



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Response to Feedback Received on
Anti-Money Laundering,
Countering Financing of Terrorism and
Targeted Financial Sanctions
for Financial Institutions
(AML/CFT and TFS for FIs)
Exposure Draft

Date: 31 January 2020

Executive Summary

Bank Negara Malaysia (the Bank) received constructive feedback from 196 respondents across all sectors i.e. from the banking and deposit-taking institutions, insurance and takaful operators, money services businesses as well as non-bank issuers of designated payment instruments and designated Islamic payment instruments, during the exposure draft period which ended on 25 October 2019.

An industry consultation was also held with the four sectors (the industry) between 2 and 14 October 2019 on the exposure draft (ED).

The exposure draft posed a total of 19 questions (of which 4 questions were repeated across different sectors) on issues ranging from customer due diligence (CDD) to targeted financial sanctions (TFS).

This document summarises the key issues which were highlighted during the industry consultation and the Bank's corresponding views on issues raised by respondents.

The revised policy document on AML/CFT and TFS for FIs was issued on 31 December 2019 and came into force on 1 January 2020.

Bank Negara Malaysia
31 January 2020

Exposure Draft Questions

1 Please provide feedback whether the implementation period of the CDD requirements can take effect immediately.

While specific organisational arrangements on the implementation of CDD may differ between reporting institutions from various sectors, general feedback received from the industry were that the implementation of the newly introduced CDD requirements can take effect immediately with the exception of requirements applicable on certain types of customers retrospectively. (refer to Question 2)

2 Please provide feedback on whether the transition period of six months is sufficient for the applicability of standard CDD measures on existing customers who are government-linked companies (GLCs), state-owned corporations (SOCs) and registered persons (RPs).

Given that the application of standard CDD on customers who are GLCs, SOCs and RPs has a retrospective effect on reporting institutions (RIs), majority of the feedback received asserted that the policy enhancement would require more time for implementation due to the high volume of existing customers who are GLCs, SOCs and RPs.

Accordingly, the revised policy document extends the proposed 6 months transition period to 12 months to provide sufficient time for the RIs to update information on existing customers who are GLCs, SOCs and RPs in accordance to standard CDD requirements. The Bank takes note of RIs' request to apprise GLCs on this new requirement and the Bank will take necessary steps to communicate this matter to relevant parties.

3 Please provide feedback on time period required for the Compliance Officer to obtain relevant AML/CFT certification or professional qualification as stipulated in paragraph 11.4.6 of the ED.

Responses received from the industry in relation to the time period required for the Compliance Officer to obtain the relevant AML/CFT certification or professional qualifications varies from 1 to 3 years. The duration required correlates to the availability of courses offered throughout the year by various professional bodies for Compliance Officers from various sectors. Some respondents sought clarity on the level of professional qualification required and whether the certification should be limited to Chief Compliance Officers or extended to branch compliance officers and/or persons undertaking compliance functions.

In response to the varying duration to obtain the relevant qualification and the lack of suitable AML/CFT qualification to cater the needs and necessity of each sector, the final policy document retains the requirement as a “Guidance” for the Chief Compliance Officer to obtain relevant AML/CFT professional qualification. The Bank will continue to engage with RIs and relevant associations to ensure the Compliance Officers remain competent and equipped with relevant AML/CFT knowledge to effectively carry out their functions and responsibilities.

4 Please provide feedback on the proposal of requiring the Board to determine the frequency and scope of independent audit.

The responses received from the industry were generally positive with regards to frequency and scope of independent audit. However, clarification was sought on whether the Board also refers to other committees set at the Board level.

Board can also refer to other committees set at the Board level if the RIs assess that the said committees perform similar functions as the Board and meet the requirements set out in the policy document.

5 Please provide feedback on the current practice on the following:

(similar question posed in questions 9, 12 and 15 in the ED)

- a) **What type of class / category of person conducting the transaction (PCT) do you encounter i.e. who is classified as PCT?**
- b) **What information do RIs obtain when verifying the person acting on behalf of the customer (which includes the PCT)?**

We note that the industry has no issues with collecting and verifying CDD information on PCT.

6 Please provide feedback on whether there are potential issues arising from the widening of verification methods used for customer / beneficial owners? *(similar question posed in questions 10 and 13 in the ED)*

Responses received from the industry highlighted the difficulty in determining the veracity of the information submitted and authenticating the documents.

RIs are expected to determine the extent of verification methods using the risk-based approach, which then should be incorporated into their internal policy and procedures pertaining to CDD. RIs are to make an assessment on the authenticity of each document, data and information to ensure the ‘level of reliability’ is sufficient to achieve the objectives of CDD. Where appropriate, verification may require more than one supporting document. Further guidance on verification methods will be subsequently published.

7 Please provide feedback on the adequacy of the guidance provided in Appendix 3 on tiered CDD measures for e-money.

(similar question posed in question 16 in the ED)

Generally, the industry finds the guidance in Appendix 3 sufficient. Some respondents sought further clarification on the tiered CDD measures.

Appendix 3 should be read in conjunction with paragraph 14 of the revised policy document which provides details on the requirements and additional safeguards in accordance to the different tiers. Though the revised policy document prescribes minimum information which is required to be collected for CDD purposes, RIs may obtain additional information based on their risk appetite.

8 What are the possible operational challenges RIs encounter on establishing non face-to-face business relations?

(similar question posed in questions 11 and 14 in the ED)

Some of the challenges highlighted by the industry includes authenticating or verifying the source of foreign funds and identifying account holders from overseas registered companies.

Some other concerns identified were the potential security issues, which may lead to fraud, identity theft and also information risks.

The Bank understands the operational challenges faced by the RIs and encourages RIs to conduct their own assessment as to what other measures need to be undertaken to correspond with the risks identified.

Furthermore, based on the industry's feedback on additional measures to be undertaken to identify and verify the customer's identity, the Bank has made the necessary amendment on relevant paragraphs in the revised policy document.

9 Please provide feedback on operational issues with regard to disclosure of suspicious transaction reports (STRs). *(question 17 in the ED)*

Generally, the industry has no impediments in complying with the requirement on disclosure of STRs.

10 Please provide inputs on implementation issues on the policy requirements on enforcement orders. *(question 18 in the ED)*

Among the feedback received were issues relating to coordination between law enforcement agencies and the RIs, cooperation from all relevant parties as well as a proposal to have a standard operating procedure (SOP) by RIs. The Bank takes note on the proposal to have an SOP and will engage with the respective parties on this matter.

11 Please provide feedback on implementation issues regarding policy requirements on TFS on terrorism financing, proliferation financing and other United Nations Sanctions regime. *(question 19 in the ED)*

Among issues highlighted were on seeking clarification on the definition of 'without delay' and the identification of 'related parties'.

The Bank is aware of the challenges highlighted by the industry and will be issuing clarification via 'Frequently Asked Questions' to ensure effective implementation of these requirements. However, the Bank would like to reiterate that TFS obligations are crucial in meeting Malaysia's obligations under the respective United Nations Security Council Resolutions requirements.

End of document.