



HONG KONG MONETARY AUTHORITY
香港金融管理局

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29 September 2016

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Frequently Asked Questions on Customer Due Diligence

Further to the circular on “De-risking and Financial Inclusion” issued by the Hong Kong Monetary Authority (“HKMA”) on 8 September 2016¹, I am writing to inform you that the HKMA is issuing today certain frequently asked questions (“FAQs”) on customer due diligence (“CDD”).

These FAQs address some common issues relating to interpretation of HKMA legal and regulatory requirements in relation to CDD which were raised during our recent engagement with various stakeholders over problems encountered upon the establishment and ongoing maintenance of business relationships. In addition to these FAQs, the HKMA is continuing to work on a number of other issues which have been raised in this engagement and further guidance will be issued in due course.

Authorized institutions (“AIs”) should review their policies and procedures to ensure they are consistent with these FAQs and that they are taken into account when making decisions about whether or not to provide their services to a potential customer, or maintain a relationship with an existing customer.

¹ <http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2016/20160908e1.pdf>

If you have any questions relating to this letter, please contact Ms Joyce Chan at 2878 8281 or Mr Jason Chan at 2878 1315.

Yours faithfully,

Meena Datwani
Executive Director (Enforcement and AML)

Encl.

Frequently Asked Questions on Customer Due Diligence

Q1: The Guideline on Anti-Money Laundering and Counter-Terrorist Financing (“AMLO Guideline”) requires AIs to obtain information on the business address of a corporate customer if its business address is different from the registered office address. What does business address generally refer to? Is there any requirement to have a Hong Kong business address? Does the HKMA mandate any specific type of address proof for verifying business address (e.g. a stamped tenancy agreement)?

A1: Business address means the location where a corporation operates or the principal place of a corporation’s activities, which can be in Hong Kong or overseas. Corporations, depending on their business nature, may operate in various kinds of location. For example, rather than occupying a physical office in a commercial building, start-ups and small and medium-sized enterprises (“SMEs”) increasingly use “hot desks” at service centres as their offices or operate from residential premises. There may also be occasions where it is not possible to produce a business address, for perfectly legitimate reasons, such as a company set up primarily for holding shares or assets without substantive business.

The HKMA requirements do not mandate a business address in Hong Kong. Business address is one aspect of customer due diligence (“CDD”) information of a legal person that assists AIs in constructing the risk profile of a customer. In addition to collecting the information, AIs should also seek to understand the rationale why a particular type of business address is provided or considered not applicable, taking into account the customer’s business model or mode of operation.

It is also important to note that the AMLO Guideline does not specify particular methods for verifying a customer’s business address. AIs are expected to take reasonable measures to verify the business address of a customer and in doing so may make reference to some of the generic examples in the guidance provided in paragraph 4.8.10 of the AMLO Guideline which provides risk-based, non-exhaustive options in relation to

verification of residential address of an individual customer, or adopt other possible arrangements depending on the circumstances of each case. AIs should provide options to customers, and not apply narrow requirements which will act as a potential barrier to account opening, such as accepting only one form of address proof (e.g. a stamped tenancy agreement) to verify the business address.

Q2: Does the corporate applicant need to provide a Hong Kong business registration certificate at the time of account opening?

A2: Paragraph 4.9.8 of the AMLO Guideline states that in the course of verifying the customer's information mentioned in paragraph 4.9.7, an AI should obtain information, including a copy of the business registration certificate (where applicable).

In the Hong Kong context, business registration refers to a business or corporation registered under the Business Registration Ordinance, Cap. 310. Business registration certificates contain useful CDD information, such as nature of business, address of the business or its branch, etc., and can help ascertain the existence of the business or corporation, and provide an indication that they may be subject to local tax.

However, AIs should be aware that a business registration certificate may not be applicable to every customer and some customers may therefore be unable to produce one. For example, since the Inland Revenue Department ("IRD") will not accept any application for registration of businesses which have yet to commence operation, start-ups may not possess a business registration certificate at the time of account application. Moreover, some overseas corporations may not be required to register under the Business Registration Ordinance. AIs may make reference to IRD's website for more information relating to business registration in Hong Kong¹.

Q3: Are there any specific CDD requirements for start-ups and SMEs?

A3: Similar to AML requirements in other jurisdictions, the HKMA's requirements are generic to all corporates and comparatively high level in

¹ <http://www.ird.gov.hk/eng/tax/bre.htm>

order to provide flexibility to AIs to apply them to different types of customers. There are no specific or special requirements for, or mention of, start-ups or SMEs. However, AIs should not adopt a one-size-fit-all approach in the application of CDD requirements. AIs should ensure that design and implementation of their CDD requirements reflect both the operation and profile of these companies, the risk level as assessed by the AI concerned and any other relevant considerations.

Q4: Do AIs need to establish source of wealth for every customer?

A4: No. The requirement to collect source of wealth information ordinarily applies to higher risk situations and therefore the HKMA does not require AIs to establish source of wealth for each and every customer.

For most customers (i.e. non-high risk customers), certain information obtained as to understand the purpose and intended nature of the business relationship (unless it is obvious), e.g. occupation or employment of individual customers, or business nature of corporate customers, etc., should in general be sufficient for AIs to have a basic understanding of the customer's profile.

Even if a customer is regarded as high risk and certain source of wealth information may be required or in practice collected, there is no expectation to apply the same source of wealth procedures to all customers in the same manner, or collect evidence dating back decades when the risk does not justify doing so, as it is often impractical. The HKMA has conducted training and issued guidance in this area in January 2016, which may be referred to understand our expectations².

Q5: What is the requirement on who should be present at account opening for a corporate and is it a requirement to have all directors and beneficial owners be present at account opening?

A5: Generally, a corporate account is opened in the name of the corporate by a single individual who acts on behalf of that corporate. The basic

² http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/aml-cft/Understanding_Source_of_Wealth_Requirements.pdf

requirement is for AIs to identify and verify the identity of that individual as well as obtain written authority to verify that the individual has the authorization of the corporate to establish a business relationship with the AI concerned.

While information on connected parties of the corporate, where appropriate (e.g. identities of beneficial owners, names of directors, etc.), may be required during the CDD process, the presence of two or more, or all directors or beneficial owners at the time of account opening is not required by the HKMA.

Q6: Are AIs required to understand the rationale for an overseas company to seek to establish a business relationship in Hong Kong? Are AIs required to take additional CDD measures if a company is incorporated offshore or has foreign directors or beneficial owners?

A6: Obtaining information on the purpose and intended nature of the banking relationship being established, including the reason for establishing the relationship, is a standard CDD measure applicable to all types of customers and cascades from international standards which Hong Kong is required to apply. In some cases the purpose and intended nature will be obvious or self-evident and therefore may not need to be provided by the potential customer, having regard to the types of accounts to be established or services/products to be used.

Applications for account opening should not be rejected merely because the customer is incorporated or established offshore, or because the beneficial owners or directors of a corporate customer are non-residents. AIs' on-boarding process should recognise that offshore establishment and non-resident directors, etc. are common profiles for many corporates seeking banking services in an international financial centre, like Hong Kong. Similarly, in addition to collecting the information, AIs should view residence of connected parties as only one part of the CDD and risk profiling exercise, and understand the rationale why a particular type of business relationship is sought, taking into account the customer's business model or mode of operation.

Q7: Why is certification of documents required as part of the CDD process? Do all documents have to be certified by a certifier? Is the certifier required to be based in Hong Kong?

A7: Generally, where a customer is not physically present or unable to produce an original document, AIs may consider accepting a copy of the identification document which is certified to be a true copy by a suitable certifier³. A list of suitable certifiers is provided in paragraph 4.12.4 of the AMLO Guideline, which is non-exhaustive, allowing AIs to accept other independent and reliable certifiers (e.g. a professional third party) where appropriate to do so, having consideration to paragraph 4.12.6 of the AMLO Guideline. Furthermore, there is no requirement that a certifier must be physically in Hong Kong.

³ Use of an independent suitable certifier guards against the risk that identification document provided does not correspond to the actual customer or that it is fraudulent.