are there observable differences between organisations’ KYC practices based on their business profiles?
Organisations’ KYC approach

Resources used in performing KYC
• Nearly all respondents use onshore operations teams while 44% use their offshore/hub to perform KYC.

Appetite for KYC Utilities
• 42% of respondents are already using KYC utility services, and 19% of respondents are actively planning for the use of such services.
• 25% of respondents are monitoring the situation but do not have immediate plans to use such services at the moment.
• 14% of respondents (33% local respondents compared to 2% large global respondents) decided not to use KYC utility services.
• Interview results show that the following concerns are what hold back respondents from using KYC utility services:
  o Confidentiality of customer information
  o Validity of documents collected
  o Support from governments/regulatory bodies
  o Consistency of information collected

Average elapsed time for KYC process

From time of valid onboarding request to time customer is able to transact
• 55% of respondents can complete the KYC process within an average of 1 month across all customer risk ratings. Across all jurisdictions, 11% of respondents need more than 2 months to complete the KYC process for low risk customers.

Among the in-scope jurisdictions, the following responses stand out:
• Respondents in Korea reported the shortest KYC elapsed time. 45% of Korean respondents can complete the KYC process within a week for low risk customers compared to the overall average across all respondents of 26%. Even for high risk customers, 30% of Korean respondents can complete the KYC process within a week while the overall average across all respondents is just 8%.

• Australia also has a relatively short KYC elapsed time with 33% of Australian respondents able to complete KYC process for high risk customers and 47% for medium risk customers within 2 weeks compared to the overall average across all respondents of 17% and 32%, respectively.

• China, Hong Kong and Singapore have longer KYC elapsed time for medium and high risk customers. Over 30% of respondents in these jurisdictions need more than a month to complete the KYC process for medium risk customers and over 40% for high risk customers compared to the overall average across all jurisdictions of 25% and 29%, respectively.
KYC elapsed time increases with size of institution

- On average, respondents that are large global institutions take more time to complete KYC process than respondents that are regional/mid-size global institutions and local institutions.
- Over 90% of regional/mid-size global institutions and local institutions can complete the on-boarding process for low and medium risk customers within 1 month while around 60% of large global institutions can do the same. For high risk customers, 100% of local institutions can complete the process within 1 month compared to 55% of large global institutions.

Asset managers have shorter average KYC elapsed time than banks

- For medium and high risk customers, 25% and 28% of asset managers, respectively, can complete the KYC process within a week compared to 8% and 1% of bank respondents that can do so.
- For low risk customers, 59% of asset managers can complete the KYC process within a week, which is 4.5 times more than the percentage of bank respondents (13%) that can do so.

Factors relevant to KYC process

Multi-jurisdiction customer

- More than 70% of respondents consider both the KYC requirements of the booking location and the location where the account is managed.

Beneficial ownership threshold

- An average of 48%/47% of respondents identify beneficial owners/underlying investors of a fund at ≥10% ownership threshold across all risk ratings.
- Most respondents select a threshold of ≥25% for low and medium risk customers and ≥10% for high risk customers.
- Hong Kong has the most stringent practices for identifying beneficial owners/underlying investors of a fund (≥10%) followed by India, Thailand and Japan.

Authorised Persons (“AP”)

- On average, 81%/82% of respondents treat a person who can transfer funds, securities or other assets or who can enter into a contract with the organisation as an AP, whereas only 44% of Korea respondents would do so in the former case.
Unnamed/Unknown Beneficiaries of a Trust

• Smaller organisations are less likely to deal with trusts that provide for a class of unnamed/unknown beneficiaries than large global organisations.
• 56% of respondents would obtain a description of the class of unknown beneficiaries but only 30% of Indonesia respondents do.

Parties subject to screening

• Different size organisations have different approaches to screening parties.
• 43% of all respondents screen all parties that are required to be identified (e.g. AP, Directors, close business associates or family members), while 26% screen all parties that are required to be identified and verified (e.g. account owners, beneficial owners and POA) and 19% screen all parties named as part of the KYC process, regardless of whether required to be identified/verified (e.g. employer).
• 49% of large global respondents, compared to 69% of regional/mid-size global respondents and 50% of local respondents, screen all parties required to be identified and verified. 25% of local respondents screen all parties named as part of the KYC process.

Persons to perform translations

• The larger an organisation, the more likely it is to have a defined list of acceptable or suitable persons to perform translations.
• 59% of large global respondents, 34% of regional/mid-size global respondents and 0% of local respondents have a defined list of acceptable translators.

List of acceptable certifiers

• The larger an organisation, the higher the average number of parties/professions accepted to act as certifiers.
• Majority-accepted certifiers include notary public (81%), onshore authorised representative of organisation (72%), external lawyer (72%), external accountant (65%), offshore authorised representative of organisation (64%), Justice of Peace (55%) and registered company secretary (55%).

Reliance on affiliates/third parties

• More than two thirds of respondents immediately obtain documentation from affiliates/third parties that they rely on for customer data/information and customer records.
Methods of document verification

- 70% of respondents accept more than one method of verification.
- Malaysia respondents show the most flexibility in their approach to document verification while Korea respondents show the least.
- 77% of respondents retain an externally certified copy without sighting the original document and the larger the organisation, the more common is this method.

Expiry dates of KYC documents

- In many cases, regulators require expired documents to be refreshed on an ongoing basis.
- 65% of respondents track expiry dates of KYC documents. Manual tracking is most prevalent but practices differ among jurisdictions.
- The smaller an organisation, the more likely that it uses system-based tracking.
- The top 3 jurisdictions that do not track expiry dates are Indonesia (50%), Japan (47%) and India (44%).
- Interviews indicate that some organisations feel that refreshing expired ID documents requires much effort but provides little benefit by way of risk mitigation.

Source of Wealth (“SoW”)

- Different jurisdictions have different market practices when explaining SoW of customers.
- 48% of respondents look at the description of business/employment and annual revenue/turnover/salary range only, while 36% look at the detailed description/narrative of the generation of current net assets/total net worth over time (i.e. journey to wealth).
- Only 2% look at the current composition of net assets/total net worth (e.g. 10% cash, 30% bonds/fixed income, 60% equities) with 1% choosing other.
- Interviews with selected respondents suggest that the emphasis for SoW may be different between investment banking (mainly institutional clients so focus on composition of current wealth) and private wealth management businesses (mainly individual/private clients so focus on journey to wealth).
Perspectives on key risk factors

Complex ownership or control structures
- 80% of bank respondents have a definition of complex ownership or control structure while only 34% of asset managers have such a definition.
- The most commonly identified feature of a complex ownership or control structure among bank respondents (74%) is a structure with 3 or more layers.
- The majority of regional/mid-size global and local institutions do not define what constitutes a complex ownership or control structure, while more than 70% of large global institutions do.

Nominee/Bearer share arrangements
- The likelihood of accepting customers with nominee/bearer share arrangements increases with size of organisation.
- Large global organisations take a more nuanced approach to these arrangements than local institutions. Only 19%/39% of large global organisations prohibit nominee arrangements and bearer share entity customers.
- 82%/94% of large global institutions accept nominee arrangement and bearer share arrangement compared to 28%/86% of regional/mid-size global organisations and 67%/83% of local institutions rejecting such arrangements.

Perspectives on key risk factors (Cont.)

List of High ML/TF risk industries/businesses
- High ML/TF risk industries are typically a key driver of whether an organisation conducts extra due diligence on a customer.
- Most respondents maintain a list of industries/businesses considered by the organisation to present high ML/TF risk.
- More than 85% of respondents consistently select the following 7 industries/businesses as high risk:
  - High-value jewel, precious metal, art and antique dealers
  - Offshore financial institutions and shell banks
  - Cash intensive/high cash turnover businesses
  - Money services businesses
  - Regulated gambling
  - Unregulated gambling or internet gambling enterprises
  - Companies with bearer shares, nominee shareholder structure and/or shell companies
- Indonesia and Malaysia respondents included the most categories as high ML/TF risk (average 19 and 18 out of 27 categories, respectively, while average is 15 categories for other jurisdictions).
How KYC policy framework is defined

**KYC policy structure**
- 77% of respondents implement global standards with local/regional adaptation.

**Frequency of KYC policy review/update**
- Most respondents update their KYC policy annually (65%) and/or upon receiving updates from regulatory authorities (74%).

**Factors that drive differences in organisations’ KYC procedures**
- Geographic footprint, nature of business and buy side/sell side are factors that drive differences in organisations’ KYC procedures.
- Respondents that are large institutions, banks and sell side organisations provide similar responses. Responses also tend to be similar among respondents that are local institutions, asset managers and buy side organisations.
- Bank respondents are more likely to have developed defined lists supporting their risk assessments and roles in the KYC process.
- Notable differences between buy and sell side approaches to KYC include which industries are considered high ML/TF risk and whether a person who executes trades is considered an AP.
DAY 2
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SESSION 3
DE-RISKING: Definition

Definition
“De-risking refers to the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk.” (source: World Bank Group 2015)
DE-RISKING: Statistics

75% of the large global banks have reported a decline in their number of CBRS
Source: The World Bank

Some will reduce their number of CBRS by more than 50%
Source: SWIFT / ADB

75% 50%

Number of Active Correspondents

DE-RISKING: Potential consequences

For Financial Institutions

1. Higher costs for KYC and remittances
2. Difficulty to maintain and establish new relationships
3. Loss of clients or business opportunities

For Countries

1. Lower regional integration
2. Lesser trade
3. Slower growth

“(...) processing U.S. dollar checks is now lengthier and costlier, with one major bank indicating a cost of US$150 per check” IMF

“De-risking has the potential to destabilize our economies, promote financial exclusion and increase poverty levels.” CBCS
De-risking: Reasons

Reason for De-risking

I. Customers do not generate sufficient volumes (revenue) to overcome compliance costs;
II. The Institution provides payment services to customers about which the necessary information for an adequate risk assessment is not available;
III. Customers are located in jurisdictions perceived as too risky;
IV. The Customer offers products or services or has customers that pose a higher risk for anti-money laundering/combating the financing of terrorism (AML/CFT)

(Source: CPMI Correspondent banking July 2016)

Current KYC Processes: High Costs & limited transparency

- **Duplicated**: KYC is requested by all correspondents for all correspondents.
- **Non-standardized**: Each correspondent has different requirements.
- **Inaccurate**: Documents have to be validated and translated.
- **Time-consuming**: Banks are spending too much time and money on KYC/EDD.

Maintaining Correspondent Banking relationships (CBRs) is time-consuming and costly.
Most large International Banks are reducing their number or relationships.
The Solution: SWIFT KYC Registry

- CENTRALIZED
- STANDARDIZED
- VALIDATED by SWIFT
- EFFICIENT

- DUPLICATED
- NON-STANDARDIZED
- INACCURATE
- TIME-CONSUMING

"The KYC Registry will be a key differentiator in ensuring the correspondent banking industry increases the accuracy and efficiency around its KYC process. This is not a 'nice to have' but rather an imperative."  
Standard Chartered

"(…) Converse Bank positions itself as a more transparent, trustworthy and reliable business partner in its relations with existing and potential correspondent banks."  
Converse Bank

"Data collection times in many cases have been reduced from days or weeks to a few hours"  
Unicredit
More than 4,200 financial institutions

1,900+ in Europe, Middle East and Africa
1,100+ in Asia Pacific
800+ in the Americas
45 Central Banks
200+ countries and territories worldwide


Consumption to date

Today, 21,000 bank entities are connected through The KYC Registry

Banks based in EMEA and APAC are significant contributors of KYC data

The main consumers of KYC data are the major transaction banking service providers based in the USA and Europe

<table>
<thead>
<tr>
<th>Client Location</th>
<th>Connections</th>
<th>In %</th>
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<tbody>
<tr>
<td>APAC</td>
<td>6613</td>
<td>30%</td>
</tr>
<tr>
<td>EMEA</td>
<td>9651</td>
<td>45%</td>
</tr>
<tr>
<td>UKI &amp; NOR</td>
<td>2050</td>
<td>10%</td>
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<tr>
<td>AME</td>
<td>3288</td>
<td>15%</td>
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<td><strong>Grand Total</strong></td>
<td><strong>21602</strong></td>
<td></td>
</tr>
</tbody>
</table>
Why KYC Registry?

- **Spend less time & money on KYC / EDD**
  All your KYC needs in one place
  Data is validated and standardized

- **Reduce Costs to protect & grow your business**
  Lower cost of doing business with and better transparency

- **Control who you share information with**
  Your information is private and only accessible on request

**FREE REGISTRATION, VALIDATION and SHARING**

---

The KYC Registry – The 5 Pillars of Trust

- **Confidential, user-control access:** Complete: Extensive information including legal entity data, ownership (UBO to 10%), client and product segments, detailed AML questionnaire, tax/FATCA information

- **Standardized KYC Baseline**
  Efficient: All KYC data provided by counterparties arrives in same format and structure

- **Up-to-date information**
  Current: Time-stamped data and diligent update requirements. Any changes to client data are communicated in real-time to all counterparties

- **Data verification by SWIFT**
  Correct and accurate: All data verified and validated by SWIFT compliance professionals

- **Cooperative business model**
  Fair: Unlimited number of users, transparent volume based pricing and guaranteed maximum spend – 80% of our members pay less than EUR 3000 per annum for the service
Assessing a correspondent’s security practices is becoming increasingly important for FIs in line with the increasing Cyber threats.

Some banks make it an integral part of the KYC process.

SWIFT has asked all 11,000 members to conduct a security self-attestation and enables the sharing of this document via the KYC Registry.
DAY 2
(12 October 2017)

SESSION 4
Jurisdictional KYC Utilities

Components & Adoption

12. October 2017
Regulatory Trends & Expectations

Regulators are placing increased pressure on financial institutions to meet AML/CFT obligations incl. stronger enforcement cases and fines

FATF mutual assessments in Asia from 2015-2020 demand improved levels of governance and compliance

Legislation - Focus on better KYC-processes related to the identification of Politically Exposed Persons, Sources of Wealth, Ultimate Beneficial Ownership and a focus on a Culture of Compliance

Today’s KYC Process for Corporate Banking Customers

End-clients have to provide client identity information to all their financial institutions

Financial Institutions have to conduct KYC due diligence on all their clients
KYC Complexity in Numbers - Banks

- Amount of risk to which a bank is exposed to (location, clientele, products, etc.)
- Increasing AML/CFT & Compliance Obligations (PEPs, SOWs, UBO, Sanctions etc.)
- Government & Regulator focus on tax revenue, enforcement, CFT, Conduct, LEI etc.
- Increasing work-load + investments in non-value adding tasks (no competitive differentiator)
- Practical issues:
  - 80% of corporate customers had experienced at least one material change in their identity documentation in the 24 months preceding this survey
  - 69% of corporations said they do not proactively update FIs on material changes!
  - 30+ days, global average time taken to onboard a client.
  - 66% of Asian FI’s say that on-boarding times have increased over the preceding 12 months and 60% of those feel that on-boarding times will increase further in the coming 12 months.

Complexity for the Asset & Fund Management Industry

Investment Managers can spend ~180 days to on-board a high-risk client resulting often in lost revenue.
Challenges for Corporate Customers

- 47% of Corporates reported that a lack of a common standard in the KYC documentation required by each bank was the biggest challenge they face.
- Many corporates have 20+ banking relationships within a single jurisdiction.
- Corporates are asked to submit between 5 – 100 documents during onboarding.
- It can take up to 34 weeks before a corporate is fully on-boarded with an FI – Time to business.
- Clients are contact on average 10 times during the onboarding process.
- Security concerns over personal documentation (e.g. Passports of all signatories, names, addresses, date of birth, of all directors, utility bills, bank statements for all authorised signatories, etc. How will documents be sent? Who will have access to them? How is the info going to be used.
- Repetitive task.
THE UTILITY | CORE CORPORATE KYC UTILITY ELEMENTS

The utility requires a combination of data, operations and technology to achieve the desired outcomes

<table>
<thead>
<tr>
<th>EXPERIENCE</th>
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<tbody>
<tr>
<td>Data</td>
</tr>
<tr>
<td>Current process is manual: Large operational overhead and data quality issues based on human errors</td>
</tr>
<tr>
<td>Access to data from public, government and private/proprietary sources forms the basis for creating and maintaining client profiles</td>
</tr>
<tr>
<td>Vendors need to demonstrate automation and a experience in maintaining large dynamic data sets</td>
</tr>
<tr>
<td>Connecting into government and public data sources via API’s</td>
</tr>
<tr>
<td>With capabilities of data access, automation, analytics and maintenance</td>
</tr>
</tbody>
</table>

DATA | GLOBAL REGULATORY POLICY

Data, Operations and Technology are core capabilities for a regional utility, but experience and domain expertise in AML regulations ensure delivery of regulatory compliant records supporting the risk and control standards of our clients

<table>
<thead>
<tr>
<th>SOLID FOUNDATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our policy was developed to address the enhancements set out in the 2012 revisions to FATF Recommendations and G20 Anti-Corruption and Tax initiatives that impact CDD obligations.</td>
</tr>
<tr>
<td>Our policy was independently developed, and then subsequently reviewed adopted by our customers including 30+ Banks and Asset Managers.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FLEXIBLE APPROACH</th>
</tr>
</thead>
<tbody>
<tr>
<td>To meet the specific requirements of our country utility build partners, we also conduct policy gap analysis and broker a standardised regional policy that covers any specific regulatory or bank preference requirements.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CONTINUOUS VALIDATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Since TR’s Risk Managed Services went live in March 2014, our policy has been stress tested against the policies and KYC requirements of over 100 financial institutions from 50 countries.</td>
</tr>
</tbody>
</table>

INCREASING COVERAGE
To meet industry demand our policy coverage was recently extended from 11 countries to 41 countries
DATA | SOURCES

A key element to success of the utility will be ability to access and monitor relevant data. Our industry leading proprietary datasets combined with regional primary sources allow us to generate consistently accurate and comprehensive KYC records.

- PRIMARY EXTERNAL DATA SOURCES FOR CDD
  - Regulator
  - Corporate Registry
  - Stock Exchange
  - Government Websites

- VERTICALLY INTEGRATED TR DATA SOURCES
  - Reuters
  - Newsroom
  - Lipper
  - Avox
  - Enhanced Due Diligence
  - People Authority
  - Filings
  - PPI

- FUTURE UTILITY SUBSCRIBERS
  - Bank
  - Asset Manager
  - Wealth Manager

- UTILITY BUILD PARTNERS
  - Bank
  - Bank
  - Bank

Automated data extraction via low latency, secure API links

Automated KYC requests

THE CONCEPT | UTILITY FUNCTIONALITY

We have a fully operational KYC solution supported by comprehensive risk-based CDD capability and unique ongoing monitoring capability.

- Common Entity Identity Data Set
- Risk Sensitive Client Type Identity Data, based on clients' classification by: Client type, Legal Entity type, Client status
- Product Specific Identity Data & information
- Due diligence Level: Simplified / Standard / Heightened
- Identify UBO to 10% / 25%
- Identify intermediate owners
- Create Org Structure within profile
- At record creation & daily for: Sanctions, PEPs & Adverse Information (as required)
- At record creation & periodically for Negative Media
- Ability to filter results based on regional specific requirements
- On-going screening
- On-going content monitoring and event based refresh
- Periodic refresh

- According to due diligence level & client classification
- Independent primary source verification
- Electronic confirmation from client
- Sanctions
- PEP
- ML/TF risk flags

- Triggered either base d on standardized criteria or bank specific request
- Enhanced Due Diligence process undertaken by research teams to investigate specific requirements as determined by the client (including Source of Wealth / Funds)
**TECHNOLOGY | AUTOMATION AT THE HEART OF THE SERVICE**

Access to and automation of primary data are at the core of the utility and in order to maximise the operational efficiency benefits, consideration needs to be given to opening up data sources and regulatory acceptance of metadata over documentary proofs.

Key consideration is opening up of primary government sources in a jurisdiction to enable automation and efficiency of the utility and reduce reliance on end client provided documentation.

**TECHNOLOGY | DATA AND INFORMATION SECURITY**

Thomson Reuters recognize that data security is a key concern for both our customers and their clients, which is why we maintain ISAE 3000 and ISO 27001 standards – the highest of any KYC provider in the market.

**EXTERNAL AUDIT & REPORTING**
- PwC
- ISAE 3000 Certified
- SOC2

**KEEPING DATA SAFE**
- Thomson Reuters
- ISO 27001

**DISASTER RECOVERY AND BUSINESS CONTINUITY**
- Disaster recovery and Business Continuity plans in place, tested both by internal and external audit
- BCP allows for transfer of staff between sites and transfer of processing between operational centers
- Recovery times have a variance between 6 and 24 hours depending on severity
**THE CONCEPT | FUTURE STATE VISION**

The vision for expansion includes support for additional global KYC jurisdictional requirements, common additional non KYC regulatory requirements as “bolt – on” modules and possible interoperability with other utilities.

**UTILITY DATA MODEL**
- Standardized KYC data model that supports local build partner requirements
- Bank Specific Top Up
- Common Standard Top Up
- Standardized Regulatory Data

**ADDITIONAL GLOBAL JURISDICTIONS**
- Expanded data model to support additional jurisdictional requirements
- Supported by Org ID
- Policy compliant with 41 different global jurisdictions, with built triggers for due diligence classification

**ADDITIONAL REGULATORY DATA MODULES**
- To expand beyond KYC data
- FATCA
- EMIR
- MIFID II
- FCA
- Ana Credit

**GLOBAL INTEROPERABILITY**
- With other utilities
- Regional Utilities
- Data Utilities

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**KYC UTILITY CONSIDERATIONS | ENABLING FAST ADOPTION**

Drawing on the successful implementation of a similar utility model, our approach to adoption focuses on prioritising multi-banked client engagement, leveraging build partner bank relationships and delivering a best in class service.

**MARKET ENGAGEMENT AND AWARENESS**
- Develop marketing strategy based on proven blueprint
- Market directly to build partner bank clients
- Engage via build partner banks’ RM’s with existing clients
- Promote services to prospective clients

**ADOPTION BY KEY CORPORATES AND BANKS**
- Shortlist target clients and subscribers for early adoption – based on multi-bank relationships
- Leverage existing business relationships to engage clients and propose strategic partnerships to ensure buy in from key market participants

**SERVICE DELIVERY CREDIBILITY**
- Pass through direct operational cost savings based on principles of mutualised data cost and reduction in periodic review effort
- Deliver intuitive online interface for providers

**EXPANDED VALUE ADD**
- Continually refine proposition and value offered to the market by expanding market coverage and scope of data and regulatory modules
THE CONCEPT | GLOBAL EXPERIENCE IN COUNTRY UTILITIES

Thomson Reuters is engaged with financial institutions, industry associations, and regulators globally who are looking to achieve similar benefits and business results from regional KYC utilities.

EUROPEAN CONSORTIUM – POC PENDING

Business Drivers
• Improved client experience
• Cost saving and increased data quality
• Improved regulatory transparency

Regulator Engagement
• Engagement both with regulators and banking associations anticipated

HONG KONG – IN DUE DILIGENCE PHASE

Business Drivers
• Reduction of reputational risks
• Increased operational efficiency / speed of onboarding

Regulator Engagement
• Strongly supportive of utility concept, ongoing dialogue

EUROPEAN CONSORTIUM – POC PENDING

Business Drivers
• Improved client experience
• Cost saving and increased data quality
• Improved regulatory transparency

Regulator Engagement
• Engagement both with regulators and banking associations anticipated

SOUTH AFRICA – DELIVERED BY THOMSON REUTERS

Business Drivers
• Improved client experience through standardization
• Managing the increasing cost of compliance

Regulator Engagement
• Strong engagement via build partner banks
• Support from banking association

AUSTRALIA – IN DUE DILIGENCE PHASE

Business Drivers
• Cost saving and increased data quality
• Improved regulatory transparency

Regulator Engagement
• KYC 2020 Vision – Top 4 banks engaged

THE SOUTH AFRICA KYC-STORY

• South Africa launched managed service solution for Know Your Customer (KYC) due diligence in July 2016
• Challenged by high cost and complexities in KYC-process
  • Time to onboard increased by 20% year on year
  • Average cost on KYC-processes = $30 Million per bank
  • Cost increased by 18% year on year
  • 45% of SA-banks face lack of qualified resource and time for KYC
  • 43% struggle with volume and complexity of regulations
  • Corporate customers demanded common KYC-standards, faster onboarding and data security
• Driven by Barclays Africa, Rand Merchant Bank (a division of FirstRand Bank), Standard Bank of South Africa and Thomson Reuters

<table>
<thead>
<tr>
<th>Metrics</th>
<th>Thailand</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>68 Million</td>
<td>55 Million</td>
</tr>
<tr>
<td>GDP</td>
<td>$395 Billion</td>
<td>$313 Billion</td>
</tr>
<tr>
<td>GDP Growth</td>
<td>2.8%</td>
<td>1.3%</td>
</tr>
<tr>
<td>No. of Local Banks</td>
<td>12</td>
<td>17</td>
</tr>
<tr>
<td>No. of International Banks</td>
<td>55</td>
<td>57</td>
</tr>
</tbody>
</table>
South African Case Study: Key Lessons Learnt & Operational Readiness Insights

“There is no substitute for experience”

<table>
<thead>
<tr>
<th>Topic</th>
<th>Lessons For Other Jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partnership</td>
<td>A utility is not a typical vendor agreement, it is a partnership whereby all participants protect mutual interests. From inception, a culture of 'partnership' needs to be invested in &amp; partners have to demonstrate flexibility</td>
</tr>
<tr>
<td>Policy and Process Design</td>
<td>Decisions regarding processing and policy requirements inline with objectives of the utility – i.e. reducing time to onboard and refresh and systematically identifying risk</td>
</tr>
<tr>
<td>Adoption Strategy</td>
<td>Prioritizing clients requiring refresh and those which are multi-banked to drive initial adoption. Committed resources from the FI to enable warm hand off to the utility.</td>
</tr>
<tr>
<td>Implementation Governance</td>
<td>FI's need to commit to a robust internal change management program that ensures all resources involved in the migration are trained and familiar with the activities they will be conducting as well as the activities of the end client. Key senior decision makers form the FI’s need to commit time to resolve any issues expeditiously. A weekly go-live multilateral for the first 3 months of operations that have the decision making mandate is a valuable tool.</td>
</tr>
<tr>
<td>Industry Penetration</td>
<td>Dedicated resources to support the demand for FI’s and other industry subscribers to the utility</td>
</tr>
</tbody>
</table>

Thank you!

With the power of Thomson Reuters behind you, you can confidently anticipate and act on risks – and make decisions that accelerate business performance.
The LEI & MiFID II

Introduction

What is an LEI?

“A 20-digit, alpha-numeric code based on the ISO 17442 standard developed by ISO. It connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions.” (www.gleif.org)

Key Principles

1. It is a global standard
2. A single, unique identifier is assigned to each legal entity
3. It is supported by high data quality
4. It is a public good, available free of charge to all users.

Features

1. ISO 17442 defines a set of attributes or legal entity reference data that are the most essential elements of identification.
2. The number has no embedded intelligence
3. It does not need to change

ISO 17442

5493

Characters 1-4
LOU Identifier
Prefix used to ensure the uniqueness among codes from LEI Issuers (LOUs).

00JQL1BXTGCCTGP

Characters 5-18
Entity Identifier
Entity-specific part of the code generated and assigned by LOUs according to transparent, sound and robust allocation policies.

11

Characters 19-20
Verification ID
Two check digits as described in the ISO 17442 standard
The Market Challenge

The Legal Entity Identifier (LEI) is still a relatively new data set, often tagged onto existing systems, without adequate data management/governance.

Many firms simply ensured compliance with Dodd-Frank and/or EMIR derivative reporting datasets, avoiding a broader implementation until now.

Resultant disparate data repositories provide inconsistent views of (LEI) data completeness – “we don’t know what we don’t know”.

Lack of awareness within the industry of the full scope of Regulatory requirements – LEI is a single component of a far-reaching MiFID II regulatory landscape – many firms have focussed on LEI sourcing of their direct counterparts, ignoring other use cases such as issuers.

Regulatory soundbites:

“For the purpose of ensuring certain and efficient identification of investment firms responsible for the execution of transactions, those firms should ensure that they are identified in the transaction report submitted pursuant to their transaction reporting obligation using validated, issued and duly renewed legal entity identifiers. In order to safeguard the effectiveness of market abuse surveillance of legal persons, (1)Member States should ensure that LEIs are developed, attributed and maintained in accordance with internationally established principles. For similar reasons, investment firms should obtain their clients’ LEIs from their clients before providing services which would trigger reporting obligations in respect of transactions effected on behalf of those clients. ESMA Regulatory technical and implementing standards – Annex I MIIFID II / MIFIR

The FCA communicated in CP15/43 its expectation that MiFID investment firms (excluding collective investment firms but including authorised credit institutions), operators of trading venues and UK branches of third country investment firms must comply with transaction reporting obligations.

From 3 January 2018 firms subject to MiFID II transaction reporting obligations will not be able to execute a trade on behalf of a client who is eligible for a Legal Entity Identifier (LEI) and does not have one.

UK Financial Conduct Authority

Extensive LEI adoption in MiFID II

Under MiFID II rules, LEI use is much broader than just identification of the transacting parties. LEI codes must be returned for each of the following fields in the reporting templates:

RTS 22 – Reporting Obligations
- Executing entity
- Submitting entity
- Buyer
- Buyer decision maker
- Seller
- Seller decision maker
- Transmitting firm for Buyer
- Transmitting firm for Seller

RTS 23 – Instrument Reference data
- Issuer or operator of trading venue
- Underlying Issuer (Derivatives)

RTS 20/21 Position Limit & Reporting (Commodities)
- Reporting entity
- Position holder
- Ultimate Parent entity

Lessons from EMIR

- EMIR was a “soft” LEI requirement – MiFID II is not!
- Critical that firms understand their LEI gaps, and the need for action in advance of January 2018.
- “…..we cannot guarantee that LEIs will be issued in time for MiFID/MiFIR to apply if registration is delayed until the fourth quarter of 2017.” (Stephan Wolf: CEO GLEIF)
**LEIs – finding the gaps**

**Thomson Reuters LEI Profiling Service**

Report-based service providing clients with LEI status of their MiFID in-scope entities.

- Provides an immediate "health check" on MiFID LEI compliance status ("Validated", "Issued", "Renewed")
- Allows clients to focus on key down-stream workflows – "no action", "client outreach" etc.

Two-tier service model.
- Tier 1 - automated matching,
- Tier 2 – automated matching & "manual" review for low-confidence matches.

- **Availability** – General: no requirement for prospect to be an existing Avox client.
- **Delivery** - File based service
- **Frequency** – once-off, but with option to repeat, in line with on-going/increased LEI issuance prior to 3rd January 2018.

**Thomson Reuters Managed Data Service - a broader solution**

- **MATCH**
  - Avox matches client internal record to 2.5+ million records in Avox database.
  - Match client entities of interest population to existing AVID records

- **ENRICH**
  - Avox enriches record, populating 58 data fields of "core" entity record.
  - Proactive monitoring; registries, LEI, GIIN, BIC etc.
  - Client changes and challenges trigger analyst reviews
  - Collaborative - updates benefit all participants

- **MAINTAIN**
  - Avox maintains data on an ongoing basis. Process happens in a shared pool.
  - Existing records revalidated
  - Annual record reviews as minimum
  - Analysts use over 1500 public authoritative sources to gather entity data in 190 countries
  - 4/5 sources are used for each validation. 4 eye checks on all work and database profiling

Clients internal entity identifier will be mapped to Avox MDS record (Avid), returned to facilitate integration with client’s downstream workflows.