Pursuant to the provisions of item 1 of Article 15(1) of the Act on the Croatian Financial Services Supervisory Agency (Official Gazette, No 140/05 and 12/12) and Article 14(11) and Article 42(1) of the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette, No 108/17), the Croatian Financial Services Supervisory Agency, at the Board meeting held on 26 June 2018, adopted the

ORDINANCE
ON THE PROCEDURE OF ASSESSING THE RISK OF MONEY LAUNDERING AND TERRORIST FINANCING AND THE MANNER OF CARRYING OUT SIMPLIFIED AND ENHANCED CUSTOMER DUE DILIGENCE MEASURES

PART ONE

TITLE I

General provisions

Article 1

(1) This Ordinance prescribes the procedure of assessing the risk of money laundering and terrorist financing (ML/TF), the risk factors that obliged entities should consider when assessing the risk of money laundering and terrorist financing associated with individual business relationships and occasional transactions, and the manner of carrying out simplified and enhanced customer due diligence measures.

(2) Obliged entities from paragraph 1 of this Article are undertakings from Article 9(2) items 6, 7, 8, 9, 10, 11, 12 and 13 of the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette, No 108/17) supervised by the Croatian Financial Services Supervisory Agency (hereinafter: Hanfa) with respect to the implementation of this Act, and branches of equivalent obliged entities from other Member States and third countries established in the Republic of Croatia in accordance with the law governing their operation.

Article 2

Terms used in this Ordinance shall have the following meaning:

1. *Hanfa* means the Croatian Financial Services Supervisory Agency.
2. *Act* means the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette, No 108/17)
3. *Directive 2005/60/EU* means Directive 2005/60/EU of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC (Text with EEA relevance) (OJ L 141, 5.6.2015)
4. *Regulation (EU) 2015/847* means Regulation (EU) 2015/847 of the European Parliament and of the Council of 20 May 2015 on information accompanying transfers of funds and repealing Regulation (EC) No 1781/2006 (Text with EEA relevance) (OJ L 141, 5.6.2015)
5. *Regulation (EU) No 910/2014* means Regulation (EU) No 910/2014 of the European Parliament and of the Council of 23 July 2014 on electronic identification and trust services for electronic transactions in the internal market and repealing Directive 1999/93/EC (OJ L 257, 28.8.2014)

6. *Regulation (EU) 2016/679* means Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation), (Text with EEA relevance) (OJ L 119, 4.5.2016)
7. *Office* means the Anti-Money Laundering Office
8. *politically exposed person (PEP)* means a person as defined by the provisions of Article 46 of the Act
9. *family member of a politically exposed person* means a person as defined by the provisions of Article 46(4) of the Act
10. *close associate of a politically exposed person* means a person as defined by the provisions of Article 46(5) of the Act
11. *member state* means a state as defined by the provisions of item 3 of Article 4 of the Act
12. *third country* means a country as defined by the provisions of item 44 of Article 4 of the Act
13. *customer* means a person as defined by the provisions of item 41 of Article 4 of the Act
14. *EEA* means the European Economic Area
15. *OECD* means the Organisation for Economic Cooperation and Development
16. *G20* means the Group of Twenty Finance Ministers and Central Bank Governors
17. *FATF* is an inter-governmental body described in item 34 of Article 4 of the Act
18. *FSAP* means the Financial Sector Assessment Program
19. *business relationship* means a business, professional or commercial relationship which is connected with the professional activities of the obliged entity and which is expected, at the time when the contact is established, to have an element of duration
20. *risk factors* means variables that, either on their own or in combination, may increase or decrease the ML/TF risk posed by an individual business relationship or occasional transaction

21. *risk* means the impact and likelihood of ML/TF taking place. Risk refers to inherent risk, that is, the level of risk that exists before mitigation. It does not refer to residual risk, that is, the level of risk that remains after mitigation
22. *risk-based approach* means an approach whereby competent authorities and obliged entities identify, assess and understand the ML/TF risks to which firms are exposed and take anti-money laundering and countering financing of terrorism (AML/CFT) measures that are proportionate to those risks
23. *source of funds* means the origin of the funds involved in a business relationship or occasional transaction; it includes both the activity that generated the funds used in the business relationship, for example the customer's salary, as well as the means through which the customer's funds were transferred
24. *source of assets* means the origin of the customer's total assets
25. *complex and unusual transactions* means transactions that are larger than what the obliged entity would normally expect based on its knowledge of the customer, the business relationship or the category to which the customer belongs; or they have an unusual or unexpected pattern compared with the customer's normal activity or the pattern of transactions associated with similar customers, products or services; or they are very complex compared with other, similar, transactions associated with similar customer types, products or services; or they have no evident economic rationale or lawful purpose; or they deviate from the customer's normal or expected business operations, even when the grounds for suspecting money laundering and terrorist financing have not yet been established for such transactions
26. *countries associated with higher ML/TF risk* means countries that, based on an assessment of the risk factors set out in Title II of these Ordinance, present a higher ML/TF risk. This term includes, but is not limited to, high-risk third countries identified

as having strategic deficiencies in their AML/CFT regime as referred to in Article 49(4) of the Act.

27. *predicate offence* means offence as defined by Article 4(33) of the Act.

TITLE II

Assessing and managing the risk of money laundering and terrorist financing

Article 3

When considering risk and risk management with respect to money laundering and terrorist financing related to business relationship and occasional transactions, obliged entities must include the following:

1. assessment of the entire business with regard to products and services offered, customer types and profiles, number and size of transactions and delivery channels used to offer services to customers
2. customer due diligence, including an initial due diligence made prior to establishing a business relationship or carrying out an occasional transaction, whose level and type are determined on the basis of findings and the assessment of the entire business
3. comprehensive consideration and review of risks associated with a particular business relationship and occasional transaction, including additional customer due diligence measures, and analysis of overall information in order to determine and identify all the relevant risk factors, and
4. regular updates and revisions of risk assessments, transaction monitoring and, where appropriate, examining sources of funds and checking and reviewing risk assessments, with a view to determining changes in business relationship risk.

Customer due diligence (CDD)

Article 4

(1) Before entering into a business relationship or carrying out an occasional transaction, entities should apply initial CDD.

(2) Initial CDD from paragraph 1 of this Article should include at least risk-sensitive measures to:

1. identify the customer and, where applicable, the customer's beneficial owner or legal representatives;
2. verify the customer's identity on the basis of reliable and independent sources and, where applicable, verify the beneficial owner's identity for the purpose of accurate verification;
3. establish the purpose and intended nature of the business relationship

Holistic view of the risk associated with a particular business relationship or occasional transaction

Article 5

(1) Entities should gather sufficient information to be satisfied that they have identified all relevant risk factors, including, where necessary, by applying additional CDD measures.

(2) Entities should assess those risk factors to obtain a holistic view of the risk associated with a particular business relationship or occasional transaction.

Assessment of the risk of money laundering and terrorist financing
Article 6

(1) Assessment of the risk of money laundering and terrorist financing includes:
1. identifying the risk of money laundering and terrorist financing and
2. assessing the risk of money laundering and terrorist financing.

(2) When identifying the risk of money laundering and terrorist financing, entities must consider the following risk factors:
1. customer risk factors
2. country and geographical area risk factors
3. products, services and transactions risk factors
4. delivery channel risk factors.

(3) Where possible, information about these ML/TF risk factors should come from a variety of sources, whether these are accessed individually or through commercially available tools or databases that pool information from several sources.

(4) Entities should determine the type and number of sources containing information and data on risks.

(5) When determining sources from paragraph 4 of this Article, entities should always consider the following sources of information:
1. the European Commission's supranational ML/TF risk assessment
2. national ML/TF risk assessment
3. information from government, such as the government's national risk assessments, policy statements and alerts, and explanatory memorandums to relevant legislation
4. information from regulators, such as guidance and the reasoning set out in regulatory fines
5. information from the Office and law enforcement agencies, such as threat reports, alerts and typologies
6. information obtained as part of the initial CDD process.

(6) Other sources of information entities may consider in this context may include, among others:
1. their own knowledge and professional expertise;
2. information from industry bodies, e.g. information on typologies and emerging risks;
3. information from civil society, such as corruption indices and country reports;
4. information from international standard-setting bodies such as mutual evaluation reports or legally non-binding blacklists;
5. information from credible and reliable open sources, such as reports in reputable newspapers;
6. information from credible and reliable commercial organisations, such as risk and intelligence reports; and
7. information from statistical organisations and academia.

Risk assessment factors
Article 7

(1) Obliged entities should have in place internal regulations prescribing risk factors that will be used. When defining risk factors, obliged entities should consider at least the risk

factors from this Ordinance and the Act. Risk factors set out in this Ordinance are not exhaustive, an they should be considered on a case-to-case basis.

(2) When assessing the risk of a business relationship of occasional transaction, obliged entities are not required to identify all the risk factors prescribed by this Ordinance, but only those that are relevant for a business relationship or occasional transaction.

(3) Obliged entities should take a holistic view of the risk associated with a particular business relationship or occasional transaction, and take into account that the presence of isolated risk factors does not necessarily move a relationship into a higher or lower risk category, with the exception of cases from Article 44 of the Act.

Customer risk factors
Article 8

(1) When identifying the risk associated with their customers, including their customers' beneficial owners, entities should consider the risk related to the customer's and the customer's beneficial owner's business or professional activity, reputation, as well as nature and behaviour.

(2) Risk factors that may be relevant when considering the risk associated with a customer's or a customer's beneficial owner's business or professional activity include:
1. Does the customer or beneficial owner have links to sectors that are commonly associated with higher corruption risk, such as construction, pharmaceuticals and healthcare, the arms trade and defence, the extractive industries or public procurement?
2. Does the customer or beneficial owner have links to sectors that are associated with higher ML/TF risk, for example certain Money Service Businesses, casinos or dealers in precious metals?
3. Does the customer or beneficial owner have links to sectors that involve significant amounts of cash?
4. Where the customer is a legal person or entity as defined in Article 26(1) of the Act, what is the purpose of their establishment? For example, what is the nature of their business?
5. Is the customer or their beneficial owner a Politically Exposed Person? Do they have any other relevant links to a PEP?
6. Does the customer or beneficial owner hold another prominent public position or enjoy a high public profile that might enable them to abuse this position for private gain? For example, are they decision-making members of high-profile sporting bodies or individuals who are known to influence the government and other senior decision-makers?
7. Is the customer a legal person subject to enforceable disclosure requirements that ensure that reliable information about the customer's beneficial owner is publicly available, for example public companies listed on the stock exchange?
8. Is the customer a credit or financial institution acting on its own account from a jurisdiction with an effective AML/TF regime and is it supervised for compliance with local AML/TF obligations?
9. Is there evidence that the customer has been subject to supervisory sanctions or enforcement for failure to comply with AML/TF obligations or wider conduct requirements in recent years?
10. Is the customer a public administration body or enterprise from a jurisdiction with low levels of corruption?
11. Is the customer's or the beneficial owner's background consistent with what the entity knows about their former, current or planned business activity, their business's

turnover, the source of funds and the customer's or beneficial owner's source of wealth?

(3) The following risk factors may be relevant when considering the risk associated with a customer's or beneficial owners' reputation:
   1. Are there adverse media reports or other relevant sources of information about the customer or the beneficial owner, for example are there any allegations of criminality or terrorism? The absence of criminal convictions alone may not be sufficient to dismiss allegations of wrongdoing.
   2. Has the customer, beneficial owner or anyone publicly known to be closely associated with them had their assets frozen due to administrative or criminal proceedings or allegations of terrorism or terrorist financing?
   3. Is the obliged entity aware of the fact that the customer or beneficial owner have been reported to the Office for suspicious transactions?
   4. Does the obliged entity have other information about the customer's or the beneficial owner's integrity obtained in the course of a business relationship?

(4) Obliged entities should note that not all of the risk factors associated with a customer's or beneficial owner's nature and behaviour will be apparent at the outset; they may emerge only once a business relationship has been established.

(5) The following risk factors may be relevant when considering the risk associated with a customer's or beneficial owner's nature and behaviour:
   1. Does the customer have legitimate reasons for being unable to provide robust evidence of their identity, perhaps because they are seeking international protection?
   2. Are there any doubts about the veracity or accuracy of the customer's or beneficial owner's identity?
   3. Are there indications that the customer might seek to avoid the establishment of a business relationship? For example, does the customer look to carry out one transaction or several one-off transactions where the establishment of a business relationship might make more economic sense?
   4. Is the customer's ownership and control structure transparent and does it make sense? If the customer's ownership and control structure is complex or opaque, is there an obvious commercial or lawful rationale?
   5. Does the customer issue bearer shares or does it have nominee shareholders?
   6. Is the customer a legal person or arrangement that could be used as an asset-holding vehicle?
   7. Is there a sound reason for changes in the customer's ownership and control structure?
   8. Does the customer request transactions that are complex, unusually or unexpectedly large or have an unusual or unexpected pattern without an apparent economic or lawful purpose or a sound commercial rationale?
   9. Are there grounds to suspect that the customer is trying to evade specific thresholds such as those set out in Article 16(1)(2) and 16(1)(3) and Article 61(1) of the Act?
   10. Does the customer request unnecessary or unreasonable levels of secrecy? For example, is the customer reluctant to share CDD information, or do they appear to want to disguise the true nature of their business?
   11. Can the customer's or beneficial owner's source of wealth or source of funds be easily explained, for example through their occupation, inheritance or investments? Is the explanation plausible?
   12. Does the customer use the products and services they have taken out as expected when the business relationship was first established?
   13. Where the customer is a non-resident, could their needs be better serviced elsewhere? Is there a sound economic and lawful rationale for the customer requesting the type of financial service sought?

14. Is the customer a non-profit organisation whose activities could be abused for terrorist financing purposes?

Country and geographical area risk factors
Article 9

(1) When identifying the risk associated with countries and geographical areas, obliged entities should consider the risk related to:
   1. the countries in which the customer and beneficial owner are based
   2. the countries that are the customer's and beneficial owner's main places of business; and
   3. the countries to which the customer and beneficial owner have relevant personal links.

(2) Obliged entities should note that the nature and purpose of the business relationship will often determine the relative importance of individual country and geographical risk factors, for example:
   1. where the funds used in the business relationship have been generated abroad, the level of predicate offences to money laundering and the effectiveness of a country's legal system may be particularly relevant;
   2. where funds are received from, or sent to, jurisdictions where groups committing terrorist offences are known to be operating, obliged entities should consider to what extent this could be expected to or might give rise to suspicion, based on what the entities know about the purpose and nature of the business relationship;
   3. where the customer is a credit or financial institution, obliged entities should pay particular attention to the adequacy of the country's AML/CFT regime and the effectiveness of AML/CFT supervision;
   4. where the customer is a legal person, obliged entities should take into account the extent to which the country in which the customer and, where applicable, the beneficial owner are registered effectively complies with international tax transparency standards.

(3) Risk factors that obliged entities should consider when identifying the effectiveness of a country's AML/CFT regime include:
   1. Has the country been identified as a high-risk third country in line with the Directive (EU) 2015/849?
   2. Is there information from more than one credible and reliable source about the quality of the country's AML/CFT controls, including information about the quality and effectiveness of regulatory enforcement and oversight?
   3. Examples of possible sources include:
      a) reports by the Financial Action Task Force (FATF) or FATF-style Regional Bodies (FSRBs)
      b) the FATF's list of high-risk and non- cooperative countries
      c) International Monetary Fund (IMF) assessments and
      d) Financial Sector Assessment Programme (FSAP) reports.
   4. Obliged entities should note that membership of the FATF or an FSRB does not mean that the country's AML/CFT regime is adequate and effective.

(4) Risk factors that obliged entities should consider when identifying the level of terrorist financing risk associated with a country include:
   1. Is there information, for example from law enforcement or credible and reliable open media sources, suggesting that a country provides funding or support for terrorist

activities or that groups committing terrorist offences are known to be operating in the country or territory?
2. Is the country subject to financial sanctions, embargoes or measures that are related to terrorism, financing of terrorism or proliferation issued by, for example, the United Nations or the European Union?

(5) Risk factors that obliged entities should consider when identifying a country's level of transparency and tax compliance include:
1. Is there information from more than one credible and reliable source that the country has been deemed compliant with international tax transparency and information sharing standards? Is there evidence that relevant rules are effectively implemented in practice?
2. Examples of possible sources include:
a) reports by the Global Forum on Transparency and the Exchange of Information for Tax Purposes of the Organisation for Economic Co-operation and Development (OECD), which rate countries for tax transparency and information sharing purposes;
b) assessments of the country's commitment to automatic exchange of information based on the Common Reporting Standard;
c) assessments of compliance with FATF Recommendations 9, 24 and 25 and Immediate Outcomes 2 and 5 by the FATF or FSRBs; and
d) IMF assessments.
3. Has the country committed to, and effectively implemented, the Common Reporting Standard on Automatic Exchange of Information, which the G20 adopted in 2014?
4. Has the country put in place reliable and accessible beneficial ownership registers?

(6) Risk factors that obliged entities should consider when identifying the risk associated with the level of predicate offences to money laundering include:
1. Is there information from credible and reliable public sources about the level of predicate offences? Examples of possible sources include:
a) corruption perceptions indices;
b) OECD country reports on the implementation of the OECD's anti-bribery convention; and
c) United Nations Office on Drugs and Crime World Drug Report.
2. Is there information from more than one credible and reliable source about the capacity of the country's investigative and judicial system to effectively investigate and prosecute these offences?

Products, services and transactions risk factors
Article 10

(1) When identifying the risk associated with their products, services or transactions, obliged entities should consider the following risk factors:
1. the level of transparency, or opaqueness, the product, service or transaction affords;
2. the complexity of the product, service or transaction; and
3. the value or size of the product, service or transaction.

(2) When identifying the risk associated with a product, service or transaction's transparency, obliged entities should consider the following risk factors:
1. To what extent do products or services allow the customer or beneficial owner or beneficiary structures to remain anonymous, or facilitate hiding their identity? Examples of such products and services include bearer shares and legal entities such as foundations that can be structured in such a way as to take advantage of anonymity and allow dealings with shell companies or companies with nominee shareholders.

2. To what extent is it possible for a third party that is not part of the business relationship to give instructions, for example in the case of certain correspondent relationships?

(3) When identifying the risk associated with a product, service or transaction's complexity, obliged entities should consider the following risk factors:
1. To what extent is the transaction complex and does it involve multiple parties or multiple jurisdictions? Are transactions straightforward, for example are regular payments made into a pension fund?
2. To what extent do products or services allow payments from third parties or accept overpayments where this is would not normally be expected?
3. Where third party payments are expected, does the firm know the third party's identity, for example is it a state benefit authority or a guarantor? Or are products and services funded exclusively by fund transfers from the customer's own account at another financial institution that is subject to AML/CFT standards and oversight that are comparable to those required under Directive (EU) 2015/849?
4. Does the obliged entity understand the risks associated with its new or innovative product or service, in particular where this involves the use of new technologies or payment methods?

(4) When identifying the risk associated with a product, service or transaction's value or size, obliged entities should consider the following risk factors:
1. To what extent are products or services cash intensive, as are many payment services but also certain current accounts?
2. To what extent do products or services facilitate or encourage high-value transactions?
3. Are there any caps on transaction values or levels of premium that could limit the use of the product or service for ML/TF purposes?

Delivery channel risk factors
Article 11

(1) When identifying the risk associated with the way in which the customer obtains the products or services they require, obliged entities should consider the risk related to:
1. the extent to which the business relationship is conducted on a non-face-to-face basis;
2. any introducers or intermediaries the obliged entity might use; and
3. the nature of their relationship with the entity.

(2) Risk factors to be taken into account by obliged entities when identifying risks in relation to the product or service delivery include:
1. Is the customer physically present for identification purposes?
2. If they are not, has the obliged entity used a reliable form of non-face-to-face CDD?
3. Has it taken steps to prevent impersonation or identity fraud?
4. Have CDD measures been carried out by a third party which is part of the same group, instead of by the obliged entity?
5. Does the obliged entity rely on CDD measures carried out by a third party which is part of the same group and which will not expose the obliged entity to an excessive ML/TF risk?
6. What has the obliged entity done to satisfy itself that the third party that is part of the same group applies CDD measures to EEA standards in line with Article 39(5) of the Act?
7. Have the CDD measures been carried out by a third party which is a financial institution that is not part of the same group?
8. Have the CDD measures been carried out by a third party whose main business activity is not related to financial service provision and which is not part of the same group?
9. Measures taken so that the obliged entity can make sure that:

a) the third party that is not the part of the same group, and that had carried out CDD measures instead of the obliged entity, applies CDD measures and keeps records to EEA standards and that it is supervised for compliance with comparable AML/CFT obligations in line with Article 39(1) of the Act
b) the third party will provide, immediately upon request, relevant copies of identification and verification data, in line with Article 41 of the Act; and
c) the quality of the third party's CDD measures is such that it can be relied upon?

10. Has the customer been introduced through an agent, that is, without direct contact with the obliged entity?
11. To what extent can the obliged entity be satisfied that the agent has obtained enough information so that the entity knows its customer and the level of risk associated with the business relationship or transaction?
12. If independent or tied agents are used, to what extent are they involved on an ongoing basis in the conduct of business? How does this affect the obliged entity's knowledge of the customer and ongoing risk management?
13. Where an obliged entity uses an intermediary:
    a) Are they a regulated person subject to AML obligations that are consistent with those of Directive (EU) 2015/849?
    b) Are they subject to effective AML supervision?
    c) Are there any indications that the intermediary's level of compliance with applicable AML legislation or regulation is inadequate, for example has the intermediary been sanctioned for breaches of AML/CFT obligations?
    d) Are they based in a jurisdiction associated with higher ML/TF risk?
    e) Are they based in a high-risk third country as determined by the Commission delegated act?
    f) Obliged entities may entrust the intermediary from point 13(e) of this paragraph with to carry out CDD measures, provided that the intermediary is a branch or majority-owned subsidiary of another company established in the EU, and the obliged entity is confident that the intermediary fully complies with group-wide policies in line with Article 45 of Directive (EU) 2015/849.

Weighting risk factors
Article 12

(1) Obliged entities must weigh risk factors by relevance in the context of a business relationship or occasional transaction.

(2) When weighting risk factors, obliged entities should ensure that:
1. weighting is not unduly influenced by just one factor
2. profit considerations do not influence the risk rating
3. weighting does not lead to a situation where it is impossible for any business relationship to be classified as high risk
4. the provisions of Article 44 items 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10 of the Act regarding situations that always present a high money laundering risk cannot be over-ruled by the firm's weighting; and
5. they are able to over-ride any automatically generated risk scores where necessary.

(3) In case of over-riding risk scores from item 5 of paragraph 2 of this Article, the rationale for the decision to over-ride such scores should be documented appropriately.

(4) Where an obliged entity uses automated IT systems to allocate overall risk scores to categorise business relationships or occasional transactions and does not develop these in house but purchases them from an external provider, it should understand how the system works and how it combines risk factors to achieve an overall risk score.

(5) An obliged entity must always be able to satisfy itself that the scores allocated reflect its understanding of ML/TF risk and it should be able to demonstrate this to Hanfa.

Categorising business relationships and occasional transactions
Article 13

(1) Following its risk assessment, an obliged entity should categorise its business relationships and occasional transactions according to the perceived level of ML/TF risk.

(2) Obliged entities should have internal regulations prescribing the most appropriate way to categorise risk, in accordance with the nature and size of their business and the types of ML/TF risk they are exposed to. There should be at least three categories of risk: high, medium and low.

TITLE III

Simplified and enhanced customer due diligence measures

Article 14

(1) An obliged entity's risk assessment should help it identify where it should focus its AML/CFT risk management efforts, both at customer take-on and for the duration of the business relationship.

(2) Obliged entities must apply each of the CDD measures set out in Article 15 of the Act. CDD measures should help entities better understand the risk associated with individual business relationships or occasional transactions.

(3) Obliged entities must establish internal rules prescribing customer due diligence measures, in accordance with the determined level and type of risk of money laundering and terrorist financing. When defining the due diligence measures, obliged entities must consider the due diligence measures prescribed by this Ordinance and apply them consistently.

Simplified customer due diligence (SDD)
Article 15

(1) When conducting simplified CDD, obliged entities should implement all CDD measures referred to in Article 15 of the Act.

(2) In cases where business relationship or occasional transaction are categorised as low-risk, obliged entities may adjust the amount, timing or type of each or all of the CDD measures in a way that is commensurate to the low risk they have identified.

(3) SDD measures that obliged entities may apply include, but are not limited to:
1) adjusting the timing of CDD, for example where the product or transaction sought has features that limit its use for ML/TF purposes, for example by:
   a) a) verifying the customer's or beneficial owner's identity during the establishment of the business relationship; or
   b) verifying the customer's or beneficial owner's identity once transactions exceed a defined threshold or once a reasonable time limit has lapsed. Obliged entities must make sure that:
      - this does not result in a de facto exemption from CDD
      - the customer's or beneficial owner's identity will ultimately be verified

- the threshold or time limit is set at a reasonably low level
- they have systems in place to detect when the threshold or time limit has been reached; and
- they do not defer CDD where applicable legislation, for example Regulation (EU) 2015/847, requires that this information be obtained at the outset.

2. adjusting the quantity of information obtained for identification, verification or monitoring purposes, for example by:
   a) verifying identity on the basis of information obtained from one reliable, credible and independent document or data source only; or
   b) assuming the nature and purpose of the business relationship because the product is designed for one particular use only.
3. adjusting the quality or source of information obtained for identification, verification or monitoring purposes, for example by:
   a) accepting information obtained from the customer rather than an independent source when verifying the beneficial owner's identity where, for justified reasons, it is not possible to obtain data from independent sources; or
   b) where the risk associated with all aspects of the relationship is very low, relying on the source of funds to meet some of the CDD requirements, for example where the funds are state benefit payments or where the funds have been transferred from an account in the customer's name at an EEA undertaking.
4. adjusting the frequency of CDD updates and reviews of the business relationship, for example carrying these out only when trigger events occur such as the customer looking to take out a new product or service or when a certain transaction threshold is reached; obliged entities must make sure that this does not result in a de facto exemption from keeping CDD information up-to-date.
5. adjusting the frequency and intensity of transaction monitoring, for example by monitoring transactions above an internally defined threshold only. Where obliged entities choose to do this, they must ensure that the threshold is set at a reasonable level and that they have systems in place to identify linked transactions that, together, would exceed that threshold.

(4) The information which an obliged entity obtains when applying SDD measures must enable it to be reasonably satisfied that its assessment that the risk associated with the relationship is low is justified. It must also be sufficient to give the entity enough information about the nature of the business relationship or occasional transaction to identify any unusual or suspicious transactions.

(5) SDD must not be applied where there are grounds to suspect that ML/TF is being attempted with respect to customer, transaction, assets or funds, or where high-risk scenarios are applied, or in cases of complex and unusual transactions from Article 53(1) of the Act, and if there is an obligation to conduct enhanced due diligence measures.

Enhanced customer due diligence (EDD)
Article 16

(1) Obliged entities must apply EDD measures in situations referred to in Article 44 of the Act, in order to manage and mitigate those risks appropriately.

(2) EDD measures must be applied in addition to regular CDD measures.

EDD measures applied to politically exposed persons
Article 17

(1) Obliged entities that have identified that a customer or beneficial owner is a PEP must always:
   1. take adequate measures to establish the source of assets and the source of funds to be used in the business relationship or occasional transaction, in order to allow the entity to satisfy itself that it does not handle the proceeds from corruption or other criminal activity;
   2. obtain senior management approval for entering into, or continuing, a business relationship with a PEP, or a customer whose beneficial owner is a PEP;
   3. apply enhanced ongoing monitoring of both transactions and the risk associated with the business relationship, whereby the frequency of ongoing monitoring should be determined by the level of high risk associated with the relationship;
   4. identify unusual transactions and regularly review the information they hold to ensure that any new or emerging information that could affect the risk assessment is identified in a timely fashion.

(2) Measures from item 1 of paragraph 1 of this Article depend on the level of high risk associated with the business relationship or unusual transaction. Where the risk associated with the PEP relationship or occasional transaction is particularly high, obliged entities should verify the source of assets and the source of funds on the basis of reliable and independent data, documents or information.

(3) Obliged entities should have in place internal regulations prescribing an appropriate level of senior management to issue approval from item 2 of paragraph 1 of this Article. Senior manager should have sufficient seniority and oversight to take informed decisions on issues that directly impact the obliged entity's risk profile. When considering the approval as referred to in item 2 of paragraph 1 of this Article, senior manager should base the decision on the level of ML/TF risk the obliged entity would be exposed to if it entered into that business relationship and how well equipped it is is to manage that risk effectively.

(4) Obliged entities must apply all of the measures from paragraph 1 of this Article to PEPs, their family members and known close associates from Article 46(4) and 46(5) of the Act, and should adjust the extent of these measures on a risk-sensitive basis.

EDD measures applied to high-risk third countries
Article 18

(1) When dealing with natural persons or legal persons established or residing in a high-risk third country and in all other high-risk situations, obliged entities should establish internal rules about which EDD measures are appropriate for each high-risk situation.

(2) The appropriate type of EDD, including the extent of the additional information sought, and of the increased monitoring carried out, will depend on the reason why an occasional transaction or a business relationship was classified as high risk.

(3) Obliged entities are not required to apply all the EDD measures from paragraph 4 of this Article in all the cases from paragraph 1 of this Article. In certain high-risk situations it may be appropriate to focus on enhanced ongoing monitoring during the course of the business relationship.

(4) When determining EDD measures from paragraph 1 of this Article, obliged entities should consider:

1. Increasing the quantity of information obtained for CDD purposes:
   a) Information about the customer's or beneficial owner's identity, or the customer's ownership and control structure, to be satisfied that the risk associated with the relationship is well understood. This may include obtaining and assessing information about the customer's or beneficial owner's reputation and assessing any negative allegations against the customer or beneficial owner, for example:
      - information about family members and close business partners;
      - information about the customer's or beneficial owner's past and present business activities; and
      - adverse media searches.
   b) Information about the intended nature of the business relationship to ascertain that the nature and purpose of the business relationship is legitimate and to help obtain a more complete customer risk profile. This may include obtaining information on:
      - the number, size and frequency of transactions that are likely to pass through the account, to enable the obliged entity to spot deviations that might give rise to suspicion (in some cases, requesting evidence may be appropriate);
      - why the customer is looking for a specific product or service, in particular where it is unclear why the customer's needs cannot be met better in another way, or in a different jurisdiction;
      - the destination of funds;
      - the nature of the customer's or beneficial owner's business, to enable the firm to better understand the likely nature of the business relationship.
2. Increasing the quality of information obtained for CDD purposes to confirm the customer's or beneficial owner's identity including by:
   a) requiring the first payment to be carried out through an account verifiably in the customer's name with a credit institution in a member state or a third country subject to CDD standards that are not less robust than those set out in Chapter II of Directive (EU) 2015/849; or
   b) establishing that the customer's assets and the funds that are used in the business relationship are not the proceeds of criminal activity and that the source of assets and source of funds are consistent with the obliged entity's knowledge of the customer and the nature of the business relationship. In some cases, where the risk associated with the relationship is particularly high, verifying the source of assets and the source of funds may be the only adequate risk mitigation tool. The source of funds or assets can be verified, inter alia, by reference to VAT and income tax returns, copies of audited accounts, pay slips, public deeds or independent media reports.
3. Increasing the frequency of reviews to be satisfied that the obliged entity continues to be able to manage the risk associated with the individual business relationship or conclude that the relationship no longer corresponds to its risk appetite and to help identify any transactions that require further review, including by:
   a) increasing the frequency of reviews of the business relationship to ascertain whether the customer's risk profile has changed and whether the risk remains manageable;
   b) obtaining the approval of senior management to commence or continue the business relationship to ensure that senior management are aware of the risk the obliged entity is exposed to and can take an informed decision about the extent to which they are equipped to manage that risk;
   c) reviewing the business relationship on a more regular basis to ensure any changes to the customer's risk profile are identified, assessed and, where necessary, acted upon; or
   d) conducting more frequent or in-depth transaction monitoring to identify any unusual or unexpected transactions that might give rise to suspicion of ML/TF. This may include establishing the destination of funds or ascertaining the reason for certain transactions.

EDD measures applied to complex and unusual transactions
Article 19

(1) Obliged entities should put in place adequate policies and procedures to detect complex and unusual transactions.

(2) Obliged entities must apply EDD measures in case of transactions that are unusual because:
1. they are larger than what the obliged entity would normally expect based on its knowledge of the customer, the business relationship or the category to which the customer belongs;
2. they have an unusual or unexpected pattern compared with the customer's normal activity or the pattern of transactions associated with similar customers, products or services; or
3. they are very complex compared with other, similar, transactions associated with similar customer types, products or services,
4. and the obliged entity is not aware of an economic rationale or lawful purpose or doubts the veracity of the information it has been given.

(3) These EDD measures should be sufficient to help the obliged entity determine whether these transactions give rise to suspicion and, together with measures from Article 53(3) of the Act, must at least include:
1. taking reasonable and adequate measures to understand the background and purpose of these transactions, for example by establishing the source and destination of the funds or finding out more about the customer's business to ascertain the likelihood of the customer making such transactions; and
2. monitoring the business relationship and subsequent transactions more frequently and with greater attention to detail.

(4) Obliged entities may decide to monitor individual transactions where this is commensurate to the risk they have identified.

Refusing business relationships and transactions
Article 20

(1) Obliged entities which are unable to comply with CDD requirements from items 1 to 3 of Article 15(1) and Article 15(2) of the Act should not enter into a business relationship or carry out a transaction, if they are not satisfied that the purpose and nature of the business relationship are legitimate or if they are not satisfied that they can effectively manage the risk that they may be used for ML/TF purposes.

(2) Where such a business relationship already exists, meaning that obliged entities cannot conduct measures from items 1 to 3 of Article 15(1) within a reasonable timeframe, or there is reasonable doubt that the purpose and nature of the business relationship are not legitimate, obliged entities should terminate it or suspend transactions until it can be terminated or measures can be carried out.

(3) The application of a risk-based approach does not of itself require obliged entities to refuse or terminate business relationships with entire categories of customers that they associate with higher ML/TF risk, as the risk associated with individual business relationships will vary, even within one category.

(4) Obliged entities should have in place internal regulations prescribing the level of decision-making on the prohibition of establishing and terminating business relationships, prohibiting the execution of transactions or suspending the execution of transactions and the deadline referred to in paragraph 2 of this Article.

Monitoring, reviewing and keeping records on risk assessments
Article 21

(1) Obliged entities should keep their assessments of the ML/TF risk associated with individual business relationships and occasional transactions as well as of the underlying factors under review to ensure their assessment of ML/TF risk remains up to date and relevant.

(2) Obliged entities should assess information obtained as part of their ongoing monitoring of a business relationship and consider whether this affects the risk assessment.

(3) Obliged entities should also ensure that they have systems and controls in place to identify emerging ML/TF risks and that they can assess these risks and, where appropriate, incorporate them into their business-wide and individual risk assessments in a timely manner.

(4) Systems and controls from paragraph 3 of this Article include:
1. processes to ensure that internal information is reviewed regularly to identify trends and emerging issues, in relation to both individual business relationships and the obliged entity's business;
2. processes to ensure that the obliged entity regularly reviews relevant information sources such as those specified in paragraphs 5 and 6 of Article 6 of this Ordinance, in particular:
   a) regularly reviewing media reports that are relevant to the sectors or jurisdictions in which the obliged entity is active;
   b) regularly reviewing law enforcement alerts and reports;
   c) ensuring that the obliged entity becomes aware of changes to terror alerts and sanctions regimes as soon as they occur; and
   d) regularly reviewing notifications issued by competent authorities.
3. processes to capture and review information on risks relating to new products;
4. engagement with other industry representatives and competent authorities (e.g. round tables, conferences and training providers), and processes to feed back any findings to relevant staff;
5. establishing a culture of information sharing within the company and strong company ethics.

(5) Within their systems and controls, obliged entities should put in place regular updates of risk assessments and determine the time dynamics of implementing the next risk assessment.

(6) Where an obliged entity is aware that a new risk has emerged, or an existing one has increased, this should be reflected in risk assessments as soon as possible. Obliged entities should carefully record issues throughout the year that could have a bearing on risk assessments, such as internal suspicious transaction reports, compliance failures and intelligence from front office staff.

(7) Any update to a risk assessment and adjustment of accompanying CDD measures should be proportionate and commensurate to the established ML/TF risk assessment procedure.

(8) Obliged entities should take steps to ensure that their risk management systems and controls, in particular those relating to the application of the right level of CDD measures, are effective and proportionate.

(9) Obliged entities should have internal regulations prescribing how to record and document their risk assessments of business relationships, as well as any changes made to risk assessments.

PART II

TITLE IV

Correspondent relationships

Introductory provisions on correspondent relationships

Article 22

(1) The provisions of this Title shall apply in full or appropriately to obliged entities having or establishing correspondent relations referred to in Article 4(19b) of the Act.

(2) Obliged entities referred to in paragraph 1 of this Article must take into account relevant risk factors and customer due diligence measures referred to in this Title, in addition to those laid down in Title II and Title III of this Ordinance.

Products, services and transaction risk factors in correspondent relationships

Article 23

(1) When considering risks associated with products, services and transactions indicating a higher risk, relevant risk factors include:
1. the account can be used by other respondent institutions that have a direct relationship with the respondent but not with the correspondent (‘nesting’, or downstream clearing), which means that the correspondent is indirectly providing services to other credit or financial institutions that are not the respondent;
2. the account can be used by other entities within the respondent’s group that have not themselves been subject to the correspondent’s due diligence; and
3. the service includes the opening of a payable-through account, which allows the respondent’s customers to carry out transactions directly on the account of the respondent.

(2) When considering risks associated with products, services and transactions indicating a lower risk, relevant factors include:
1. the relationship is limited to a SWIFT RMA capability, which is designed to manage communications between financial institutions. In a SWIFT RMA relationship, the respondent, or counterparty, does not have a payment account relationship;
2. credit or financial institutions are acting in a principal-to-principal capacity, rather than processing transactions on behalf of their underlying clients, for example in the case of foreign exchange services between two credit institutions where the business is transacted on a principal- to-principal basis between the credit institutions and where the settlement of a transaction does not involve a payment to a third party. In those cases, the transaction is for the own account of the respondent, and it relates to the selling, buying or pledging of securities on regulated markets, for example when acting as or using a custodian with direct access, usually through a local participant, to an EU or non-EU securities settlement system.

Customer risk factors in correspondent relationships

Article 24

(1) When considering risks associated with customers indicating a higher risk, relevant factors include:
   1. the respondent's AML/CFT policies and the systems and controls the respondent has in place to implement them fall short of the standards required by Directive (EU) 2015/849
   2. the respondent is not subject to adequate AML/CFT supervision
   3. the respondent, its parent or an undertaking belonging to the same group as the respondent has recently been the subject of regulatory enforcement for inadequate AML/CFT policies and procedures and/or breaches of AML/CFT obligations
   4. the respondent conducts significant business with sectors that are associated with higher levels of ML/TF risk; for example, the respondent conducts significant remittance business or business on behalf of certain money remitters or exchange houses, with non-residents or in a currency other than that of the country in which it is based
   5. the respondent's management or ownership includes PEPs, in particular where a PEP can exert meaningful influence over the respondent, where the PEP's reputation, integrity or suitability as a member of the management board or key function holder gives rise to concern or where the PEP is from a jurisdictions associated with higher ML/TF risk. Obliged entities should pay particular attention to those jurisdictions where corruption is perceived to be systemic or widespread.
   6. the history of the business relationship with the respondent gives rise to concern, for example because the amounts of transactions are not in line with what the correspondent would expect based on its knowledge of the nature and size of the respondent.

(2) When considering risks associated with customers indicating a lower risk, relevant factors include:
   1. the correspondent is satisfied that the respondent's AML/CFT controls are not less efficient than those required by Directive (EU) 2015/849;
   2. the correspondent is satisfied that the respondent is part of the same group as the correspondent, is not based in a jurisdiction associated with higher ML/TF risk and complies effectively with group AML standards that are not less strict than those required by Directive (EU) 2015/849.

Country or geographical area risk factors in correspondent relationships

Article 25

(1) When considering risks associated with countries or geographical areas indicating a higher risk, relevant factors include:
   1. the respondent is based in a country associated with higher ML/TF risk Obliged entities should pay particular attention to those jurisdictions
      a) with significant levels of corruption and/or other predicate offences
      b) without adequate capacity of the legal and judicial system effectively to prosecute offences from item 1(a) of this paragraph; or
      c) without effective AML/CFT supervision.
   2. the respondent conducts significant business with customers based in a country associated with higher ML/TF risk
   3. the respondent's parent is headquartered or is incorporated in a country associated with higher ML/TF risk.

(2) When considering risks associated with countries or geographical areas indicating a lower risk, relevant factors include:
   1. the respondent is based in a member state, and
   2. the respondent is based in a third country that has AML/CFT requirements not less robust than those required by Directive (EU) 2015/849 and effectively implements those requirements. If this is the case, correspondents should note that this does not exempt them from applying all measures set out in Article 45(1) of the Act.

Due diligence measures for correspondent relationships
Article 26

(1) All correspondents must carry out CDD on the respondent, on a risk-sensitive basis including the following:
   1. Identify, and verify the identity of, the respondent and its beneficial owner. As part of this, correspondents should obtain sufficient information about the respondent's business and reputation to establish that the money-laundering risk associated with the respondent is not increased. In particular, correspondents should:
      a) obtain information about the respondent's management and consider the relevance, for financial crime prevention purposes, of any links the respondent's management or ownership might have to PEPs or other high-risk individuals; and
      b) consider, on a risk-sensitive basis, whether obtaining information about the respondent's major business, the types of customers it attracts, and the quality of its AML systems and controls (including publicly available information about any recent regulatory or criminal sanctions for AML failings) would be appropriate. Where the respondent is a branch, subsidiary or affiliate, correspondents should also consider the status, reputation and AML controls of the parent.
   2. Establish and document the nature and purpose of the service provided, as well as the responsibilities of each institution. This may include setting out, in writing, the scope of the relationship, which products and services will be supplied, and how and by whom the correspondent facility can be used.
   3. monitor the business relationship, including transactions, to identify changes in the respondent's risk profile and detect unusual or suspicious behaviour, including activities that are not consistent with the purpose of the services provided or that are contrary to commitments that have been concluded between the correspondent and the respondent
   4. where the correspondent institution allows the respondent's customers direct access to accounts, it should conduct enhanced ongoing monitoring of the business relationship Due to the nature of correspondent relationship, post-execution monitoring is the norm.
   5. ensure that the CDD information they hold is up to date.

(2) Correspondents must also establish that the respondent does not permit its accounts to be used by a shell bank, in line with Article 54(4) of the Act. This may include asking the respondent for confirmation that it does not deal with shell banks, having sight of relevant passages in the respondent's policies and procedures, or considering publicly available information, such as legal provisions that prohibit the servicing of shell banks.

(3) There is no requirement for correspondents to apply CDD measures to the respondent's individual customers.

(4) If they use CDD questionnaires provided by international organisations, correspondents should assess whether they will be sufficient to allow them to comply with their obligations under Article 15(1) of the Act and should take additional steps where necessary.

Respondents based in third countries
Article 27

(1) Where the respondent is based in a third country, correspondents should apply at least measures from Article 49(1) of the Act, but they may adjust the extent of the measures on a risk-sensitive basis.

(2) if the correspondent is satisfied, based on adequate research, that the respondent is based in a third country that has an effective AML/CFT regime, supervised effectively for compliance with these requirements, and that there are no grounds to suspect that the respondent's AML/CFT policies and procedures are, or have recently been deemed, inadequate, then the assessment of the respondent's AML controls may not necessarily have to be carried out in full detail.

(3) Correspondents are required to take risk-sensitive EDD measures to:
1. gather sufficient information about a respondent to understand fully the nature of the respondent's business, in order to establish the extent to which the respondent's business exposes the correspondent to higher money-laundering risk. This should include taking steps to understand and risk-assess the nature of respondent's customer base and the type of activities that the respondent will transact through the correspondent account.
2. determine from publicly available information the reputation of the respondent and the quality of supervision. This means that the correspondent should assess the extent to which the correspondent can take comfort from the fact that the respondent is adequately supervised for compliance with its AML obligations. A number of publicly available resources, for example FATF or FSAP assessments, which contain sections on effective supervision, may help correspondents establish this.
3. assess the respondent institution's AML/CFT controls. This implies that the correspondent should carry out a qualitative and documented assessment of the respondent's AML/CFT control framework, not just obtain a copy of the respondent's AML policies and procedures. In line with the risk-based approach, where the risk is especially high and in particular where the volume of correspondent transactions is substantive, the correspondent should consider on-site visits and/or sample testing to be satisfied that the respondent's AML policies and procedures are implemented effectively.
4. obtain approval from senior management before establishing new correspondent relationships. The approving senior manager should not be the officer sponsoring the relationship. The appropriate approving function should be determined by internal regulations, and it should be dependent on the level of risk in association with the business relationship.
5. document the responsibilities of each respondent. Correspondents should set out in writing (and this may be part of the correspondent's standard terms and conditions), how and by whom the correspondent facility can be used and what the respondent's AML/CFT responsibilities are. Where the risk associated with the correspondent relationship is high, it may be appropriate for the correspondent to satisfy itself that the respondent complies with its responsibilities under this agreement, for example through ex post transaction monitoring.
6. with respect to payable-through accounts and nested accounts, be satisfied that the respondent has verified the identity of and performed ongoing due diligence on the customer having direct access to accounts of the correspondent and that it is able to provide relevant CDD data to the correspondent upon request. Correspondents should seek to obtain confirmation from the respondent that the relevant due diligence data can be provided upon request.

(4) Correspondents should appropriately document the conducted CDD measures and the applied decision-making processes.

(5) Correspondents should keep senior management informed of high-risk correspondent relationships and the steps the correspondent takes to manage that risk effectively.

Respondents based in member states
Article 28

(1) Where the respondent is based in a member state, the correspondent is obliged to apply risk-sensitive CDD measures pursuant to Article 15 of the Act.

(2) Where the risk associated with a respondent based in a member state is increased, correspondents must apply EDD measures in line with Article 29(3)(1), Article 29(3)(2) and Article 29(3)(3) of this Ordinance.

TITLE V

Rules applicable to asset management firms

Introductory provisions on asset management services
Article 29

(1) The provisions of Title V of this Ordinance apply to obliged entities providing asset management services.

(2) Within the meaning of this Ordinance, asset management is the provision of financial services to high-net-worth individuals and their families or businesses.

(3) Asset management referred to in paragraph 2 of this Article covers at least: current account management, mortgages, foreign exchange, investment management and advice, fiduciary services, safe custody, insurance, tax and estate planning and associated facilities, including legal support.

(4) Obliged entities referred to in paragraph 1 of this Article must take into account relevant risk factors and customer due diligence measures referred to in Title V of this Ordinance, in addition to those laid down in Title II and Title III of this Ordinance.

(5) Obliged entities referred to in paragraph 1 of this Article are subject to measures, actions and procedures referred to in Title VI, Title VII and Title VIII of this Ordinance where applicable.

Products, services and transaction risk factors related to asset management services
Article 30

When considering risks associated with products, services and transactions indicating a higher risk, relevant factors include:

1. transactions involving large amounts of cash or other physical stores of value such as precious metals
2. very high-value transactions

3. financial arrangements involving countries associated with higher ML/TF risk. Obliged entities must pay particular attention to countries that have a culture of banking secrecy or that do not comply with international tax transparency standards.
4. lending secured against the value of assets in other countries, particularly countries where it is difficult to ascertain whether the customer has legitimate title to the collateral, or where the identities of parties guaranteeing the loan are hard to verify
5. the use of complex business structures, particularly where the identity of the ultimate beneficial owner has been established in the manner laid down in Article 28(8) of the Act
6. business taking place across multiple countries, particularly where the transaction involves multiple providers of financial services
7. cross-border arrangements where assets are deposited or managed in another financial institution, either of the same financial group or outside of the group, particularly where the other financial institution is based in a country associated with higher ML/TF risk. Obliged entities must pay particular attention to countries with higher levels of predicate offences, a weak AML/CFT regime or weak tax transparency standards.

Customer risk factors related to asset management services

Article 31

When considering risks associated with customers indicating a higher risk, relevant factors include:

1. customers with income and/or assets from high-risk sectors such as arms, the extractive industries, construction, gambling or private military contractors
2. customers about whom credible allegations of wrongdoing have been made
3. customers who expect unusually high levels of confidentiality or discretion
4. customers whose spending or transactional behaviour makes it difficult to establish normal or expected patterns of behaviour
5. very wealthy and influential clients, including customers with a high public profile, non-resident customers and PEPs
6. customers who request that the obliged entity facilitates the customers being provided with a product or service by a third party without a clear business or economic rationale.

Country or geographical risk factors related to asset management services

Article 32

When considering risks associated with countries or geographical areas indicating a higher risk, relevant factors include:

1. business conducted in countries that have a culture of banking secrecy or do not comply with international tax transparency standards
2. customers with permanent or temporary residence in a country associated with higher ML/TF risk
3. customers whose funds derive from activity in a country associated with higher ML/TF risk.

Assessment of the risk of money laundering and terrorist financing related to asset management services

Article 33

(1) Obliged entities must ensure that the relationship manager participates and plays a key role in assessing the risk of that business relationship.

(2) Obliged entities must ensure independent oversight of risk assessment carried out by the relationship manager for the purpose of avoiding any conflicts of interest that may arise if the relationship manager becomes too close to the customer, to the detriment of the obliged entity's efforts to manage the risk of money laundering and terrorist financing.

(3) Independent oversight referred to in paragraph 2 of this Article may be carried out by, for instant, the compliance function or senior management.

Enhanced customer due diligence related to asset management services
Article 34

Obliged entities must apply EDD measures when the risk related to the business relationship is higher. EDD measures may involve the following:

1. obtaining and verifying more information about clients and reviewing and updating this information both on a regular basis and when prompted by material changes to a client's profile. Obliged entities must perform reviews on a risk-sensitive basis, reviewing higher risk clients at least annually but more frequently if risk dictates, which may include visits to clients' premises.
2. establishing the source of assets and funds. Where the risk is particularly high and/or where the obliged entity has doubts about the legitimate origin of the funds, verifying the source of assets and funds may be the only adequate risk mitigation tool. The source of funds or assets can be verified, by reference to, inter alia:
   a) an original or certified copy of a recent pay slip
   b) written confirmation of annual salary signed by an employer
   c) an original or certified copy of contract of sale
   d) written confirmation of sale signed by an advocate or solicitor
   e) an original or certified copy of a will or grant of probate
   f) written confirmation of inheritance signed by an advocate, solicitor, trustee or executor
   g) an internet search of a company registry to confirm the sale of a company
3. establishing the destination of funds
4. performing greater levels of scrutiny and due diligence on business relationships
5. carrying out an independent internal review and, where appropriate, seeking senior management approval of new clients and existing clients on a risk-sensitive basis
6. monitoring transactions on an ongoing basis, including, where necessary, reviewing each transaction as it occurs, to detect unusual or suspicious activity. This may include measures to determine whether any of the following are out of line with the business risk profile: transfers of cash, investments or other assets, the use of wire transfers, significant changes in activity and transactions involving countries associated with higher ML/TF risk. These measures may include the use of thresholds defined by internal acts, and an appropriate review process by which unusual behaviours are promptly reviewed by relationship management staff or, at certain thresholds, the compliance functions or senior management.
7. monitoring public reports or other sources of intelligence to identify information that relates to clients or to their known associates, businesses to which they are connected, potential corporate acquisition targets or third party beneficiaries to whom the client makes payments
8. ensuring that cash or other physical stores of value are handled only at bank counters, and never by relationship managers and
9. ensuring that the obliged entity is satisfied that a client's use of complex business structures is for legitimate and genuine purposes, and that the identity of the ultimate beneficial owner is understood.

Simplified customer due diligence related to asset management services
Article 35

Simplified due diligence is not appropriate in an asset management context.

TITLE VI

Rules applicable to investment funds

Introductory provisions on investment funds
Article 36

(1) The provisions of this Title apply to investment fund management companies and internally-managed investment funds with legal personality**.**

(2) Obliged entities referred to in paragraph 1 of this Article are subject to measures, actions and procedures referred to in Title VI, Title VII and Title VIII of this Ordinance where applicable.

Products, services and transaction risk factors related to investment funds
Article 37

(1) When considering risks associated with products, services and transactions indicating a higher risk, relevant factors include**:**
   1. the fund that is designed for a limited number of investors, for example a private fund or single investor fund
   2. a possibility to subscribe to the fund and then quickly redeem the investment without the investor incurring significant administrative costs
   3. a possibility to trade units of or shares in the fund without the fund or fund manager being notified at the time of the trade and, as a result, information about the investor is divided among several subjects, as is the case with closed-ended funds traded on secondary markets
   4. the subscription or acquisition that involves accounts or third parties in multiple countries, in particular where these countries are associated with a high ML/TF risk as defined in Article 9 of this Ordinance
   5. the subscription or acquisition that involves third party subscribers or payees, in particular where this is unexpected.

(2) When considering risks associated with products, services and transactions indicating a lower risk, relevant factors include:
   1. third party payments are not allowed
   2. the fund is open to small-scale investors only, with investments capped.

Customer risk factors related to investment funds
Article 38

(1) When considering risks associated with customers indicating a higher risk, relevant factors include the customers' behaviour that is unusual, as in the following examples:
   1. the rationale for the investment lacks an obvious strategy or economic purpose or the customer makes investments that are inconsistent with the customer's overall financial situation, where this is known to the obliged entity

2. the customer asks to repurchase or redeem an investment within a short period after the initial investment or before the payout date without a clear rationale, in particular where this results in financial loss or payment of high transaction fees
3. the customer requests the repeated purchase and sale of units or shares within a short period of time without an obvious strategy or economic rationale
4. the customer transfers funds in excess of those required for the investment and asks for surplus amounts to be reimbursed
5. the customer uses multiple accounts without previous notification, especially when these accounts are held in multiple countries or countries associated with a higher ML/TF risk
6. the customer wishes to structure the relationship in such a way that multiple parties, for example non-regulated nominee companies, are used in different countries, particularly where these countries are associated with a higher ML/TF risk
7. the customer suddenly changes the settlement location without rationale, for example by changing the customer's country of residence
8. the customer and the beneficial owner are located in different countries and at least one of these countries is associated with higher ML/TF risk as defined in the provisions of Title II of this Ordinance
9. the beneficial owner's funds have been generated in a country associated with higher ML/TF risk, in particular where the country is associated with higher levels of predicate offences to ML/TF.

(2) When considering risks associated with customers indicating a lower risk, relevant factors include:
1. the customer is an institutional investor whose status has been verified by an EEA government agency, for example a government-approved pensions scheme
2. the customer is a company in an EEA country or a third country that has AML/CFT requirements that are not less robust than those required by Directive (EU) 2015/849.

Distribution channel risk factors related to investment funds
Article 39

(1) When considering risks associated with distribution channels indicating a higher risk, relevant factors include:
1. unclear or complex distribution channels that limit the oversight of business relationships and restrict the ability to monitor transactions, for example the obliged entity uses a large number of sub-distributors for distribution in third countries
2. the distributor is located in a country associated with higher ML/TF risk as defined in the provisions of Title II of this Ordinance

(2) When considering risks associated with distribution channels indicating a lower risk, relevant factors include:
1. the fund admits only a designated type of low-risk investor, such as regulated firms investing as a principal
2. the fund can be purchased and redeemed only through a company, for example a financial intermediary, in an EEA country or a third country that has AML/CFT requirements that are not less robust than those required by Directive (EU) 2015/849.

Country or geographical risk factors related to investment funds
Article 40

When considering risks associated with countries or geographical areas indicating a higher risk, relevant factors include:

1. investors' monies that have been generated in countries associated with higher ML/TF risk, in particular those associated with higher levels of predicate offences to money laundering
2. the obliged entity that invests in sectors with higher corruption risk, e.g. the extractive industries or the arms trade, in countries identified by credible sources as having significant levels of corruption or other predicate offences to ML/TF, in particular where the fund is a single investor fund or has a limited number of investors.

Due diligence measures related to investment funds

Article 41

Obliged entities must take risk-sensitive measures to identify and verify the identity of the natural persons, if any, who ultimately own or control the customer or on whose behalf the transaction is being conducted, for example by asking the prospective investor to declare, when they first apply to join the fund, whether they are investing on their own behalf or whether they are an intermediary investing on someone else's behalf.

Article 42

(1) Where the customer is a natural or legal person who directly purchases units of or shares in a fund on their own account, and not on behalf of other, underlying investors; or a company that, as part of its economic activity, directly purchases units of or shares in its own name and exercises control over the investment for the ultimate benefit of one or more third parties who do not control the investment or investment decisions; and where the ML/TF risk is high, examples of EDD measures that obliged entities must apply include:
   1. obtaining additional customer information, such as the customer's reputation and background, before the establishment of the business relationship
   2. taking additional steps to further verify the documents, data or information obtained
   3. obtaining information on the source of funds and the source assets of the customer and of the customer's beneficial owner
   4. requiring that the redemption payment is made through the initial account used for investment or an account in the name of the customer
   5. increasing the frequency and intensity of transaction monitoring
   6. requiring that the first payment is made through a payment account held in the name of the customer with an EEA-regulated credit or financial institution or a regulated credit or financial institution in a third country that has AML/CFT requirements that are not less robust than those required by Directive (EU) 2015/849
   7. obtaining approval from senior management before the transaction is concluded when a customer uses a product or service for the first time
   8. enhanced monitoring of the customer relationship and individual transactions.

(2) In the case of the customer referred to in paragraph 1 of this Article, in situations with lower ML/TF risk, and provided that the funds are being transferred to or from a payment account held in the customer's name with an EEA-regulated credit or financial institution, obliged entities may apply SDD measures.

Article 43

(1) In the case where the customer is a company that acts in its own name and is the registered owner of the shares or units but acts on the account of, and pursuant to specific instructions from, one or more third parties, e.g. a financial intermediary that is a nominee, broker, multi-client pooled account/omnibus type account operator or operator of a similar passive-type arrangement, obliged entities must apply risk-sensitive customer due

diligence measures to the company or financial intermediary. Obliged entities must also take risk-sensitive due diligence measures to identify and verify the identity of the investors underlying the financial intermediary, as these investors are beneficial owners of the funds invested through the intermediary.

(2) In the case of the customer referred to in paragraph 1 of this Article, in situations with lower ML/TF risk, obliged entities may apply SDD measures, subject to the following conditions:
1. the financial intermediary is subject to AML/CFT obligations in an EEA country or in a third country that has AML/CFT requirements that are not less robust than those required by Directive (EU) 2015/849
2. the financial intermediary is effectively supervised for compliance with the requirements referred to in point 1 of this paragraph
3. the obliged entity has taken risk-sensitive steps to be satisfied that the ML/TF risk associated with the business relationship is low, based on, inter alia, the obliged entity's assessment of the financial intermediary's business, the types of clients the intermediary's business serves and the countries the intermediary's business is exposed to
4. the obliged entity has taken risk-sensitive steps to be satisfied that the intermediary applies robust and risk-sensitive customer due diligence measures to its own customers and its customers' beneficial owners As part of this, the obliged entity must take risk-sensitive measures to assess the adequacy of the intermediary's customer due diligence policies and procedures, for example by referring to publicly available information about the intermediary's compliance record or liaising directly with the intermediary
5. the obliged entity has taken risk-sensitive steps to be satisfied that the intermediary will provide customer due diligence information and documents on the underlying investors immediately upon request, for example by including relevant provisions in a contract with the intermediary or by sample-testing the intermediary's ability to provide customer due diligence information upon request.

(3) SDD measures referred to in paragraph 2 of this Article may include the following:
1. identifying and verifying the identity of the customer, including the customer's beneficial owners, but not the customer's clients
2. assessing the purpose and intended nature of the business relationship and
3. conducting ongoing monitoring of the business relationship.

(4) In the case of the customer referred to in paragraph 1 of this Article, where the ML/TF risk is increased, in particular where the fund is designated for a limited number of investors, obliged entities must apply EDD measures that may include the measures laid down in Article 42(1) of this Ordinance.

Article 44

(1) Where the customer is a third party, for example a financial intermediary's customer, and where the intermediary is not the registered owner of the shares or units, e.g. because the investment fund uses a financial intermediary to distribute fund shares or units, and the investor purchases units or shares through the intermediary and the intermediary does not become the legal owner of the units or shares, obliged entities must apply risk-sensitive customer due diligence measures to the ultimate investor as their customer. To meet its customer due diligence obligations, obliged entities may rely upon the intermediary in line with, and subject to, the conditions set out in Section VIII of Title III of the Act.

(2) In the case of the customer referred to in paragraph 1 of this Article, in situations with lower ML/TF risk, obliged entities may apply SDD measures. Provided that the conditions referred to Article 43(2) of this Ordinance are met, such measures may consist of the obliged entity obtaining identification data from the fund's share register or other records on the fund's investors of equal importance, together with the information referred to in Article 38(1) of the Act, which the obliged entity must obtain from the intermediary within a reasonable time frame. The obliged entity must set that time frame in line with the risk-based approach.

(3) In the case of the customer referred to in paragraph 1 of this Article, where the ML/TF risk is increased, in particular where the fund is designated for a limited number of investors, obliged entities must apply EDD measures that may include the measures laid down in Article 42(1) of this Ordinance.

TITLE VII

Rules applicable to life insurance undertakings

Introductory provisions on life insurance services
Article 45

(1) Entities subject to measures, actions and procedures referred to in this Title and in the first Part of this Ordinance are:
1. insurance undertakings with authorisation to conduct life insurance business and other insurance business related to investments
2. legal and natural persons engaged in insurance representation business relating to life insurance contracts and other insurance contracts related to investments
3. legal and natural persons engaged in insurance brokerage business relating to life insurance contracts and other insurance contracts related to investments.

(2) Obliged entities referred to in paragraph 1 of this Article are subject to measures, actions and procedures referred to in Title V and Title VI of this Ordinance where applicable.

Product, service and transaction risk factors related to life insurance
Article 46

(1) When assessing the risk and taking due diligence measures, obliged entities must take into account the following factors that may contribute to increasing risk:
1. flexibility of payments, for example the product allows payments from unidentified third parties
2. high-value or unlimited-value premium payments, overpayments or large volumes of lower value premium payments
3. cash payments
4. ease of access to accumulated funds, for example the product allows partial withdrawals or early surrender at any time, with limited charges or fees
5. negotiability, for example the product can be traded on a secondary market
6. the product can be used as collateral for a loan
7. anonymity, for example the product facilitates or allows the anonymity of the customer.

(2) When assessing the risk and taking due diligence measures, obliged entities must take into account the following factors that may contribute to reducing risk:
1. the product only pays out against a pre-defined event
2. the product has no surrender value
3. the product has no investment element
4. the product has no third party payment facility

5. the product requires that total investment is curtailed at a low value
6. the product is a life insurance policy where the premium is low
7. the product only allows small-value regular premium payments, for example no overpayment
8. the product is accessible only through employers, for example a pension, superannuation or similar scheme that provides retirement benefits to employees, where contributions are made by way of deduction from wages and the scheme rules do not permit the assignment of a member's interest under the scheme
9. the product cannot be redeemed in the short or medium term, as in the case of pension schemes without an early surrender option
10. the product cannot be used as collateral
11. the product does not allow cash payments
12. the product has conditions that must be met to benefit from tax relief.

Customer and beneficiary risk factors related to life insurance

Article 47

(1) When assessing the risks and taking due diligence measures, obliged entities must take into account the following factors that may contribute to increasing risk:
1. the nature of the customer, for example
   a) legal persons whose structure makes it difficult to identify the beneficial owner
   b) the customer or the beneficial owner of the customer is a PEP
   c) the beneficiary of the policy or the beneficial owner of this beneficiary is a PEP
   d) the customer's age is unusual for the type of product sought, e.g. the customer is very young or very old
   e) the contract does not match the customer's asset situation
   f) the customer's profession or activities are regarded as particularly likely to be related to money laundering, for example because they are known to be very cash intensive or exposed to a high risk of corruption
   g) the contract is subscribed by a "gatekeeper", such as a fiduciary company, acting on behalf of the customer
   h) the policy holder or the beneficiary of the contract are companies with nominee shareholders or shares in bearer form
2. the customer's behaviour, for example
   a) in relation to the contract, for example
      - the customer frequently transfers the contract to another insurer
      - frequent and unexplained surrenders, especially when the refund is done to different bank accounts
      - the customer makes frequent or unexpected use of "free look" provisions or "cooling-off" periods, in particular where the refund is made to an apparently unrelated third party
      - the customer incurs a high cost by seeking early termination of a product
      - the customer transfers the contract to an apparently unrelated third party
      - the customer's request to change or increase the sum insured or the premium payment are unusual or excessive
   b) in relation to the beneficiary, for example
      - the insurer is made aware of a change in beneficiary only when the claim is made
      - the customer changes the beneficiary clause and nominates an apparently unrelated third party
      - the insurer, the customer, the beneficial owner, the beneficiary or the beneficial owner of the beneficiary are in different countries
   c) in relation to payments, for example
      - the customer uses unusual payment methods, such as cash or structured monetary instruments or other forms of payment vehicles fostering anonymity

- payments from different bank accounts without explanation
- payments from banks that are not established in the customer's country of residence
- the customer makes frequent or high-value overpayments where this was not expected
- payments received from unrelated third parties
- catch-up contribution to a retirement plan close to retirement date.

(2) When assessing the risk and taking due diligence measures, obliged entities must take into account the following factors that may contribute to reducing risk in the case of corporate-owned life insurance, where the customer is:
1. a credit or financial institution that is subject to requirements to combat money laundering and the financing of terrorism and supervised for compliance with these requirements in a manner that is consistent with Directive (EU) 2015/849
2. a public company listed on a stock exchange and subject to regulatory disclosure requirements (either by stock exchange rules or through other regulations) that impose requirements to ensure adequate transparency of beneficial ownership, or a majority-owned subsidiary of such a company
3. a public administration or a public enterprise from an EEA country.

Distribution channel risk factors related to life insurance
Article 48

(1) When assessing the risk and taking due diligence measures, obliged entities must take into account the following factors that may contribute to increasing risk:
1. non-face-to-face sales, such as online, postal or telephone sales, without adequate safeguards, such as electronic signatures or electronic identification documents that comply with Regulation (EU) No 910 2014
2. long chains of intermediaries
3. an intermediary is used in unusual circumstances, e.g. unexplained geographical distance.

(2) When assessing the risk and taking due diligence measures, obliged entities must take into account the following factors that may contribute to reducing risk:
1. intermediaries are well known to the insurer, who is satisfied that the intermediary applies customer due diligence measures commensurate to the risk associated with the relationship and in line with those required under Directive (EU) 2015/849
2. the product is only available to employees of certain companies that have a contract with the insurer to provide life insurance for their employees, for example as part of a benefits package.

Country or geographical risk factors related to life insurance
Article 49

(1) When assessing the risk and taking due diligence measures, obliged entities must take into account the following factors that may contribute to increasing risk:
1. the insurer, the customer, the beneficial owner, the beneficiary or the beneficial owner of the beneficiary are based in, or associated with, countries associated with higher ML/TF risk or countries without effective AML/CFT supervision, to which particular attention must be paid
2. premiums are paid through accounts held with financial institutions established in countries associated with higher ML/TF risk or countries without effective AML/CFT supervision, to which particular attention must be paid

3. the intermediary is based in, or associated with, countries associated with higher ML/TF risk or countries without effective AML/CFT supervision, to which particular attention must be paid
4. other factors where applicable.

(2) When assessing the risk and taking due diligence measures, obliged entities must take into account the following factors that may contribute to reducing risk:
1. countries are identified by credible sources, such as mutual evaluations or detailed assessment reports, as having effective AML/CFT systems
2. countries are identified by credible sources as having a low level of corruption and other criminal activity
3. other factors where applicable.

Customer due diligence measures related to life insurance
Article 50

(1) Obliged entities must apply CDD measures not only to the customer and beneficial owner but also to the beneficiaries as soon as they are identified or designated. Obliged entities must:
1. obtain the name of the beneficiary where either a natural or legal person or an arrangement is identified as the beneficiary
2. obtain sufficient information to be satisfied that the identities of the beneficiaries can be established at the time of payout where the beneficiaries are a class of persons or designated by certain characteristics; for example, where the beneficiary is “my future grandchildren”, the insurer must obtain information about the policy holder’s children.

(2) Obliged entities must verify the beneficiaries’ identities at the latest at the time of payout.

(3) Where the obliged entity knows that the life insurance has been assigned to a third party who will receive the value of the policy, they must identify the beneficial owner at the time of the assignment.

Enhanced customer due diligence measures related to life insurance
Article 51

(1) In a high-risk situation, obliged entities must apply EDD measures, which may include the following:
1. Where the customer makes use of the “free look” or “cooling-off” period, the premium should be refunded to the customer’s bank account from which the funds were paid. In this case, obliged entities must ensure that they have verified the customer’s identity in line with Article 15 and Article 16(3 to 6) of the Act before making a refund, in particular where the premium is large or the circumstances appear otherwise unusual. Obliged entities must also consider whether the cancellation gives rise to suspicion about the transaction and whether submitting a suspicious activity report would be appropriate.
2. Additional steps may be taken to strengthen the obliged entity’s knowledge about the customer, the beneficial owner, the beneficiary or the beneficiary’s beneficial owner, the third party payers and payees. Examples include:
   a) not using the derogation in Article 17(2) of the Act, which provides for an exemption from upfront CDD
   b) verifying the identity of other relevant parties, including third party payers and payees, before the beginning of the business relationship
   c) obtaining additional information to establish the intended nature of the business relationship

d) obtaining additional information on the customer and updating more regularly the identification data of the customer and beneficial owner
e) if the payer is different from the customer, establishing the reason why
f) verifying identities on the basis of more than one reliable and independent source
g) establishing the customer's source of assets and source of funds, for example employment and salary details, inheritance or divorce settlements
h) where possible, identifying the beneficiary at the beginning of the business relationship, rather than waiting until they are identified or designated, bearing in mind that the beneficiary can change over the term of the policy
i) identifying and verifying the identity of the beneficiary's beneficial owner
j) in line with Articles 46, 47 and 48 of the Act, taking measures to determine whether the customer is a PEP and taking reasonable measures to determine whether the beneficiary or the beneficiary's beneficial owner is a PEP at the time of assignment, in whole or in part, of the policy or, at the latest, at the time of payout
k) requiring the first payment to be carried out through an account in the customer's name with a bank subject to CDD standards that are not less robust than those required under Directive (EU) 2015/849
l) more frequent and more in-depth monitoring of transactions, including, where necessary, establishing the source of funds.

(2) Where the risk associated with a PEP relationship is high, obliged entities must not only apply CDD measures in line with Article 15 of the Act, but also inform senior management before the payout of the policy so that senior management can take an informed view of the ML/TF risk associated with the situation and decide on the most appropriate measures to mitigate that risk. In addition, obliged entities must conduct EDD on the entire business relationship.

Simplified customer due diligence measures related to life insurance
Article 52

The following measures may satisfy some of the CDD requirements in low-risk situations, where applicable:

1. obliged entities may be able to assume that the verification of the identity of the customer is fulfilled on the basis of a payment drawn on an account that the obliged entity is satisfied is in the sole or joint name of the customer with an EEA-regulated credit institution
2. obliged entities may be able to assume that the verification of the identity of the beneficiary of the contract is fulfilled on the basis of a payment made to an account in the beneficiary's name at a regulated EEA credit institution.

TITLE VIII

Rules applicable to investment firms

Introductory provisions on investment firms
Article 53

(1) Entities subject to measures, actions and procedures referred to in this Title and in the first Part of this Ordinance are obliged entities referred to in Article 9(2)(8) of the Act.

(2) Obliged entities referred to in paragraph 1 of this Article are subject to measures, actions and procedures referred to in Title V of this Ordinance where applicable.

Product, service and transaction risk factors related to investment services

Article 54

The following product, service and transaction risk factors may contribute to increasing risk:

1. transactions are unusually large
2. third party payments are possible
3. the product or service is used for subscriptions that are quickly followed by redemption possibilities.

Customer risk factors related to investment services

Article 55

(1) The following customer risk factors may contribute to increasing risk:

1. The customer's behaviour:
   a) the rationale for the investment lacks an obvious economic purpose
   b) the customer asks to repurchase or redeem a long-term investment within a short period after the initial investment or before the payout date without a clear rationale, in particular where this results in financial loss or payment of high transaction fees
   c) the customer requests the repeated purchase and sale of shares within a short period of time without an obvious strategy or economic rationale
   d) unwillingness to provide CDD information on the customer and the beneficial owner
   e) frequent changes to CDD information or payment details
   f) the customer transfers funds in excess of those required for the investment and asks for surplus amounts to be reimbursed
   g) the circumstances in which the customer makes use of the cooling-off period give rise to suspicion
   h) using multiple accounts without previous notification, especially when these accounts are held in multiple or high-risk jurisdictions
   i) the customer wishes to structure the relationship in such a way that multiple parties, for example nominee companies, are used in different countries, particularly where these countries are associated with higher ML/TF risk.
2. The customer's nature:
   a) the customer is a company or trust established in a country associated with higher ML/TF risk; obliged entities must pay particular attention to those countries that do not comply effectively with international tax transparency standards
   b) the customer is an investment vehicle that carries out little or no due diligence on its own clients
   c) the customer is an unregulated third party investment vehicle
   d) the customer's ownership and control structure is opaque
   e) the customer or the beneficial owner is a PEP or holds another prominent position that might enable them to abuse their position for private gain
   f) the customer is a non-regulated nominee company with unknown shareholders
   g) the customer's business, for example the customer's funds are derived from business in sectors that are associated with a high risk of financial crime.

(2) The following customer risk factors may contribute to reducing risk:

1. the customer is an institutional investor whose status has been verified by an EEA government agency, for example a government-approved pensions scheme
2. the customer is a government body from an EEA country
3. the customer is a financial institution established in an EEA country.

Country or geographical risk factors related to investment services
Article 56

The following country or geographical risk factors may contribute to increasing risk:
1. the investor or their custodian is based in a country associated with higher ML/TF risk
2. the funds come from a country associated with higher ML/TF risk.

Due diligence measures related to investment services
Article 57

(1) Obliged entities must apply EDD measures when the risk related to the business relationship is high.

(2) In order to apply EDD diligence measures, obliged entities must:
1. identify and, where necessary, verify the identity of the underlying investors of the customer where the customer is an unregulated third party investment vehicle
2. understand the reason for any payment or transfer to or from an unverified third party.

(3) Obliged entities may apply the SDD measures laid down in Article 15 of this Ordinance where they assess, in accordance with Article 12(1) and Article 14(6) of the Act, that the ML/TF risk associated with the customer is low.

TITLE IX

Personal data protection
Article 58

(1) Obliged entities are authorised to collect, process, keep, submit and use any personal data needed for risk assessment and customer due diligence pursuant to this Ordinance.

(2) When conducting customer due diligence pursuant to this Ordinance, for the purpose of ensuring the accuracy of personal data and unambiguous identification of a person in all cases prescribed in obliged entity's internal policies adopted pursuant to the Act and this Ordinance, the obliged entity is authorised to process personal data by collecting copies of relevant personal identification documents and other public documents issued by competent government authorities, applying adequate technical and organisational measures to protect the rights and freedoms of the persons whose data are being collected.

(3) When collecting the data referred to in Article 20(3) of the Act, the obliged entity must prescribe in its internal policies the scope of data necessary to assess risks and conduct customer due diligence. The scope of data required from the customer must be proportionate to the risk arising for the obliged entity from that business relationship or transaction.

(4) When, for the purpose of conducting customer due diligence in accordance with this Ordinance, the obliged entity collects and processes data not obtained from the person in respect of who due diligence is being conducted, Article 14(5)(c) of Regulation (EU) 2016/679 applies.

(5) When, for the purpose of conducting customer due diligence in accordance with this Ordinance, the obliged entity implements automated processing, including profiling that

produces legal effects concerning the person in respect of who due diligence is being conducted, Article 22(2)(b) of Regulation (EU) 2016/679 applies.

(6) The obliged entity must prescribe in its internal policies handling procedures relating to customers in the case where there are restrictions referred to in Article 74 of the Act.

TITLE X

TRANSITIONAL AND FINAL PROVISIONS

The expiry of the Guidelines

Article 59

On the day of entry into force of this Ordinance, the Guidelines on the implementation of the Act on the Prevention of Money Laundering and Terrorist Financing for obliged entities falling within Hanfa's competence of 26 January 2015 shall expire.

Entry into force

Article 60

(1) This Ordinance shall be published in the Official Gazette and shall enter into force eight days after its publication.

(2) Obliged entities shall ensure that their risk assessment and customer due diligence procedures comply with the provisions of this Ordinance by 31 December 2018.

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Zagreb, 26 June 2018

PRESIDENT OF THE BOARD
Ante Žigman