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1. INTRODUCTION

- 1.1. The Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) Sectoral Guidelines 3 (Sectoral Guidelines 3) is issued pursuant to Section 66E and Section 83 of the Anti-Money Laundering and Anti-Terrorism Financing Act 2001 (AMLA).
- 1.2. The Sectoral Guidelines 3 is established and formulated to supplement the requirements of the Standard Guidelines on AML/CFT. These guidelines address the requirements that the reporting institutions under the AMLA must comply with to effectively combat money laundering and financing of terrorism activities.
- 1.3. This Sectoral Guidelines 3 is incomplete on its own and must therefore be read together with the Standard Guidelines on AML/CFT that the reporting institutions are subjected to, except for those areas stipulated in this Sectoral Guidelines 3.
- 1.4. The objective of the Sectoral Guidelines 3 is to provide guidance and minimum standards on AML/CFT measures in order to enable the reporting institution to develop its own internal AML/CFT policies, procedures and controls.

2. APPLICABILITY

- 2.1. This Sectoral Guidelines 3 is applicable to institutions which are reporting institutions under the AMLA and the term 'reporting institution' in this document refers to the institutions listed in **Appendix 1**.
- 2.2. The Standard Guidelines on AML/CFT and the Sectoral Guidelines 3 supersede all guidelines on AML/CFT previously issued by Bank Negara Malaysia to money changers and/or non-bank remittance operators.
- 2.3. This Sectoral Guidelines 3 is also applicable to the foreign branches and subsidiaries of the reporting institutions listed in Appendix 1 that carry out any of the businesses or activities listed in the First Schedule to the AMLA.
- 2.4. The reporting institution should observe the Sectoral Guidelines 3 in accordance with the requirement stipulated under paragraph 2.2 of the Standard Guidelines on AML/CFT. Where there are legal impediments in the host country which may result in the foreign branch or subsidiary of the reporting institution in the host country not being able to meet this Sectoral Guidelines 3 requirement, the reporting institution is required to institute the measures specified under paragraph 2.3 of the Standard Guidelines on AML/CFT.

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3. MONEY LAUNDERING AND FINANCING OF TERRORISM RISK

- 3.1. Money changing industry continues to be an important link in the laundering chain where cash proceeds from drug trafficking and other criminal activities may transit through this industry.
- 3.2. One of the main techniques commonly used at present is the changing of large amounts of criminal proceeds in local currency into low bulk foreign currencies for physical smuggling out of the country. Some countries also evidenced the use of international money orders and mail services to send large sums of cash abroad.
- 3.3. Wire transfer is often used in the layering process. One of the most popular techniques is simply to transfer illicit funds through several different remittance operators to disguise the trail to the funds' original sources.
- 3.4. Another method is to make transfers from numerous accounts to a principal collection account which is often located abroad in an offshore financial centre.
- 3.5. Transfers are also made under false identities and sometimes it can be difficult to identify the actual recipient of the funds.
- 3.6. Remittance operators, which traditionally serve the non-banking segment of the population, notably immigrant workers or any other person without a bank account often transfer funds to least advanced countries where banking services are less regulated.
- 3.7. In the money changing industry, some countries have recently noted a shift of certain very large-scale exchange transactions from banks to small money changers, which is a direct consequence of more stringent requirements introduced by the banking sector.
- 3.8. Looking at the vulnerability of money/value transfer services industry, the reporting institutions should therefore be more vigilant to evolving money laundering and financing of terrorism threats to prevent their institutions from being used to facilitate money laundering and financing of terrorism activities.
- 3.9. Please refer to **Appendix 2** for examples of transactions that may trigger suspicion. For transactions which are suspicious, the reporting institution should consider lodging a suspicious transaction report with the Financial Intelligence Unit in Bank Negara Malaysia as stipulated in the Standard Guidelines on AML/CFT.

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4. CUSTOMER DUE DILIGENCE

4.1. General

4.1.1. The extent of the information required from the reporting institution's customer at the identification stage may be based on the severity of the following:

- Money laundering and financing of terrorism risks associated with the customer, based on the background of the person and the suspicious circumstances in which the transaction was conducted;
- Type or form of transaction undertaken, whether it is of a suspicious nature that requires more rigorous identification procedures;
- Whether the transaction involves a new type of service or product or engages new technology, which alters the delivery mode and transaction process, whereby, care must be taken to ensure that customer identification and verification requirements are adequately complied with. To ensure that new products or services as well as the delivery mode does not create an avenue for money laundering and terrorism financing activities, the reporting institution must ensure that prior to the launch of any new products/services or engagement of a new technology, controls to combat money laundering and terrorism financing practices are in place to address any risks these new products/services or technology may pose; and
- The type of customers that is whether they are occasional or regular customers and the entities that they represent.

4.1.2. The reporting institution should adhere to the customer due diligence requirements as stipulated in the Standard Guidelines on AML/CFT.

4.1.3. Where there is doubt on identification of the customer or a complete customer due diligence is not satisfied, the reporting institution should not proceed with the transaction and should consider lodging a suspicious transaction report with the Financial Intelligence Unit in Bank Negara Malaysia.

4.2. Measures by Money Changers

4.2.1. The reporting institution is required to conduct customer due diligence for transaction(s) involving a total amount equivalent to or above RM20,000 in a day. For such purpose, the reporting

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institution is required to sign the receipt of such transaction as an acknowledgement that customer due diligence has been carried out.

4.2.2. The details of the transaction that needs to be recorded in the receipt are as per the requirements under Section 28 of the Money-Changing Act 1998, which includes, at a minimum, the following information:

- licensed money changer's name, business address and telephone number;
- date of transaction;
- receipt serial number;
- amount and type of currency exchanged by the customer;
- amount and type of currency the customer exchanged for;
- exchange rate offered; and
- name and national registration identification card/passport number of the customer.

4.3. Measures by Non-Bank Remittance Operators

4.3.1. The reporting institution is required to conduct customer due diligence and transmit accurate and meaningful originator information for any transaction involving an amount equivalent to RM3,000 and above.

4.3.2. The reporting institution that is the ordering institution should at the minimum, obtain and verify the accuracy of the following originator's information:

- name;
- nationality;
- national registration identification card/passport number;
- account number (or a unique reference number if there is no account number); and
- address (or in lieu of the address, date and place of birth).

4.3.3. The reporting institution is required to transmit the following originator's information to the corresponding agent:

- name;
- account number (or a unique reference number if there is no account number); and
- address (or in lieu of the address, national identification or passport number, or date and place of birth).

4.3.4. The reporting institution is required to maintain a current list of its agents and this list should be made available to Bank Negara Malaysia upon request.

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- 4.3.5. If the remittance or wire transfer is facilitated through a bank, the reporting institution is required to provide the originator's information to the bank immediately upon request.
- 4.3.6. For non-individual customers such as corporate customers, clubs, societies and charities and legal arrangements, the reporting institution should obtain a letter of authorisation from the entity, authorising the person to conduct transaction on behalf of the entity. The letter should have a letterhead specifying the name of the entity, its address and business registration number. Where possible, the reporting institution should verify the identification data of the entity as stated on the authorisation letter.
- 4.3.7. The person conducting the transaction is treated as an individual customer and the information of the person conducting the transaction that should be obtained and verified are as stated in 4.3.2 (for remittance or wire transfer services) or as stipulated in the Standard Guidelines on AML/CFT (for other postal financial services).
- 4.3.8. For all remittances or wire transfers received, the reporting institution should ensure that the complete originator's information is provided. Where, the originator's information is incomplete or unavailable, the reporting institution should adopt an effective risk-based approach in deciding whether to proceed, stop or request for the missing originator's information from the corresponding institutions.
- 4.3.9. Remittance or wire transfer with incomplete originator's information may be considered as a factor for suspicion and where appropriate, the reporting institution should lodge a suspicious transaction report with the Financial Intelligence Unit in Bank Negara Malaysia.

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Appendix 1

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The Sectoral Guidelines 3 is applicable to the reporting institutions under the Anti-Money Laundering Act 2001 (AMLA), carrying out the following business or activity, as listed in the First Schedule to the AMLA:

1. Money-changing business as defined in the Money-Changing Act 1998.
2. Postal financial services as provided under Subsection 24(3) in the Postal Services Act 1991.
3. Issuance of designated payment instrument and operation of payment system as provided under the Payment Systems Act*.
4. Activities carried out by any person, who has obtained permission to operate remittance services under the Exchange Control Act 1953*.

* Refer to remittance service providers which have obtained permission under the Exchange Control Act 1953 [Act 17] or written notification under the Payment Systems Act 2003 [Act 627]

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Appendix 2

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Examples of Transactions That May Trigger Suspicion

1. Customer is evasive or unwilling to provide information when requested, especially customer who is exchanging currency equivalent to RM20,000 and above.
2. Transactions conducted are out of character with the usual conduct or profile of customers carrying out such transactions.
3. Customer using different identifications each time conducting a transaction.
4. A group of customers trying to break up a large cash transaction into multiple small transactions.
5. The same customer conducting a few small transactions in a day or at different branches/locations.
6. There are sudden or inconsistent changes in remittance/wire transfer sent/received transactions.
7. Remittances/wire transfers from different customers/jurisdiction being sent to the same customer.
8. Customer frequently remitting money to non-cooperative countries/jurisdictions.
9. Customer exchanging small denomination notes into large denomination notes, in large quantity.
10. The same customer frequently exchanging local currency into foreign currency without apparent economic or visible lawful purpose.
11. Customer frequently exchanging large amount of foreign currency but not exceeding the equivalent of RM20,000 for each transaction.
12. Customer exchanging cash for numerous postal money orders in small amounts for numerous other parties.