



CUSTOMER DUE DILIGENCE GUIDE

A Risk Based Approach

For

DNFBPs

SUPERVISED BY THE

COMPLIANCE COMMISSION OF THE BAHAMAS

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1. INTRODUCTION

Part II sections 6-14 of the Financial Transactions Reporting Act, 2018 (FTRA) sets out the required approach to Customer Due Diligence (CDD) measures which Designated Non-Financial Business and Professions (DNFBPs) must undertake when conducting a transaction for or otherwise establishing a business relationship with a facility holder.¹ These measures seek to ensure that comprehensive identification information is available regarding all facility holders, as a means of combating money laundering and terrorist financing and other identified risks. This Guide sets out the CDD measures and the various circumstances in which CDD should be applied. It uses a “Risk Based Approach” for deciding the extent of these measures to apply in any given situation. This means that a DNFBP must assess the risks of money laundering and terrorist financing relevant to its customers. After carrying out the assessment and determining the level of risk, the DNFBP will then focus its resources on the customers it has identified as the greatest risk to its business. The extent of CDD measures applied should be appropriate in view of its assessment of the customer’s risks. This means that for customers that pose the greatest risk more stringent measures must be applied and for lower risk customers less stringent measures.

2. Purpose of this Guide

This Customer Due Diligence Guide is intended to assist DNFBPs supervised by The Compliance Commission of The Bahamas, in meeting the CDD obligations required by FTRA/FTRR 2018. These obligations include; identification, verification, assessing and monitoring the client using the Risk Based Approach.

The Guide is provided as a general standard and is not intended to replace but to be interpreted within the framework of the Bahamas AML/CFT laws. All DNFBPs must have a clear understanding of their obligations under The FTRA 2018 as well as The Bahamas AML/CFT regime.

¹ FTRA 2018 Part 1 section 2 ‘Interpretation’ (1) “facility holder”.

3. What is CDD (Customer Due Diligence)?

CDD is the process used by DNFBPs, and other financial firms to collect a series of information on prospective customers at the time of onboarding in order to assess any risk they may bring to the business, such as money laundering and terrorist financing or any other identified risk. Conducting proper customer due diligence is essential to maintaining proper organizational oversight and is also a legal requirement in the Bahamas.

Customer due diligence is one of the best defenses a DNFBP can maintain to protect itself against possible threats of money laundering/terrorist financing and other financial crimes. CDD is also referred to as “know Your Customer,” and it encompasses the following;

i. Customer Identification:

(Collecting and verifying customers information and documentation) e.g. through the KYC form

See Appendix (B) Customer Identification/Verification (mandatory documents & information) as per Regulations 4, 5 and 6 of the FTRR 2018.

ii. Screening: customers against UN Sanctions list and perform internet searches using the customer name, to determine if a potential customer is known to be of heightened risk and thereby posing a risk to the DNFBP. Typically, the objective is to ascertain if the customer is known to have any of the following profiles: Politically Exposed Persons (PEPs), criminals, terrorist, sanctioned individual/entity, reported in media to be involved in any activity that is adverse in nature.

iii. Risk Assessment/Risk rating: (Measuring risk and assigning rating)

iv. Applying Enhanced Customer Due Diligence (ECDD) measures, monitoring etc. for higher risk customers.

AML/KYC ONBOARDING LIFECYCLE PROCESS FLOW



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The whole KYC/CDD process begins with conducting the Customer Identification Procedure (CIP), which is initially carried out at the time of establishing the relationship. The process can be initiated by giving the client a KYC form or questionnaire to complete.

See Appendix A - sample KYC Form

4. CDD Measures/Activities

- i. Identifying the customer & verifying customer's identity from independent source data, document or information CIP, for both Individuals and Legal Persons.
- ii. Identifying and verifying beneficial ownership and control (the Beneficial Owner is the individual who owns, benefits from and ultimately controls the money in account/facility).
- iii. Establishing the intended purpose and nature of the business relationship (i.e. knowing what you are going to do for them and why).
- iv. Monitoring i.e. conducting ongoing due diligence and scrutiny of the relationship and transactions.
- v. Taking reasonable measures to determine if a client is acting on the instruction of a third party when opening an account or conducting occasional transactions.
- vi. Keeping records up to date.

² www.advisoryhq.com/articles/the-aml-kyc-onboarding-lifecycle-process-flow/

5. Why Is CDD Carried Out?

Primarily CDD is carried out to protect the reputation of your firm and DNFBPs in general. In addition to protecting the reputation of DNFBPs, an effective CDD Program will assist in protecting the financial sector from the threats of ML/TF and other identified risks as a whole and will allow you:

- i. To gain insight on potential customers, enabling the organization to know just how much of a risk a customer presents with the most prominent risks being money laundering and terrorist financing.
- ii. To gain a sound understanding of the customer's normal and anticipated activity throughout the life of the relationship.

6. When Is CDD Carried Out?

DNFBPs should undertake Customer Due Diligence measures, including identifying and verifying the identity of their customers, when: (a) entering into a business relationship or transaction with a customer (b) prior to an occasional transaction taking place ³ (c) where a facility holder is being added to an existing facility (d) where a facility holder seeks to conduct a transaction or an occasional transaction involving \$15,000 or more on behalf of a third party, using his facility, including situations where the transaction is carried out in a single operation or in several operations that appear to be linked.⁴

For Real Estate Brokers, identification should occur before a contractual relationship is established, that is, when;

- There is a listing agreement;
- There is an agreement of purchase and sale;

The reason for this is, a DNFBP must decide whether a client fit its established risk appetite, and this can only be done if the appropriate CDD procedures/measures were undertaken. Deciding to take a client on without

³ An "occasional transaction" means a one-off transaction or linked transactions that are carried out by a person otherwise than through a facility in respect of which the person is a facility holder. (FTRA 2018).

⁴ See Compliance Commission Codes of Practice section "when must identification and verification take place".

proper vetting heightens considerably the risk of taking on undesirable clients. Once your customer has been identified and verified there is no requirement to verify their identity again unless there is a material change in the operation of the facility or transactions i.e. a trigger event occurs.

Potential Trigger Events could include:

- i.** Change in ownership of the facility (Beneficial owner changes)
- ii.** The product or service that you supply to the customer changes.
- iii.** Concerns are raised regarding previous information collected and its validity.
- iv.** Activity which give rise to suspicions of money laundering and/or terrorist Financing or any identified risk.

See Appendix (D-G) ML/TF red Flags for DNFBPs

7. CDD Guidance on Co-brokering – Real Estate Brokers & Land Developers

Co-brokering takes place when two brokers work together on a sale. One represents the buyer and the other the seller or vendor and work for different companies. One broker brings the buyer and the other listing broker represents the vendor. The buyer is brought to the real estate transaction by a co-broker in a co-brokerage. The broker representing the buyer is responsible for obtaining the CDD on the buyer prior to the agreement for sale. The broker representing the seller must have the CDD on the vendor. In this arrangement there is no requirement for both brokers to exchange CDD information i.e. the listing broker does not have to provide the buyer broker with copies of the CDD and the buyer broker does not have to provide the listing broker with copies of the CDD. The listing broker and the co-broker representing the buyer will exchange letters stating that they have conducted CDD on their client in accordance with the AML/CFT laws, regulations and guidelines in The Bahamas and their records are available to the Competent Authority for review.

The co-broker and the listing broker will only be responsible for their own CDD obligations and not exposed to liability that may emerge in the cases where one party did not meet the CDD obligations.

8. The Benefits of CDD

- i. CDD verifies that the customer is who he/she claims to be;
- ii. Establishes that the customer actually does own and control the funds and you gain an understanding of why the relationship is being established and how it will be used in the future.
- iii. Used to monitor the relationship to ensure that the original understanding of the customer's identity and business remains accurate.
- iv. CDD provides the basis for both preventive measures in keeping criminal out of the financial systems and also for investigative measures when trying to identify suspicious transactions.
- v. Helps to protect the reputation and integrity of DNFBPs
- vi. Reduces the vulnerabilities of the DNFBPs to ML/TF and other identified risks.

CDD (an on-going process) the DNFBPs approach to due diligence should not be **static**, on-going monitoring should be carried out to allow one to detect trigger events which may impact the risk and the level of due diligence that is required. On-going monitoring should include the nature of the business relationship as well as targeted financial sanctions and politically exposed person screening. This will not apply to one-off occasional transactions.

9. Types/Levels of CDD

- i. Simplified Due Diligence
- ii. Standard Due Diligence (SDD)
- iii. Enhanced Due Diligence (EDD)

The amount of CDD measures may be adjusted, to the extent permitted by applicable regulatory requirements, in line with the ML/TF risk. This means that the amount or type of information obtained, or the extent to which this information is verified, must be enhanced or heightened where the risk associated with the business relationship is higher. The type of enhanced due diligence measures applied should be effective and proportionate to the risks also called The Risk Based Approach (**RBA**). It may also be reduced where the risk associated with the client is lower.

9.1 Simplified Due Diligence

Simplified or reduced CDD is the **lowest** level of due diligence that can be completed on a customer.

Simplified CDD is reserved for those instances where the customer; product/services combination falls into the lowest risk category where there is little opportunity or risk of ML/TF.

Often customers that are required to disclose information regarding their ownership structure and business activities or companies that are subject to anti-money laundering regulations/supervision equivalent to or exceeding standards under Bahamian law are seen to be lower risk.

Example

- Public companies listed on a stock exchange and subject to disclosure requirements (either by stock exchange rules or through law or enforceable means), which impose requirements to ensure adequate transparency of beneficial ownership.
- Public administrations or enterprises.

Where the DNFBP is satisfied that a customer falls into the simplified due diligence category and has established to its satisfaction that it is dealing with a legitimate person (natural or legal), then the only requirement is to identify the customer. When completing simplified due diligence, there is no requirement to verify your customer's identity as you would with a standard or enhanced due diligence approach.

If, however at any point during the relationship with your customer, additional information becomes available which suggests that the customer or product may pose a higher risk than originally thought a more enhanced level of due diligence should be conducted.

9.2 Standard Due Diligence (SDD)

In the majority of cases, standard due diligence is the level of due diligence that will be used. These are generally situations where there is a potential risk but it is unlikely that these risks will be realized.

Example of standard-risk customers, ⁵“i.e. those who are permanently resident in the country, with a salaried job or other transparent source of income, only the standard information provided may need to be verified”

Standard due diligence requires that the DNFBP identify the customer as well as verify their identity. In addition, there is a legal requirement to gather information to enable you to understand the nature of the business relationship. This due diligence should provide you with confidence that you know who your customer is and that your service or product is not being used as a tool to launder money or any other criminal activity.

As with simplified due diligence there is a requirement to monitor your client and the relationship, this will highlight any potential trigger events that may result in further due diligence being required.

NB. Standard due diligence should be applied to all clients, unless simplified due diligence or enhanced due diligence is appropriate.

9.3 Enhanced Due Diligence (EDD)

Enhance Due Diligence is required where the customer and product/service combination are considered High risk. This higher level of due diligence is required to mitigate the increased risk. A high-risk situation generally occurs where there is an increased opportunity for money laundering or terrorist financing through the service or product you are providing your customer. What the enhanced due diligence entails will depend on the nature and severity of the risk.

In principle compared to standard due diligence, EDD requires more detailed and extensive information, additional measures to be undertaken and a more comprehensive assessment of all involved risks and mitigation measures.

⁵ <https://www.int-comp.org/careers/a-career-in-aml/what-is-cdd/>

See Appendix C for Examples of Risk Control/ Mitigation Measures

There are several situations that signify high risk scenarios such as:

- Non face to face business relationship and interactions with your customers
- Nonresident customers
- Charities
- Client or Beneficial Owner is a Politically Exposed Person (PEP).
- Trusts of Fiduciary relationships (services that offer anonymity and movement of funds commonly linked to ML &TF).
- Applicant for business acts or appears to act in a representative capacity (an agent of a principal).
- Client comes or operates from a jurisdiction considered to be high risk.
- Corporate vehicles that are unnecessarily and unjustifiably complex multi-tiered entities (i.e., those corporate vehicles whose management and ownership rights are in turn held by other corporate vehicles, especially when those are themselves located in a foreign jurisdiction(s), and/or those that have more than three layers yet cannot provide a professional opinion justifying an underlying legal or economic rationale).
- Client is involved in a Cash intensive business.

What High Risk Does not mean

A high-risk customer does not mean that they are or will automatically be involved in ML/TF or other criminal activity, but that there is an increased opportunity to be involved.

Additionally, any one of the above scenarios in itself does not necessarily mean an individual is corrupt or the situation is automatically high risk. However, DNFBPs should managed these categories by understanding and addressing the potential ML/TF risks associated with such customers and their transactions.

9.4 Exemption from Verification

Documentary evidence will not normally be required for verification of identity of:

- (a) Any financial institution licensed by the Central Bank of The Bahamas, The Securities Commission of The Bahamas, The Inspector, Financial Corporate Service Providers, The Insurance Commission of The Bahamas, or the Gaming Board;
- (b) A financial institution which –
 - (i) Is subject to anti-money laundering and countering the financing of terrorism obligations;
 - (ii) is under supervision for compliance with the obligations referred to in subparagraph (i); and
 - (iii) has adequate procedures for compliance with customer due diligence and record keeping requirements;
- (c) Any central or local government agency or statutory body; and
- (d) A publicly traded company listed on The Bahamas International Stock Exchange or any other Stock⁶.

9.5 Verification of Beneficial Owner (BO)

Every financial institution must identify and verify the beneficial owner of a facility, if any, and where the facility holder is a corporate entity, the obligation to verify the identity of beneficial owners will only be required for those beneficial owners having a controlling interest in the corporate entity (FTRA 2018, s. 7(1) and (2))⁷.

10. Risk Based Approach (RBA) to CDD

The Risk Based Approach (RBA), is the method the organization takes to perform its CDD, which considers the level of risk that the business faces by taking on each client. Whether that be in relation to:

- i.** Type of customer;

⁶ See FTRR 2018, r.8 and FTRA 2018, s.3 and s.8.

⁷ See FTRR 2018 r. 4, r.5 and r.10 for further guidance regarding information on identification and verification.

- ii.** Type of products/services/transaction the customer is using or conducting;
- iii.** Geographical areas/jurisdictions of the customer's operations;
- iv.** Delivery channels to the customer.

Once risks are identified, they can then be mitigated by implementing adequate policies and procedures that are proportionate to these risks. Having adequate policies and procedures in place also provides a certain level of protection in investigations regarding money laundering or terrorist financing.

11. Inability to fulfil CDD obligations

Where a DNFBP is unable to comply with relevant CDD measures, it shall;

- i.** Not open the account or establish the business relationship;
- ii.** Not carry out the transaction;
- iii.** Terminate the business relationship; and
- iv.** Consider filing a suspicious transaction report in accordance with the Act. FTRA 2018 Section 11(1)

APPENDICES

Appendix A

COMPLIANCE COMMISSION OF THE BAHAMAS

Know Your Customer (KYC) Form

SAMPLE

Verification of Identity of Individual

1. Full, correct and legal name of individual facility holder

2. Permanent Address_____

3. P. O .Box /Zip code

4. Telephone Number(s) Cell/Mobile_____ Fax No _____ E-mail_____

5. Date of Birth

6. Place of Birth

7. Nationality_____

8. Occupation_____

9. Name of employer_____

10. If Self –employed, Type of Business _____

11. Are you, a family member or a close associate a Politically Exposed Person

(PEP)? YES_____ NO_____

If 'yes' provide additional Information on the PEP, e.g. position, relationship, activities and functions.

12. Purpose of

Account/transaction_____

13. Estimated annual activity of facility / amount of funds to be held on Account (if applicable)_____

14. Nature of Business relationship to be established_____

15. Source of Funds /wealth_____

16. Immigration Status:

Permanent Resident_____ Work Permit_____ Citizen

_____ Other_____

17. I hereby confirm that all transactions, activities and/or credits to the facility/account(s) where applicable, will be beneficially owned by me.

YES_____ NO_____

***If the answer to number 17 above is "NO", Full CDD has to be carried out on the BO ***

I hereby declare that the Information provided by me is true and correct.

Signature: _____ Date _____

Required Document(s)

Copy of relevant pages of valid passport, driver's license, voter's card, national identity card or such identification bearing a photographic likeness of person as is reasonably capable of establishing the identity of the facility holder.

* DNFBPs must; (1) perform sanctions check (2) internet search of customer name (3) verify if the customer or transaction originates from a high risk country or other risk indicators and (4) apply risk based CDD and preventive measures.*

Verification of Corporate Entity

1. Name of Incorporated Entity _____

2. Location of Registered Office _____

3. Location of Registered agent _____

4. Name, Address and Telephone Numbers of Directors

I. _____

II. _____

III. _____

5. Name, Address and Telephone Numbers of Officers

I. _____

II. _____

III. _____

IV. _____

6. Name, Address and Telephone Numbers of Beneficial Owner(s)

I. _____

II. _____

III. _____

IV. _____

***Each Beneficial Owner (BO) holding 10% or more controlling interest in the company is required to complete a separate KYC form "Verification of Identity of Individual" ***

7. Description and Nature of the Business

I. Date of Commencement of Business _____

II. Products and Services offered by the Business

III. Location of principal business _____

8. Purpose of the facility/transaction and the potential parameters

I. Purpose of the account _____

II. Size, in the case of investment and custody _____

III. Balance ranges in the case of deposit facilities _____

IV. The expected transaction volume of the facility/account

9. I hereby confirm that all activity/credits to the facility are and will be beneficially owned by the facility holder. YES _____ NO _____

***If the answer to question 9 is 'NO' Full CDD has to be carried out on the BO ***

Required Corporate Documents

1. Certificate of Incorporation (certified copy)
2. Memorandum and Articles of Association (certified copy)
3. Resolution of the Board of Directors of the corporate entity, authorizing the opening of the account and conferring authority on the natural person who will operate the facility (certified copy)
4. Certificate of Good Standing, confirming that the corporate entity has not been struck off the register or is not in the process of being wound up.
5. Register of Members/Share Register, establishing information on the customer's ownership and control structure of the corporate entity.
6. Certificate of Incumbency
7. Official documentary and other information as is reasonably capable of establishing information on the customer's ownership and control structure of the corporate entity.

This form provides guidance for registrants of the Compliance Commission, however firms may format their individual forms differently as long as it meets the requirements of the AML/CFT legislation & Guidelines

Appendix B

Customer Identification/Verification

(Mandatory Documents & information)

Regulations 4, 5 and 6 of the FTRR provide a list of mandatory documentation and information that must be obtained to verify identity, as well as additional information that may be relied upon to further establish, conclusively, the identity of a person that must be verified. The determination of any additional information required for high risk clients should be documented in the firm's enhanced due diligence procedures for high risk clients.

Verification of identity of individuals

Where a DNFBP is required to verify the identity of any individual pursuant to section 7 of the FTRA the following information is required:-

- The full, correct and legal name of the individual;
- Contact information;*1
- Date and place of birth;
- The purpose of the account; and
- The nature of the business relationship to be established.

In addition to the requirements above, the following information and documentation may be required (based on the firm's risk-rating procedures) to verify the identity of an individual:-

- Evidence of the source of funds and source of wealth;
- A specimen signature;
- Telephone and fax number, if any;

- Occupation, name of employer, and where self-employed, the nature of the self-employment; or
- A copy of the relevant identification pages of the passport; a driver's license; a voter's card; national identity card; or such other identification document bearing a photographic likeness of the individual as is reasonably capable of establishing the identity of the individual.

***1Points of contact may include - mobile phone number, business mobile phone, personal landline number, personal mailing address, business mailing address, residential mailing address and any other means of contact that the Commission may specify**

Verification of corporate entity

Where a DNFBP firm is required to verify the existence of a corporate entity, the firm must require the corporate entity to submit the under-noted documents:-

- a) Certified copy of the Certificate of Incorporation;
- b)* a certified copy of the Memorandum of Association and Articles of Association of the entity;
- c) Certified copy of the resolution of the Board of Directors of the corporate entity authorizing the opening of the account and conferring authority on the natural person who will operate the facility;
- d) Documentary evidence as is required under regulation 6 of the FTRR for the verification of the natural person who will operate the facility;
- e) Documentary evidence to satisfy the requirements for the identification and verification of the identity of all beneficial owners of the corporate entity. The obligation to verify the identity of beneficial owners shall only extend to those with at least 10% or more controlling interest in the corporate entity. Further, to the extent that there is doubt under the above obligation as to whether the person with the controlling interest is the beneficial owner or where no natural person exerts control via ownership

interest, the identity of the natural person, if any, exercising control of the legal person or arrangement via other means; or where no natural person is identified above, the identity of the relevant natural person who holds the position of senior managing official shall be obtained.

f) Certificate of good standing;

g) location of the registered office and if different, the location of the principal place of business;

h) a description of the nature of the business, including the date of commencement of the business, a description of the products or services provided by the business and the location/address of principal business; and

i) such other official documentary and other information as is reasonably capable of establishing information on the client's ownership and control structural of the corporate entity.

In addition to the requirements above, the following information and documents may also be relied upon to support verification of a corporate entity:

a) The names and addresses of all officers and directors of the corporate entity;

b) the purpose of the facility and the potential parameters of the facility, including size, in the case of investment and custody facilities;

c) balance ranges, in the case of deposit facilities;

d) the expected transaction volume of the facility;

e) Written confirmation that all credits to the facility are and will be beneficially owned by the facility holder except in circumstances where the facility is being operated by an intermediary for the purpose of holding funds in his professional capacity.

***In the case of a Bahamian incorporated company, if the DNFBP has, as part of the files, the documents of incorporation (e.g. certificate, Memorandum and Articles of Association) bearing an original seal of the Registrar General this would be sufficient to meet this obligation.**

Appendix C

Examples of Risk Control/Mitigation Measures:

- i) Obtain senior management approval to proceed with the transaction(s) If:
 - (a) Customers or source of funds (SOF) originate from countries identified by Financial Action Task Force (FATF) as having strategic deficiencies in the fight against Money Laundering.
 - (b) SOF originate from countries identified by credible sources as having significant levels of corruption or criminal activity.
 - (c) SOF originate from countries subject to UN Sanctions, embargoes or similar measures.
- ii) Ask for an additional form of identification to confirm the client identity.
- iii) Obtain name of person(s) behind corporation, trust, partnership, LLC, foundation or other legal arrangement.
- iv) Monitor if customer conducts additional transactions.
- v) Obtain information on source of funds or source of wealth of the customer.
- vi) Set limits to cash transaction amounts in certain situations.
- vii) Request bank drafts instead of accepting large amounts of cash.
- viii) Conduct transactions only in person.
- ix) Obtain appropriate additional information to understand the customer's business or circumstances.

- x) For customers who are intermediaries (i.e. lawyers and accountants acting on behalf of customers) – obtain name of person(s) on whose behalf the transaction is being conducted.
-

Appendix D

Lawyers

ML/TF Red **Flag** Indicators

If Client:

- Is secretive or evasive about who they are, the reason for the transaction, or the source of funds.
- Avoids personal contact without good reason.
- Refuses to provide information or documentation or the documentation provided is suspicious.
- Has unusual level of knowledge about money laundering processes.

If the source of funds or source of wealth are unusual, such as:

- Large cash payments.
- Unexplained payments from a third party.
- Loans from non-institutional lenders.
- Use of multiple accounts or foreign accounts.

If the transaction has unusual features, such as:

- Early repayment of mortgages/loans.
- It is potentially loss making.
- Repetitive instructions involving common features/parties or back to back transactions with property rapidly changing value.
- The transaction is unusual for the client's profile.
- Unexplained urgency, requests for short cuts or changes to the transaction particularly at last minute.
- Use of a Power of Attorney in unusual circumstances.

- Instructions to retain documents or to hold money in your client account.
- Abandoning transaction and/or requests to make payments to third parties or back to source.

If the instructions are unusual for your business such as:

- Outside your practice area of expertise or normal business.
- The client is not local and there is no reasonable explanation as to why your practice has been chosen.
- Willingness of client to pay high fees.
- Unexplained changes of legal advisers.
- The client appears unconcerned or lacks knowledge about the transaction.

If there are geographical concerns such as:

- Unexplained connections with and movement of monies between other jurisdictions.
- The client's bank is not local to the property.

[Source: \(FATF\), Report June 2013 Money Laundering and Terrorist Financing Vulnerabilities of Legal Professionals](#)

Appendix E

Real Estate Brokers and Land Developers

ML/TF Red **Flag** Indicators

- Transactions in which unusual or unnecessarily complex legal structures are used without any economic logic
- Transactions in which there are signs, or it is certain, that the parties are not acting on their own behalf and are trying to hide the identity of the real customer.

Transactions in which the parties:

- Do not show interest in the characteristics of the property (e.g. quality of construction, location, date on which it will be handed over, etc.) which is the object of the transaction.
- Do not seem particularly interested in obtaining a better price for the transaction or in improving the payment terms.
- Show a strong interest in completing the transaction quickly, without there being good cause.
- Show considerable interest in transactions relating to buildings in particular areas, without caring about the price they have to pay.
- Transactions performed through intermediaries, when they act on behalf of groups of potentially associated individuals (for example, through family or business ties, shared nationality, persons living at the same address, etc.).
- Purchaser is linked to negative news or crime (e.g. he is a designated entity on the United Nations Security Council Resolutions, or he is named in a news report on a crime committed.).
- Purchaser provides an address that is unknown, believed to be false, or simply a correspondence address, e.g. a post office box number which might not provide details of the actual address.
- Purchaser buys multiple properties in a short time period and seems to have few concerns about the location and price of each property.
- Purchaser asks about the anti-money laundering and counter financing of terrorism reporting requirements.

Source: FATF MONEY LAUNDERING & TERRORIST FINANCING THROUGH THE REAL ESTATE SECTOR 29 June 2007 ANNEX B - RED FLAG INDICATORS

Appendix F

Dealers in Precious Metals and Stones

ML/TF Red **Flag** Indicators

Transaction Patterns

i) Transactions that are not consistent with the usual profile of a customer:

(a) Transactions that appear to be beyond the means of the customer based on his/her stated or known occupation or income; or

(b) Transactions that appear to be more than the usual amount for a typical customer of your business.

ii) Transactions where customer does not consider the value, size and/or colour of the precious stone, precious metal, or precious product.

iii) Unusual payment methods, such as large amounts of cash, traveler's or cashier's cheques.

iv) Large or frequent transactions that are in a foreign currency.

v) Numerous transactions by a customer, especially over a short period of time, such that the amount of each transaction is not substantial (e.g. below the regulatory threshold for customer due diligence), but the cumulative total of which is substantial.

vi) Use of third parties in transactions related to precious metals and precious stones, for example:

(a) Payments received from a third party, who is not the owner of the funds, without legitimate business purpose; or

Customer Behavior

i) The customer enquires about refund policies and requests for large refunds subsequently.

ii) The customer is suspected to be using forged, fraudulent or false identity documents for due diligence and record keeping purposes

iii) The customer is unusually concerned with the dealer's AML/CFT policies.

iv) The customer pays for precious metals, precious stones or precious products with cheques, but noted on the cheque that the payment is for something else.

v) The customer attempts to maintain a high degree of secrecy with respect to the transaction, for example – (a) To request that normal business records not to be kept; or (b) The customer is unable or unwilling to provide information for due diligence and record keeping purposes.

- vi) vii) The customer appears to be related to a country or entity that is associated with money laundering or terrorism activities or a person that has been designated as terrorists.

Source: https://www.fintrac-canafe.gc.ca/guidance-directives/transaction-operation/indicators-indicateurs/accts_mltf-eng

Appendix G

Accountants

ML/TF Red **Flag** Indicators

Sector Specific

- Client has cheques inconsistent with sales (i.e., unusual payments from unlikely sources).
- Client has a history of changing bookkeepers or accountants yearly.
- Client is uncertain about location of company records.
- Company carries non-existent or satisfied debt that is continually shown as current on financial statements.
- Company has no employees, which is unusual for the type of business.
- Company is paying unusual consultant fees to offshore companies.
- Company records consistently reflect sales at less than cost, thus putting the company into a loss position, but the company continues without reasonable explanation of the continued loss.
- Company shareholder loans are not consistent with business activity.
- Examination of source documents shows misstatements of business activity that cannot be readily traced through the company books.
- Company makes large payments to subsidiaries or similarly controlled companies that are not within the normal course of business.
- Company acquires large personal and consumer assets (i.e., boats, luxury automobiles, personal residences and cottages) when this type of transaction is inconsistent with the ordinary business practice of the client or the practice of that particular industry.

- Company is invoiced by organizations located in a country that does not have adequate money laundering laws and is known as a highly secretive banking and corporate tax haven.

Identification

- There is an inability to properly identify the client or there are questions surrounding the client's identity.
- The client refuses or tries to avoid providing information required, or provides information that is misleading, vague, or difficult to verify.
- The client refuses to provide information regarding beneficial owners or provides information that is false, conflicting, misleading or substantially incorrect.
- There are inconsistencies in the identification documents or different identifiers provided by the client, such as address, date of birth or phone number.

Client Behavior

- Evidence of untruthfulness on behalf of the client (e.g. providing false or misleading information).
- The client refuses to provide information when required, or is reluctant to provide information.
- Client has a defensive stance to questioning.
- Client presents confusing details about the transaction or knows few details about its purpose.
- The client exhibits a lack of concern about higher than normal transaction costs or fees.
- Client makes inquiries/statements indicating a desire to avoid reporting or tries to persuade the reporting entity not to file/maintain required reports.
- Insufficient explanation for source of funds.

Transactions

- The transactional activity far exceeds the projected activity at the beginning of the relationship.
- The transactional activity (level or volume) is inconsistent with the client's apparent financial standing, their usual pattern of activities or occupational information (e.g. student, unemployed, social assistance, etc.).
- The transactional activity is inconsistent with what is expected from a declared business (e.g. business account has no normal business-related activities, such as the payment of payrolls or invoices).
- Large and/or rapid movement of funds not commensurate with the client's financial profile.
- Size or type of transactions atypical of what is expected from the client.
- The client's address or employment address are outside the local service area without a reasonable explanation.
- There is a sudden change in client's financial profile, pattern of activity or transactions.
- Client uses notes, monetary instruments, or products and/or services that are unusual for such a client.

Source: https://www.fintrac-canafe.gc.ca/guidance-directives/transaction-operation/indicators-indicateurs/accts_mltf-eng

These lists of ML/TF Indicators are not exhaustive. They aim to provide guidance as to what issues or circumstances may suggest a greater risk of money laundering taking place.⁸

⁸ See Presentation on Proliferation and Terrorist Financing for Red Flag Indicators.

References

<https://www.cfatf-gafic.org/documents/fatf-40r/388-fatf-recommendation-22-dnfbps-customer-due-diligence>

<https://www.cfatf-gafic.org/documents/fatf-40r/389-fatf-recommendation-23-dnfbps-other-measures>

<https://www.cfatf-gafic.org/documents/fatf-40r/376-fatf-recommendation-10-customer-due-diligence>

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