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**Prevention of Money Laundering
and
Terrorist Financing Manual**



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CAPM Venture Capital & Finance Limited

Prevention of Money Laundering and Terrorist Financing Manual

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CAPM Venture Capital & Finance Limited

Prevention of Money Laundering and Terrorist Financing Manual

Section-1: Introduction

1.1 Short title

This manual may be called the Prevention of Money Laundering and Terrorist Financing Manual of CAPM Venture Capital & Finance Limited.

1.2 Background

Money Laundering is being employed by launderers worldwide to conceal the proceeds earned from criminal activities. It happens in almost every country in the world, and a single scheme typically involves transferring money through several countries in order to obscure its origins. And the rise of global financial markets makes money laundering easier than ever, making it possible to anonymously deposit “dirty” money in one country and then have it transferred to any other country for use. Money laundering has a major impact on a country’s economy as a whole, impeding the social, economic, political, and cultural development of societies worldwide. Both money laundering and terrorist financing can weaken individual financial institution, and they are also a threat to a country’s overall financial sector reputation. Combating money laundering and terrorist financing is, therefore, a key element in promoting a strong, sound and stable financial sector.

The United Nations (UN) was the first international organization to undertake significant actions to fight against money laundering through adopting several conventions and resolutions. Following UN action, the Financial Action Task Force on Money Laundering (FATF) was formed by G-7 countries in 1989 as the first intergovernmental body which has recommended 40 recommendations to combat money laundering in 1990. In October 2001, the FATF expanded its mandate to deal with the funding of terrorist acts and terrorist organization, and it took the important step of creating the 8 (later expanded to 9) Special Recommendations on Terrorist Financing. These 40+9 recommendations have been endorsed by over 180 countries and are universally recognized as international standard for Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) program.

To oversee the implementation of these recommendations in Asia Pacific Region, the Asia/Pacific Group on Money Laundering (APG), FATF-style regional body, was founded in 1997, of which Bangladesh is a founding member. FATF has further extended its mandate to include Proliferation Financing and accumulated all 40+9 recommendations into 40 Recommendations in February 2012.

In line with the international initiatives and standards, Bangladesh has also enacted Money Laundering Prevention Act (MLPA), 2012 (repealing the MLPA, 2009) and Anti Terrorism Act (ATA), 2009 (as amended in 2012). The new acts address all the deficiencies identified in the 2nd Mutual Evaluation of Bangladesh conducted by APG in 2008 to determine the extent of its compliance, with the global standards. Both the Acts have empowered Bangladesh Bank (BB) to perform the anchor role in combating ML and TF through issuing guidance and directives for reporting agencies including Financial Institutions (CVCFL), as defined in section 2(g) of MLPA, 2012.

This manual is in conformity with international standard and laws and regulations enforceable in Bangladesh. Board Audit Committee of CVCFL shall review and

confirm the meticulous compliance of this manual and the circulars issued by Bangladesh Bank in this regard to be reported by the CVCFL's Compliance Department directly on quarterly basis.

1.3 Scope

1.3.1 Objectives

The standards set out in this manual are the minimum requirements based on applicable legal and regulatory requirements in compliance with the Anti-Money laundering Act, 2012, Anti Terrorism Act (ATA), 2009 (as amended in 2012) and Bangladesh Bank guidelines, circulars in this respect. These requirements are intended to prevent CVCFL, its Executives and clients from being misused for money laundering, terrorist financing or other financial crime(s).

1.3.2 Applicability

According to section 25 of the Anti-Money laundering Act, 2012, CVCFL Board of Directors through the company Executives must ensure that the legal duties resulting from the regulations set out in this Act and Bangladesh Bank guidelines regarding AML are fulfilled by all of CVCFL's subordinated enterprises, branches, subsidiaries and associates in Bangladesh and abroad. Wherever any regulations are stricter than the requirements set out in this manual, the stricter standard has to be applied. If any applicable laws are in conflict with this manual, the relevant entity must consult with the legal department and the Chief Anti Money Laundering Compliance Officer to resolve the conflict.

If the minimum requirements set out in this manual cannot be applied in a certain country for the subordinated enterprises, branches, subsidiaries and associates, because of local law or cannot be enforced due to other than legal reasons, it is to be ensured that CVCFL will not

- enter into a business relationship,
- continue a business relationship or
- carry out any transactions.

If business relations already exist in that country, it has to be ensured that the business relationship is terminated regardless of CVCFL's other contractual or legal obligations.

1.4 Definition of Money Laundering

Money Laundering is the participation in any transaction that seeks to conceal or disguise the nature or origin of funds derived from illegal activities, e.g., fraud, corruption, organized crime, or terrorism etc. According to Section 2(v) of the Money Laundering Prevention Act 2012 "money laundering" means:

- (i) knowingly moving, converting, or transferring proceeds of crime or property involved in an offence for the following purposes:-
 1. concealing or disguising the illicit nature, source, location, ownership or control of the proceeds of crime; or
 2. assisting any person involved in the commission of the predicate offence to evade the legal consequences of such offence;
- (ii) smuggling money or property earned through legal or illegal means to a foreign country;
- (iii) knowingly transferring or remitting the proceeds of crime to a foreign country or remitting or bringing them into Bangladesh from a foreign

- (iv) country with the intention of hiding or disguising its illegal source; or concluding or attempting to conclude financial transactions in such a manner so as to reporting requirement under this Act may be avoided;
- (v) converting or moving or transferring property with the intention to instigate or assist for committing a predicate offence;
- (vi) acquiring, possessing or using any property, knowing that such property is the proceeds of a predicate offence;
- (vii) performing such activities so as to the illegal source of the proceeds of crime may be concealed or disguised;
- (viii) participating in, associating with, conspiring, attempting, abetting, instigate or counsel to commit any offences mentioned above;

1.5 Reasons of Money Laundering

First, money represents the lifeblood of the organization/person that engages in criminal conduct for financial gain because it covers operating expenses and pays for an extravagant lifestyle. To spend money in these ways, criminals must make the money they derived illegally appear legitimate.

Second, a trail of money from an offense to criminals can become incriminating evidence. Criminals must obscure or hide the source of their wealth or alternatively disguise ownership or control to ensure that illicit proceeds are not used to prosecute them.

Third, the proceeds from crime often become the target of investigation and seizure. To shield ill-gotten gains from suspicion and protect them from seizure, criminals must conceal their existence or, alternatively, make them look legitimate.

1.6 Stages of Money Laundering

There is no single method of laundering money. Methods can range from the purchase and resale of a luxury item (e.g. a house, car or jewelry) to passing money through a complex international web of legitimate businesses and 'shell' companies (i.e. those companies that primarily exist only as named legal entities without any trading or business activities). There are a number of crimes where the initial proceeds usually take the form of cash that needs to enter the financial system by some means. Bribery, extortion, robbery and street level purchases of drugs are almost always made with cash. These proceeds of crime have to enter the financial system by some means so that it can be converted into a form which can be more easily transformed, concealed or transported. The methods of achieving this are limited only by the ingenuity of the launderer and these methods have become increasingly sophisticated. Despite the variety of methods employed, money laundering is not a single act but a process accomplished in three basic stages which are as follows:

Placement: The introduction of illegally obtained monies or other valuables into financial or non-financial institutions.

Layering: Separating the proceeds of criminal activity from their source through the use of layers of complex financial transactions. These layers are designed to hamper the audit trail, disguise the origin of funds and provide anonymity.

Integration: Placing the laundered proceeds back into the economy in such a way that they re-enter the financial system as apparently legitimate funds.

The above three basic steps may occur as separate and distinct phases. These steps may

comprise numerous transactions by the launderers that could alert a financial institution to criminal activity. They may also occur simultaneously or, more commonly, may overlap. How the basic steps are used depends on the available laundering mechanisms and the requirements of the criminal organizations.

1.7 Definition of Terrorist Financing

Terrorist Financing can be simply defined as financial support, in any form, of terrorism or of those who encourage, plan, or engage in terrorism. The International Convention for the Suppression of the Financing of Terrorism (1999) under the United Nations defines TF in the following manner:

1. If any person commits an offense by any means, directly or indirectly, unlawfully and willingly, provides or collects funds with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out:
 - a) An act which constitutes an offence within the scope of and as defined in one of the treaties listed in the link given below; or
 - b) Any other act intended to cause death or serious bodily injury to a civilian, or to any other person not taking any active part in the hostilities in a situation of armed conflict, when the purpose of such act, by its nature or context, is to intimidate a population, or to compel a government or an international organization to do or to abstain from doing an act.
2. For an act to constitute an offense set forth in the preceding paragraph 1, it shall not be necessary that the funds were actually used to carry out an offense referred to in said paragraph 1, subparagraph (a) or (b).

According to the article 7 of the Anti Terrorism (Amendment) Act, 2012 of Bangladesh, financing of terrorism means: Offences relating to financing terrorist activities if:

- (i) any person or entity knowingly provides or expresses the intention to provide money, services, material support or any other property to another person or entity and where there are reasonable grounds to believe that the same have been used or may be used in full or partially for any purpose by a terrorist person, entity or group or organization, he or the said entity shall be deemed to have committed the offence of financing terrorist activities.
- (ii) any person or entity knowingly receives money, services, material support or any other property from another person or entity and where there are reasonable grounds to believe that the same have been used or may be used in full or partially for any purpose by a terrorist person or entity or group or organization, he or the said entity shall be deemed to have committed the offence of financing terrorist activities.
- (iii) any person or entity knowingly makes arrangement for money, services, material support or any other property for another person or entity where there are reasonable grounds to believe that the same have been used or may be used in full or partially for any purpose by a terrorist person or entity or group or organization, he or the said entity shall be deemed to have committed the offence of financing terrorist activities.
- (iv) any person or entity knowingly instigates another person or entity to provide or receive or make arrangement for money, services, material support or any other property in such a manner where there are reasonable grounds to believe that the same have been used or may be used in full or

partially by a terrorist person or entity or group or organization for any purpose, he or the said entity shall be deemed to have committed the offence of financing terrorist activities.

1.8 Link between Money Laundering and Terrorist Financing

The techniques used to launder money are essentially the same as those used to conceal the sources of, and uses for, terrorist financing. But funds used to support terrorism may originate from legitimate sources, criminal activities, or both. Nonetheless, disguising the source of terrorist financing, regardless of whether the source is of legitimate or illicit origin, is important. If the source can be concealed, it remains available for future terrorist financing activities. Similarly, it is important for terrorists to conceal the use of the funds so that the financing activity goes undetected. As noted above, a significant difference between money laundering and terrorist financing is that the funds involved may originate from legitimate sources as well as criminal activities. Such legitimate sources may include donations or gifts of cash or other assets to organizations, such as foundations or charities that, in turn, are utilized to support terrorist activities or terrorist organizations.

1.9 Interpretation

In this manual, unless there is anything repugnant in the law, subject or context:

- 1.9.1 “Company” means CAPM Venture Capital & Finance Limited (CVCFL).
- 1.9.2 “The Board” means the Board of Directors of the company.
- 1.9.3 “The Management” means the persons who are in the policy implementation and operational aspect of the company.
- 1.9.4 “Managing Director” means the Chief Executive of the company.
- 1.9.5 “Executive” means an Executive of the company whether temporary or permanent classified as such and includes an Executive on probation.
- 1.9.6 “AML/CFT AMLD” means Anti-Money Laundering/Combating the Financing of Terrorism Anti-Money Laundering Department.
- 1.9.7 “APG” means Asia Pacific Group on Money Laundering.
- 1.9.8 “ATA” means Anti Terrorism Act.
- 1.9.9 “BAMLCO” means Branch Anti-Money Laundering Compliance Officer.
- 1.9.10 “BB” means Bangladesh Bank.
- 1.9.11 “BDT” means Bangladesh Taka.
- 1.9.12 “BFIU CAMLCO” means Bangladesh Financial Intelligence Unit Chief Anti-Money Laundering Compliance Officer.
- 1.9.13 “CCU” means Central Compliance Unit.
- 1.9.14 “CDD” means Customer Due Diligence.
- 1.9.15 “CTC” means Counter Terrorism Committee.
- 1.9.16 “CTR” means Cash Transaction Report.
- 1.9.17 “FATF” means Financial Actions Task Force.
- 1.9.18 “FI FIU FSRB” means Financial Institution Financial Intelligence Unit ATF Style Regional Body.
- 1.9.19 “GPML” means Global program against Money Laundering.
- 1.9.20 “ICRG” means International Cooperation and Review Group.
- 1.9.21 “IOSCO” means International Organization of Securities Commissions.
- 1.9.22 “KYC” means Know Your Customer.
- 1.9.23 “ML” means Money Laundering.
- 1.9.24 “MLPA” means Money Laundering Prevention Act.
- 1.9.25 “NCC” means National Coordination Committee.
- 1.9.26 “NCCT” means Non-cooperating Countries and Territories.
- 1.9.27 “OECD” means Organization for Economic Co-operation and Development.

- 1.9.28 “PEP” means Politically Exposed Persons.
1.9.29 “IPs” means Influential Persons
1.9.30 “STR” means Suspicious Transaction Report.
1.9.31 Words importing persons include both male and female employees of the company.
1.9.32 Words importing singular number shall include the plural and vice versa.

1.10 Variation, modification and amendment of manual

The Board of Directors of the company if required in the interest of the company and to comply with Bangladesh Bank guidelines/circular/circular letter, may vary, modify, incorporate, amend or cancel any of the rules and regulations regarding this manual. Besides, the Board of Directors of the company if required in the interest of the company and to comply with Bangladesh Bank guidelines/circular/circular letter, may reform the CCU at any time. Besides, Board of Directors of CVCFL shall review this manual on yearly basis if required.

Section-2: Vulnerabilities of Products and Services and their overcome procedure

2.1 Lease/Term loan finance

Front company can take lease/term loan finance from a financial institution and repay the loan from illegal source, and thus bring illegal money in the formal financial system in absence of proper measures. The firm can also repay the loan amount even before maturity period if they are not asked about the sources of fund. In case of financial or capital lease, the asset purchased with FI's financing facility can be sold immediately after repayment of the loan through illegal money and sold proceeds can be shown as legal. So the money launderers and terrorist financier can use this financial instrument for placement and layering of their ill-gotten money.

2.2 Factoring

In international factoring there is a provision that the two firms must be member of Factor Chain International or some association that can ensure the credit worthiness of the firms. In absence of this kind of private sector watchdog in the local factoring, the supplier and the buyer may ally together to legalize their proceeds of crime. Without conducting any bona fide transaction the supplier may get finance from CVCFL and CVCFL may get repayment from buyer. CVCFL may focused on getting repayment without considering the sources fund which can be taken as an opportunity by the money launderer to place their ill-gotten money.

2.3 Private placement of equity/securitization of assets

Some CVCFL offer financing facilities to firms through private placement of equity and securitization of assets. CVCFL sell those financial instruments to private investors who may take this as an opportunity to make their money legal. Later the money launderers can sell these instruments and bring their money in the formal financial system.

2.4 Personal loan/car loan/home loan

Any person can take personal loan from CVCFL and repay it by illegally earned money; thus he/she can launder money and bring it in the formal channel. After taking home loan or car loan, money launderers can repay those with their illegally earned money, and later by selling that home/car, they can show the proceeds as legal money.

2.5 SME/Women entrepreneur loan

Small, medium and women entrepreneurs can take loan facilities from CVCFL and repay that (in some cases before maturity) with illegally earned money. They even do so only to validate their money by even not utilizing the loan. This way they can bring the illegal money in the financial system.

2.6 Deposit scheme

CVCFL can sell deposit products with at least a six months maturity period. However, the depositor can encash their deposit money prior to the maturity date with prior approval from Bangladesh Bank, foregoing interest income. This deposit product may be used as lucrative vehicle to place ill-gotten money in the financial system in absence of strong measures.

2.7 Loan backed money laundering

In the loan backed money laundering method, a criminal provides an associate with a specific amount of illegitimate money. The associate then provides a loan or mortgage back to the money laundering for the same amount with all the necessary loan or mortgage documentation. This creates an illusion that the trafficker's funds are legitimate. The scheme is reinforced through legislatively scheduled payments made on the loan by the money launderer.

2.8 Vulnerabilities overcome procedure

To overcome the above vulnerabilities CVCFL shall take the following measures in future:

- Develop sufficient capacity to verify the identification and source of funds of their clients.
- Human resources will be trained to become skilled enough for tracing money laundering and terrorist financing activities.
- To introduce anti-money laundering software for monitoring and report regarding transactions of a suspicious nature to the financial intelligence unit of BB.

Section-3: Compliance requirement

CVCFL in all cases shall comply with the provisions of Money Laundering Prevention Act, 2012, Anti terrorism (Amendment) Act, 2012 and circulars/instructions issued by BFIU of BB in these regards. To implement this manual and compliance of instructions of BB, CVCFL shall designate one high level Executive as Chief Anti-Money Laundering Compliance Officer (CAMLCO) in the Central Compliance Unit (CCU) and one officer as Branch Anti-Money Laundering Compliance Officer (BAMALCO) in the branch level. Besides, for day-to-day works CVCFL Head Office, subordinated enterprises, branches, subsidiaries and associates shall comply with the following basic principles:

3.1.1 Money Laundering Prevention Act, 2012

Under the Section-

1. Offence of Money Laundering and Punishment–(as per section 4 of MLPA2012)

- (1) For the purpose of this Act, money laundering shall be an offence.
- (2) Any person who commits the offence of money laundering, or abets or conspires in the Commission of the offence of money laundering, shall be punishable with

imprisonment for a Minimum period of 4(four) years and not more than 12(twelve) years and in addition to this a fine Equivalent to the twice of the value of the property involved in the offence or taka 10(ten) lacs, Whichever is greater may be imposed.

- (3) In addition to any fine or punishment, the court may pass an order to forfeit the property of the convicted person in favor of the State which directly or indirectly involved or related with money laundering or any predicate offences.
- (4) Any entity which commits an offense under this section shall be punishable with a fine of not less than twice the value of the property or taka 20(twenty) lac whichever is greater and in addition to this the registration of the said entity will be liable to be cancelled.
- (5) It shall not be a prerequisite to be convicted or sentenced for any predicate offence to pass an order of conviction or sentence for a money laundering crime.

2. Punishment for violation of a freezing or attachment order – (as per section 5 of MLPA 2012)

Any person who violates a freeze order or order of attachment issued pursuant to this Act shall be punishable with an imprisonment for a maximum period of 3 (three) years or with a fine equivalent to the value of the property subject to freeze or attachment, or both.

3. Punishment for divulging information – (as per section 6 of MLPA 2012)

- (1) No person shall, with an ill motive, divulge any information relating to the investigation or any other related information, to any person, organization or news media.
- (2) Any person empowered under this Act shall refrain from using, publishing or divulging any Information collected, received, retrieved or known by him/herself during the course of employment or appointment by an institution or agent, or after the expiry of any contract of employment or appointment for any purpose other than the purpose of this Act.
- (3) Whoever contravenes the provisions contained in sub-sections (1) and (2) shall be punishable by imprisonment of maximum period of 2 (two) years or a fine, not exceeding Tk. 50 (fifty) thousand or both.

4. Punishment for obstruction or non-cooperation in investigation, failure to submit report or obstruction in the supply of information – (as per section 7 of MLPA 2012)

- (1) Whoever, under this Act – Obstructs or declines to cooperate with any investigation officer carrying out the investigation; or Declines to supply information or submit a report when requested without any reasonable ground; He shall be held to have committed an offence under this Act.
- (2) Any person found guilty of an offence under sub-section (1) shall be punishable by imprisonment of maximum period of 1 (one) year or with a fine not exceeding Tk. 25 (twenty five) thousand or with both.

5. Punishment for providing false information – (as per section 8 of MLPA 2012)

- (1) No person shall knowingly provide false information in any manner regarding the source of fund, self identity, the identity of an account holder or the beneficiary or nominee of an account.
- (2) Any person who violates the provisions contained in sub-section (1) will be punishable by imprisonment of maximum period of 3 (three) years or a fine not exceeding Tk. 50 (fifty) thousand or both.

6. Powers and Responsibilities of Bangladesh Bank in Preventing and Restraining the Offence of Money Laundering – (as per section 23 of MLPA 2012)

- (1) For the purposes of this Act Bangladesh Bank shall have the following powers and responsibilities:
 - a) analyze or review information related to cash transactions and Suspicious Transactions received from any reporting organizations and to collect additional Information for the purpose of analyzing Cash Transaction Report (CTR) or Suspicious Transaction Report (STR) from reporting organizations and maintain data on the same and where appropriate provide said information to the relevant law enforcement agencies for taking the necessary actions;
 - b) ask for any information or obtain a report from reporting organizations with regard to any transaction in which there are reasonable grounds to believe that the transaction involves in money laundering or a predicate offence;
 - c) issue an order to any reporting organization to suspend or freeze transactions of any account for a period not exceeding 30 (thirty) days if there are reasonable grounds to suspect that any money or property has been deposited into the account through the commission of any offence: Provided that such order may be extended for additional period of 30 (thirty) days up to a maximum of 6 (six) months, if it appears necessary to uncover correct information relating to transactions of the account;
 - d) Issue from time to time to the reporting organizations any directions necessary for the prevention of money laundering;
 - e) monitor whether the reporting organizations have properly submitted information and reports requested by Bangladesh Bank and whether they have duly complied with the directions issued by Bangladesh Bank, and where necessary, carry out on-site inspections of the reporting organizations to ascertain the same;
 - f) arrange for meetings and seminars including provide the training necessary for the purpose of ensuring proper implementation of this Act, to officers and staff of any organization or institution at the discretion of Bangladesh Bank, including reporting organizations;
 - g) Carry out any other functions necessary to fulfill the purpose of this Act.

- (2) Provide with the information, if not obliged otherwise by the existing laws or any other cause, to the investigating organization if requested by them for information related to money laundering or suspicious transaction investigation.
- (3) If any reporting organization fails to provide requested information timely pursuant to this Section, Bangladesh Bank may impose fine such organization Tk. 10 (ten) thousand per day and up to a maximum of Tk. 5 (five) lacs. If an organization is fined more than 3 times in a financial year, Bangladesh Bank may suspend the registration or license with a purpose to close the operation of that organization or any of its branches/service centers/booths/agents, within Bangladesh or where appropriate, shall inform the registration or licensing authority about the subject matter so that the relevant authority may take appropriate action against the said organization.
- (4) If any reporting organization provides false information or statement requested pursuant to this Section, Bangladesh Bank may impose fine to such organization not less than Tk. 20 (twenty) thousand but not more than Tk. 5 (five) lacs. If an organization is fined more than 3 times in a financial year, Bangladesh Bank may suspend the registration or license with a purpose to close the operation of that organization or any of its branches/service centers/booths/agents, within Bangladesh or where appropriate, shall inform the registration or licensing authority about the subject matter so that the relevant authority may take appropriate action against the said organization.
- (5) If any reporting organization fails to comply with any instruction given by Bangladesh Bank pursuant to this Act, Bangladesh Bank may fine such organization Tk. 10 (ten) thousand per day and up to maximum Tk. 5 (five) lacs for each such non compliance. If an organization is fined more than 3 times in a financial year, Bangladesh Bank may suspend the registration or license with a purpose to close the operation of that organization or any of its branches/service centers/booths/agents, within Bangladesh or where appropriate, shall inform the registration or licensing authority about the subject matter so that the relevant authority may take appropriate action against the said organization.
- (6) If any reporting organization fails to comply with the freeze order or suspension order of transaction given by Bangladesh Bank under sub section 1(c) Bangladesh Bank may fine such organization not less than the balance held on that account but not more than twice of the balance at the time of issuance the order.
- (7) If any person or Reporting Organization fails to pay any fine imposed by Bangladesh Bank under sections 23 and 25 of this Act, Bangladesh Bank may recover the amount from accounts maintained in the name of the relevant person, entity or reporting organization in any bank or financial institution or Bangladesh Bank. In this regard if any amount of the fine remains unrealized Bangladesh Bank may make an application before the court for recovery and the court may pass any order which it deems fit.
- (8) If any reporting organization is fined under sub-sections 3, 4, 5 and 6, Bangladesh Bank may impose a fine upon the responsible owner, director, employees and officials or persons employed on a contractual basis of that reporting organization, not less than Tk. 10 (ten) Thousand and a maximum up to Tk. 5 (five) lacs and where necessary may direct the relevant organization to take necessary administrative actions.

7. Responsibilities of Reporting Organizations in Preventing the Offence of Money Laundering – (as per section 25 of MLPA 2012)

1. Reporting Organizations shall have the following responsibilities in the prevention of money laundering:
 - (a) maintain complete and correct information with regard to the identity of its customers during the operation of their accounts;
 - (b) in case of closed account of any customer, keep previous records of transactions of such account for at least 5(five) years from the date of closure;
 - (c) provide the information maintained under sub-sections (a) and (b) to Bangladesh Bank from time to time, as requested;
 - (d) if any doubtful transaction or attempt of such transaction as defined under 2(n) is observed by reporting organization, it shall be reported as Suspicious Transaction Report (STR) to the Bangladesh Bank proactively and immediately.

2. If any reporting organization violates the provisions contained in sub-section (1), Bangladesh Bank may:
 - (a) Impose a fine on the said reporting organization of a minimum of Tk. 50 (fifty) thousand and up to a maximum of Tk. 25 (twenty-five) lacs; and.
 - (b) Cancel the license or the authorization for carrying out commercial activities of the said Organization or any of its branches/service centers/booths/agents, in addition to the fine mentioned in clause (a), and where appropriate, shall inform the registration or licensing or authority about the subject matter so that the relevant authority may take appropriate action against the said Organization.

3. Bangladesh Bank shall collect the sum of fine received under sub-section (2) under manner determined by it and the sum received shall be deposited into the State Treasury.

8. Offences Committed by an Entity – (as per section 27 of MLPA 2012)

- (1) If any offence under this Act is committed by an entity, every proprietor, director, manager, secretary or any other officer, staff or representative of the said entity who is directly involved in the offence shall be deemed to be guilty of the offence, unless he is able to prove that the said offence has been committed without his knowledge or he took steps to prevent the commission of the said offence.

Explanation – In this section –

““Director” means any partner or the Board of Directors, by whatever names it is called; it also means its member.

3.1.2 Anti-terrorism (Amendment) Act, 2012

Under the Section-

**1. Offences relating to financing for terrorist activities–
(as per section 7 of ATA 2012)**

- (1) If any person or entity knowingly supplies or expresses the intention to supply money, service, material support or any other property to

another person or entity and where there are reasonable grounds to believe that the full or partial amount of the same have been used or may be used for any purpose by an individual terrorist, terrorist entity or terrorist group or terrorist organization then he or she or the said entity shall be treated committing the offence of financing for terrorist activities.

- (2) If any person or entity knowingly receives money, services, material support or any other property from another person or entity and where there are reasonable grounds to believe that full or partial amount of the same have been used or may be used for any purpose by an individual terrorist, terrorist entity or terrorist group or terrorist organization, then he or she or the said entity shall be treated committing the offence of financing for terrorist activities.
- (3) If any person or entity knowingly makes arrangements for collecting money, services, material support or any other property for another person or entity and where there are reasonable grounds to believe that the full or the partial amount of the same have been used or may be used for any purpose by an individual terrorist, terrorist entity or terrorist group or terrorist organization then he or she or the said entity will be treated committing the offence of financing for terrorist activities.
- (4) If any person or entity knowingly instigate in such a manner, another person or entity to supply, receive, or arrange money, services, material support or any other property and where there are reasonable grounds to believe that the full or the partial amount of the same has been Used or may be used for any purpose by an individual terrorist, terrorist entity or terrorist group or Terrorist organization then he or she or the said entity will be treated committing the offence of Financing for terrorist activities.
- (5) If any person is found guilty of any of the offences set out in sub-sections (1) to (4), that Person will be sentenced to imprisonment for a term between a maximum of twenty and a Minimum of four years and in addition to this a fine may be imposed not less than the greater of twice the value of the property involved with the offence or taka 10(ten) lac.
- (6) (1) If any entity is found guilty of any of the offences set out in sub-sections (1) to (4), steps May be taken under section 18 and in addition to this a fine may be imposed not less than the Greater of thrice the value of the property involved with the offence or taka 50(fifty) lac ; and
(2) The head of such entity, Chairman, Managing Director, Chief Executive Officer whatever may be called by shall be punished with an imprisonment of a term up to maximum of 20 and a minimum of 4 years and in addition to this a fine may be imposed the greater of twice the value of the property involved with the offence or taka 20(twenty)

lacs unless he is able to prove that the said offence was committed without his knowledge or he had tried utmost to prevent the commission of the said offence.

2. Powers of Bangladesh Bank – (as per section 15 of ATA 2012)

- (1) Bangladesh Bank may take the necessary steps to prevent and identify any transactions carried out through any reporting organization for the purpose of committing any offence under this Act, and for this purpose, it will have the following powers and authority –
 - a) Call for a report relating to any suspicious transactions from any reporting organization,
 - b) Provide the reports received under sub-section (a) to the respective law enforcement agencies for taking necessary steps or, where applicable, provide it to the foreign law enforcement agencies upon their request or, exchange information relating to the report with the foreign law enforcement agencies.
 - c) Collect and preserve of all statistics and records;
 - d) Create and maintain a database containing the reports of all suspicious transactions;
 - e) Analyze reports relating to suspicious transactions;
 - f) If there are reasonable grounds to suspect that any transaction is connected to terrorist activities issue an written order to the respective reporting organization to suspend or freeze transactions in the relevant account for a period not exceeding 30(thirty) days. Such order may be extended for additional periods of 30 (thirty) days up to a maximum of 6 (six) months, if it appears necessary to uncover correct information relating to transactions of the account;
 - g) Monitor and supervise the activities of reporting organizations;
 - h) Give directions to reporting organizations to take preventive steps to combat the financing for terrorist activities;
 - i) Inspect reporting organizations for the purpose of identification of suspicious transactions connected to financing for terrorist activities; and
 - j) Provide training to officers and employees of reporting organizations for the purpose of identification and prevention of suspicious transactions connected to financing for terrorist activities.
- (2) Bangladesh Bank, on identification of a reporting organization or its customer as being involved in a suspicious transaction connected to financing for terrorist activities, shall inform the same to the relevant law enforcement agency and provide all necessary cooperation to the said law enforcement agency to facilitate their inquiries and investigations into the matter.
- (3) In case of offences organized in other countries under trial, Bangladesh Bank shall take steps to seize the accounts of any person or entity pursuant to any international, regional or bilateral contract, UN conventions or respective resolutions of UN Security Council ratified by the government.
- (4) The fund seized under subsection (3) shall be subject to disposal by the respective court pursuant to the respective contracts, conventions or respective resolutions of UN Security Council.
- (5) In order to perform the responsibilities set out in subsections (1) to (3), governmental, semi-governmental, autonomous bodies shall provide requested information or in certain cases spontaneously provide information to the Bangladesh Financial Intelligence Unit.

- (6) The Bangladesh Financial Intelligence Unit on demand or in certain cases spontaneously provide information relating to terrorist activities or the financing for terrorist activities to the Financial Intelligence Units of other countries.
- (7) For the purpose of investigation relating to financing for terrorism law enforcement agencies shall have the right to access any document or file of any bank as per the following conditions:
 - (a) with an order from an appropriate court or tribunal;
 - (b) with the approval of Bangladesh Bank.

3. Duties of Reporting Organizations – (as per section 16 of ATA 2012)

- (1) Each reporting organization shall take necessary measures, exercising appropriate caution and responsibility, to prevent and identify financial transactions through them connected to any offence committed under this act and if any suspicious transaction is identified, shall spontaneously report it to the Bangladesh Bank without any delay.
- (2) The Board of Directors, or in the absence of the Board of Directors the Chief Executive Officer or whatever may be called by, of each reporting organization shall approve and issue directions regarding the duties of its officers, and will ascertain whether the directions issued by Bangladesh Bank under section 15, which are applicable to the reporting organizations, have been complied with.
- (3) If any reporting organization fails to comply with the directions issued by Bangladesh Bank under section 15 or knowingly provide any wrong information or false information or statement, the said reporting organization shall be liable to pay a fine determined and directed by Bangladesh Bank, not exceeding Taka 10 (ten) lacs and Bangladesh Bank may suspend the registration or license with a purpose to close the operation of the said agency/organization or any branch, service centre, booth or agent of that organization within Bangladesh or where applicable, shall inform the registration/licensing authority about the subject matter to take appropriate action against the organization.
- (4) If any Reporting Organization fails to pay any fine imposed by Bangladesh Bank under sub sections 3 of this Act, Bangladesh Bank may recover the amount from the reporting organizations by debiting their accounts maintained in any bank or financial institution or Bangladesh Bank. In this regard if any amount of the fine remains unrealized Bangladesh Bank may make an application before the relevant court for recovery.

3.2 Customer identification

3.2.1 For prevention of money laundering and terrorist financing it is mandatory to collect and verify the correct and complete identification of customers. For this purpose, CVCFL shall define its customers as follows:

- any person or institution maintaining an account of any type or having business relationship;
- the person or institution as true beneficial owner in whose favour the account is operated;
- the trustee, intermediary or true beneficial owner of the transaction of the accounts operated by the trust and professional intermediaries (such as lawyer/law firm, chartered accountant, etc) under the existing legal infrastructure;

3.2.2 CVCFL shall identify its customers in the following cases:

- While entering into a lasting business relationship;
- While performing a single transaction or deal;
- While conducting financial transaction with the existing customer;
- Before accepting cash or other physical values worth equivalent or more of BDT 500,000 outside an existing business relationship.

3.2.3 Whenever it is required to identify a customer, CVCFL shall establish and verify the identity of the ultimate natural person,

- who owns or
- controls the customer or its assets or
- on whose behalf the transaction is carried out or the business relationship is established

3.3 Establishment of purpose of business relationship

When entering into a lasting business relationship, CVCFL shall obtain information on kind and purpose thereof, if this is not clear from the business relationship itself. Customer due diligence shall be performed for high risk customers, non face to face business (if applicable), handling of PEPs or “IPs”. In this case “PEPs” shall be those individuals, who are or have been entrusted with prominent public functions in a foreign country, for example Heads of State or of government, senior politicians, senior government judicial or military officials, senior executives of state owned corporations, important political party officials. Influential Persons (IPs) means “individuals who are or have been entrusted domestically with prominent public functions, for example Head of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials and their family member and close associates”.

3.4 Identification of ultimate beneficial owner

On the basis of the information obtained from reliable sources, CVCFL shall identify the beneficial owner of the business/account and perform the followings:

- If a customer operate an account on behalf of another person in his/her own name, CVCFL shall collect and preserve the complete and correct information of identity of the person(s) besides the customer.
- CVCFL shall identify the controller or the owner of the customer.
- CVCFL shall collect and preserve the complete and correct information of identity of the beneficial owner(s) of the customer. For this purpose, a person will be treated as a beneficial owner if:
 - (a) he has controlling share of a company and/or
 - (b) hold 20% or more shares of a company.

3.5 Client account monitoring

CVCFL shall monitor its customers’ account(s) including their business pattern/behavior through inspection/record verification on annual basis to detect unusual/suspicious transactions. In case any unusual/suspicious transactions are found, CVCFL shall take appropriate measures for STR to BB.

3.6 Reporting of suspicious circumstances/transactions (STR)

3.6.1 According to Section 2(z) of MLPA 2012 suspicious transaction shall mean such transaction:

- which deviates from usual transactions;
- of which there is ground to suspect that,
 - the property is the proceeds of an offence
 - it is financing to any terrorist activity, a terrorist group or an individual terrorist;
- any other transaction or attempt of transaction delineated in the instructions issued by Bangladesh bank from time to time.

3.6.2 In the above circumstances/transactions CVCFL shall report to BB through STR. CAMLCO and BCAMLCO shall always be informed about all suspicious circumstances/transactions.

3.7 Correspondent business

CVCFL shall pay special attention to business done only through correspondent.

3.8 Staff reliability

It is the responsibility of each employee to become familiar with rules and regulations that relate to his or her assignment. Moreover, disciplinary action would be taken if employees consistently fail to perform in accordance with AML/CFT framework for a consecutive period of six months. Besides, CVCFL shall complete the KYE before appointment in the company.

3.9 Communicating the policies

The Managing Director shall communicate to all employees on annual basis through a statement that clearly sets the policy against money laundering and any activity which facilitates money laundering or the funding of terrorist or criminal activities. This statement shall also be submitted to the Board of Directors via Board Audit Committee. This statement shall include the following:

- A statement that all employees are required to comply with applicable laws and regulations and corporate ethical standards.
- A statement that all activities carried out by the financial institution must comply with applicable governing laws and regulations.
- A statement that compliance with rules and regulations is the responsibility of each individual in the financial institution in the normal course of their assignments. It is the responsibility of the individual to become familiar with the rules and regulations that relate to his or her assignment. Ignorance of the rules and regulations cannot be an excuse for non-compliance.
- A statement that should direct staff to a compliance officer or other knowledgeable individuals when there is a question regarding compliance matters.
- A statement that employees will be held accountable for carrying out their compliance responsibilities.

3.10 Anti Money Laundering controls

CVCFL shall ensure that all applicable AML requirements are being adhered to and security measures are properly functioning in the company in all respects.

3.11 Employee appointment and training

Before appointing any employee CVCFL shall perform the screening mechanism through KYE in details with proper records/documents. Within two months of appointment all employees (including trainees and temporary personnel) responsible for carrying out transactions and/or for initiating and/or establishing business relationships shall undergo anti money laundering training process and subsequently after every three years. Chief Anti Money Laundering Compliance Officer shall fix the training modules. Besides, if management thinks proper, CVCFL may time to

time distribute leaflets among customers to make them aware about money laundering and terrorist financing and also arrange to stick posters in every branch at a visible place.

3.12 Anti Money Laundering risk analysis

At the time of analyzing the credit risk, CVCFL Executives shall analyze the Anti Money Laundering risk exposure considering product and client risk and mitigate the same.

3.13 UN sanctions

CVCFL shall take all necessary actions on UNSCR 1267 and 1373 (targeted financial sanctions). To comply with this direction, CVCFL shall prepare a software regarding the UN sanction list for regular searching and if find any account with it, shall inform BFIU immediately.

Section-4: Central Compliance Unit and its reporting

4.1 Establishment of Central Compliance Unit (CCU)

To ensure compliance, a six member Central Compliance Unit will be formed in CVCFL. The reconstituted CCU comprise with the following officials:

Sl. #	Name of the members	Status in CCU
1	Md. Moktadir Hossain	CAMLCO
2	Md. Hossain Khan	Dy. CAMLCO
3	M Riazul Al Nawaz	Member
4	Md. Khaled Hossain Choudhury	Member Secretary

CCU is authorized to adopt new member(s) if they think proper. The quorum for CCU meeting will be four members present in person for that meeting. The Member Secretary shall keep the meeting records in proper manner.

4.2 Responsibilities of CCU

CCU will prepare and issue instructions to be followed by the branches; on the basis of combination of issues in monitoring of transactions, internal control, policies and procedures from the point of view of preventing money laundering and terrorist financing. CCU shall be dedicated solely to the organization's related responsibilities and perform the compliance functions. The responsibilities of CCU include:

- (i) Preparing an overall assessment report after evaluating the self assessment reports received from the branches and submitting it with comments and recommendations to the Managing Director on half yearly basis;
- (ii) Preparing an assessment report on the basis of the submitted checklist of inspected branches by the Internal Compliance Department on that particular quarter;
- (iii) Submitting reports to BFIU according to the guidelines issued by BB.

4.3 Self assessment

- 4.3.1 CCU shall introduce half yearly self assessment procedure that will assess how effectively the AML/CFT program is working. This procedure shall enable CVCFL management to identify areas of risk or to assess the need for additional control mechanisms.

- 4.3.2 CCU shall prepare the self assessment report documenting the work performed; how it was controlled/supervised and the resulting findings, conclusions and recommendations.
- 4.3.3 Each branch will assess its AML/CFT activities covering the following areas on half yearly basis and submit the self assessment report to CCU within next 20 days:
- The percentage of officers/employees that received official training on AML/CFT;
 - The awareness of the officers/employees about the internal AML/CFT policies,
 - procedures and programs, and Bangladesh Bank's instructions and guidelines;
 - The arrangement of AML/CFT related meeting on regular interval;
 - The effectiveness of the customer identification during opening an individual, corporate and other account;
 - The risk categorization of customers by the branch;
 - Regular update of customer profile upon reassessment;
 - The monitoring of customers' transactions with their declared TP after categorizing the customers based on risk or transactions over specific limit;
 - Identification of Suspicious Transaction Reports (STRs);
 - The maintenance of a separate file containing ML PA, Circulars, Training Records, Reports and other AML related documents and distribution of those among all employees;
 - The measures taken by the branch during opening of account of PEPs and IPs;
 - Consideration of UN Sanction List while conducting any business.
 - The compliance with AML/CFT weaknesses/irregularities, as the bank's Head Office and Bangladesh Bank's inspection report mentioned.

4.4 Independent testing procedure

- 4.4.1 CVCFL internal compliance department shall perform the independent testing procedure covering the following areas and submit a report to the Board Audit Committee on annual basis:
- Branch Compliance Unit/BAMLCO
 - Knowledge of officers/employees on AML/CFT issues
 - Customer Identification (KYC) process
 - Branch's receipt of customers' expected transaction profile and monitoring
 - Process and action to identify Suspicious Transaction Reports (STRs)
 - Regular submission of reports to CCU
 - Proper record keeping
 - Overall AML related activities by the branch
- 4.4.2 The tests may include interviews with employees handling transactions and interviews with their supervisors to determine their knowledge and compliance with the financial institution's anti-money laundering procedures along with the following:
- sampling of large transactions followed by a review of transaction record retention forms and suspicious transaction referral forms;
 - test of the validity and reasonableness of any exemption granted by the financial institution; and
 - test of the record keeping system according to the provisions of the laws. Any deficiencies should be identified and reported to senior

management together with a request for a response indicating corrective action taken or to be taken and a deadline.

Section-5: Appointment as CAMLCO

The CVCFL management shall designate one employee as CAMLCO allowing authority to implement and enforce corporate-wide AML/CFT policies, procedures and measures in the company. CAMLCO will directly report to the Managing Director for his/her responsibility. CAMLCO will also be responsible to coordinate and monitor day-to-day compliance with applicable AML/CFT related laws, rules and regulations as well as with its internal policies, practices, procedures and controls.

5.1 Position of CAMLCO

The Chief AML/CFT Compliance Officer will be the head of CCU. The designated CAMLCO, directly or through CCU, should be a central point of contact for communicating with the regulatory and/or investigation agencies regarding issues related to financial institution's AML/CFT program. The position of the CAMLCO cannot be lower than the third rank in seniority in organizational hierarchy.

5.2 Qualification and experience

The CAMLCO should have a working knowledge of the diverse financial products offered by the financial institutions. The person could have obtained relevant financial institutional and compliance experience as an internal auditor or regulatory examiner, with exposure to different financial institutional products and businesses. Product and financial institutional knowledge could be obtained from being an external or internal auditor, or as an experienced operational staff. The Chief AML/CFT Compliance Officer should have a minimum of seven years of working experience, with a minimum of three years at a managerial/administrative level.

5.3 Responsibilities

The major responsibilities of a CAMLCO are as follows:

- Chairs the CCU meeting;
- Monitors, reviews and coordinates application and enforcement of the financial institution's compliance policies including AML/CFT Compliance Policy. This will include an AML/CFT risk assessment, practices, procedures and controls for account opening, KYC procedures and ongoing account/transaction monitoring for detecting suspicious transaction/account activity, and a written AML/CFT training plan;
- Monitors changes of laws/regulations and directives of Bangladesh Bank and revise its internal policies accordingly;
- Responds to compliance questions and concerns of the staff and advise regional offices/branches/units and assist in providing solutions to potential issues involving compliance and risk;
- Ensures that AML/CFT policy is complete and up-to-date, maintains ongoing awareness of new and changing business activities and products and identifies potential compliance issues that should be considered by CVCFL;
- Develops the compliance knowledge of all staff, especially the compliance personnel and conduct training courses in the institution in this regard;
- Develops and maintains ongoing relationships with regulatory authorities, external and internal auditors, regional/branch/unit heads and compliance resources to assist in early identification of compliance issues;

- Assists in review of control procedures in CVCFL to ensure legal and regulatory compliance and in the development of adequate and sufficient testing procedures to prevent and detect compliance lapses;
- Monitors the business through self-testing for AML/CFT compliance and take any required corrective action;
- Determines the structure and resource levels of AML;
- Ensures resources are deployed effectively to support the Business in mitigating AML risks;
- Drives communication to the Board / CEO/ Audit Committee and other stakeholders with respect to issues concerning AML;
- Represents AML at Board, Management Committees and at senior corporate level as appropriate;
- Maintains relationships to external auditors, regulatory and other regulatory bodies;
- Controls, manages and administers AML's budget and resources planning processes;
- Is responsible for AML systems, technology, AML Risk Analysis, MIS and operations;
- Manages the Suspicious Transaction Report /Suspicious Activity Report process:
 - ❖ reviewing transactions referred by divisional, regional, branch or unit compliance officers as suspicious;
 - ❖ reviewing the transaction monitoring reports (directly or together with account management personnel);
 - ❖ ensuring that internal Suspicious Activity Reports (SARs):
 - are prepared when appropriate;
 - reflect the uniform standard for “suspicious activity involving possible money laundering or terrorist financing” established in its policy;
 - are accompanied by documentation of the branch's decision to retain or terminate the account as required under its policy;
 - are advised to other branches of the institution who are known to have a relationship with the customer;
 - are reported to the Chief Executive Officer, and the Board of Directors of the institution when the suspicious activity is judged to represent significant risk to the institution, including reputation risk .
 - ❖ ensuring that a documented plan of corrective action, appropriate for the seriousness of the suspicious activity, be prepared and approved by the branch manager;
 - ❖ maintaining a review and follow up process to ensure that planned corrective action, including possible termination of an account, be taken in a timely manner;
 - ❖ managing the process for reporting suspicious activity to BFIU after appropriate internal consultation;

Section-6: Branch Anti Money Laundering Officer (BAMLCO)

CVCFL shall appoint BAMLCO at each of their branches. BAMLCO will be the second man of a branch and have minimum three year experience in related field. The responsibilities of a BAMLCO will be as follows:

- Have a direct reporting line to Head of CCU.
- Manage the transaction monitoring process and report any suspicious activity to Branch Manager, and if necessary to the CAMLCO
- Are responsible for the implementation of the applicable Policies on AML & KYC.
- Provide training to Branch staff.
- Ensure that guidelines and procedures are in line with Anti Money Laundering laws / regulations and the applicable regulations of Bangladesh Bank.
- Are the primary point of contact with regulators and law enforcement authorities
- Are responsible for the AML Risk Analysis
- Communicate to all staff in case of any changes in national or its own policy.
- Are responsible for the implementation of adequate monitoring – research /surveillance tools
- Track and follow up on the conditions that have been imposed as part of the KYC approval
- Develop and maintain procedures and systems to ensure that unusual and suspicious transactions are reported to CAMLCO.
- Develop and carry out adequate controls to ensure that all applicable legal and regulatory AML requirements are being adhered to.
- Sign-off in the New Product Approval and Smart sourcing process where appropriate.
- Submit branch returns to CAMLCO timely.

Section-7: Responsibilities of other employees

The table below details the individual responsibilities of the CVCFL employees:

Function	Role / Responsibilities
Staff Responsible for account opening	<ul style="list-style-type: none"> • Perform due diligence on prospective clients prior opening an account • Be diligent regarding the identification (s) of account holder and the transactions relating to the account • Ensure all required documentation is completed satisfactorily • Complete the KYC Profile for the new customer • Ongoing monitoring of customers KYC profile and transaction activity • Escalate any suspicion to the Supervisor, Branch Manager and BAMLCO
Customer Service Officer	<ul style="list-style-type: none"> • Support the Account Officer in any of the above roles • Perform the Account Officer roles in their absence
Operations Staff	<ul style="list-style-type: none"> • Ensure that all control points are completed prior to transaction monitoring • Be diligent on transaction trends for clients • Update customer transaction profiles in the ledger/system
Branch Manager (Unit)	<ul style="list-style-type: none"> • Ensure that the program is effective within the branch/unit

Head)	<ul style="list-style-type: none"> • First point of contact for any issues
Risk Management /Credit Officer/Internal Control Officer	<ul style="list-style-type: none"> • Perform Risk Assessment for the Business • Perform periodic Quality Assurance on the program in the unit • Communicate updates in laws and internal policies
Operations & Technology Manager	<ul style="list-style-type: none"> • Ensures that the required reports and systems are in place to maintain an effective program
Controller of Branches	<ul style="list-style-type: none"> • Overall responsibility to ensure that the branches have an AML program in place and that it is working effectively
Managing Director	<ul style="list-style-type: none"> • Overall responsibility to ensure that the Business has an AML program in place and it is working effectively

Section-8: Money Laundering-training and awareness

8.1 Overview

CVCFL shall take reasonable care to provide appropriate anti-money laundering training on an ongoing basis for its employees who handle, or are managerially responsible for the handling of, transactions which may involve money laundering. All relevant staff should be educated in the process of the “Know Your Customer” requirements for money laundering and terrorist financing prevention purposes. The training in this respect should cover not only the need to know the true identity of the customer but also, where a business relationship is being established, the need to know enough about the type of business activities expected in relation to that customer at the outset to know what might constitute suspicious activity at a future date. Relevant staff should be alert to any change in the pattern of a customer’s transactions of circumstances that might constitute criminal activity. CVCFL shall provide initial training which:

- deals with the law on money laundering, and the responsibilities of staff;
- is applicable to all staff who handle, or are managerially responsible for the handling of, transactions which may involve money laundering and
- should be customer focused, and takes place with sufficient frequency (within a minimum period of 48 months) and ensure that it is given to all of the staff referred to in the above sub-para.

The training shall also include the following:

- General information on the risks of money laundering and terrorist financing schemes, methodologies, and typologies;
- Legal framework, how AML/CFT related laws apply to CVCFL and their employees;
- Institution’s policies and systems with regard to customer identification and verification, due diligence , monitoring;
- How to react when faced with a suspicious client or transaction;
- How to respond to customers who want to circumvent reporting requirements;
- Stressing the importance of not tipping off clients;
- Suspicious transaction reporting requirements and processes;
- Duties and accountabilities of employees;

8.2 Specific job training

The nature of responsibilities/activities performed by the CVCFL Executives is different from one another. So their training on AML/CFT issues should also be different for each category. Job specific AML/CFT trainings are discussed below:

8.2.1 New employees

A general appreciation of the background to money laundering and terrorist financing, and the subsequent need for reporting any suspicious transactions should be provided to all new employees who are likely to be dealing with customers or their transactions, irrespective of the level of seniority. They should be made aware of the importance placed on the reporting of suspicions by the organization, that there is a legal requirement to report, and that there is a personal statutory obligation to do so.

8.2.2 Customer service/Relationship Managers

Executives who are dealing directly with the public are the first point of contact with potential money launderers and terrorist financiers and their efforts are vital to the organization's strategy in the fight against money laundering and terrorist financing. They must be made aware of their legal responsibilities and should be made aware of the organization's reporting system for such transactions. Training should be provided on factors that may give rise to suspicions and on the procedures to be adopted when a transaction is deemed to be suspicious. It is vital that 'front-line' staffs are made aware of the organization's policy for dealing with non-regular (walk-in) customers particularly where large transactions are involved, and the need for extra vigilance in these cases.

8.2.3 Processing (Back Office) employees

The employees, who receive completed Account Opening, FDR application forms and cheques for deposit into customer's account or other investments must receive appropriate training in the processing and verification procedures. The staffs, who are in a position to deal with account opening, or to accept new customers, must receive the training given to relationship managers and other front office staff above. In addition, the need to verify the identity of the customer must be understood, and training should be given in the organization's account opening and customer/client verification procedures. Such staff should be aware that the offer of suspicious funds or the request to undertake a suspicious transaction may need to be reported to the AML/CFT Compliance Officer (or alternatively a line supervisor) whether or not the funds are accepted or the transactions proceeded with and must know what procedures to follow in these circumstances.

8.2.4 Credit Officers

Training should reflect an understanding of the credit function. Judgments about collateral and credit require awareness and vigilance toward possible laundering and funding terrorists. Indirect lending programs and lease financing also call for KYC efforts and sensitivity to laundering risks.

8.2.5 Audit and compliance employees

These are the people charged with overseeing, monitoring and testing AML/CFT controls, and they should be trained about changes in regulation, money laundering and terrorist financing methods and enforcement, and their impact on the institution.

8.2.6 Senior Management/Operations Supervisors and Managers

A higher level of instruction covering all aspects of money laundering and terrorist financing prevention procedures should be provided to those with the responsibility

for supervising or managing staff. This will include the offences and penalties arising from the laws for non-reporting and for assisting money launderers and terrorist financiers; internal reporting procedures and the requirements for verification of identity and the retention of records.

8.2.7 Senior Management and Board of Directors

Money laundering and terrorist financing issues and dangers should be regularly and thoroughly communicated to the board. It is important that the compliance department has strong board support, and one way to ensure that is to keep board members aware of the reputational risk that money laundering and terrorist financing poses to the institution. Major AML/CFT compliance related circulars/circular letters issued by BB should be placed to the board to bring it to the notice of the board members.

8.2.8 AML/CFT Compliance Officer

The AML/CFT Compliance Officer should receive in depth training on all aspects of the Money Laundering and Terrorist Financing Prevention Legislation, Bangladesh Bank directives and internal policies. In addition, the AML/CFT Compliance Officer will require extensive instructions on the validation and reporting of suspicious transactions and on the feedback arrangements, and on new trends and patterns of criminal activity.

8.3 The Combating Terrorism (Amendment) Act, 2012

It should be noted that any training given on anti money laundering must include the subject of the Combating Terrorism (Amendment) Act, 2012, and how this now covers all financial crime, however small.

A successful defense, under the Combating Terrorism (Amendment) Act, 2012, on the part of a member of staff of not having been trained to recognize and report suspicions, will leave the firm liable to prosecution for breach of the Regulations.

Not knowing the policies or procedures is not a defense. The regulations have implemented an ‘ought’ to know stance, and therefore all staff, referred to above must be trained.

8.4 Training procedures

The trainers can take the following steps to develop an effective training program:

- Identify the issues that must be communicated and decide how best to do this e.g. sometimes, e-learning can effectively do the job, sometimes classroom training is the best option.
- Identify the audience by functional area as well as level of employee/management. This should be accompanied by a quick “why are they here” assessment. New hires should receive training different from that given to veteran employees.
- Determine the needs that are being addressed; e.g. uncovered issues by audits or examinations, created by changes to systems, products or regulations.
- Determine who can best develop and present the training program.
- Create a course abstract or curriculum that addresses course goals, objectives and desired results. Be sure to identify who the audience should be and how the material will be presented.
- Establish a training calendar that identifies the topics and frequency of each course.

- Course evaluation shall be done to evaluate how well the message is received; copies of the answer key should be made available. Similarly, in case of a case study used to illustrate a point, provide detailed discussion of the preferred course of action.
- Track Attendance by asking the attendees to sign in. Employee who shall remain absent without any reason may warrant disciplinary action and comments in employee's personal file.

8.5 Refresher training

In addition to the above compliance requirements, training are to be tailored to the needs of specialized areas of the CVCFL business. It will also be necessary to keep the content of training programs under review and to make arrangements for refresher training at regular intervals i.e. at least bi-annually to ensure that staff does not forget their responsibilities and to reflect individual circumstances, possibly in conjunction with compliance monitoring. Training should be conducted ongoing basis, incorporating trends and developments in CVCFL business risk profile, as well as changes in the legislation. Training on new money laundering and terrorist financing schemes and typologies are of the utmost importance when reviewing policies and controls and designing monitoring mechanisms for suspicions activity.

8.6 In practice

Records regarding Executives' training shall be maintained by CAMLCO through signature on a register. These records shall assist in the completion of the annual report to be submitted to the Board of Directors.

8.6.1 Who should be trained and when?

It is mandatory for all employees that handles, or is managerially responsible for the handling of, transactions which may involve money laundering, and who may act for customers who are categorized as risk levels 1, 2 or 3 to be trained to understand the procedures in place within CVCFL to minimize the risk of money laundering.

8.6.2 What should training cover?

Training provided should enable all employees with the responsibility for handling transactions, adequate awareness of and to observe and assess the information that is required for them to judge whether a transaction or instruction is suspicious in the circumstances.

The frequency and nature of induction and repeat training should take into account the expected skills of the staff concerned, the nature of the business, transactions and the means of delivery, i.e. whether face-to-face or remote.

In keeping up-to-date with changes, sanctions lists and industry news, the Responsible Officer should notify staff of material changes through additional 'ad hoc' training or in the form of news bulletins, for example. It is of particular importance that Compliance and Internal Audit staff, at least, is kept abreast of changes to regulations so that appropriate monitoring of the business can be implemented.

8.6.3 Training should be risk based

Training should take a risk based approach by including consideration of business carried out by the Company. Staff should be advised how to handle such situations so that appropriate emphasis is placed on the need to check on the sources of funds.

It is of paramount importance that the message given to staff during training is: “There are no degrees of suspicion; you are either suspicious or you are not “when in any doubt, submit a suspicion report”.

8.7 Independent audit function

8.7.1 Why the audit function is necessary

To ensure the effectiveness of the AML/CFT program, CVCFL should assess the program regularly and look for new risk factors. Financial institution like CVCFL covered by laws should establish and maintain policies, procedures and controls which should include an appropriate compliance function and an audit function.

8.7.2 Why the audit function must be independent

The audit must be independent (i.e. performed by people not involved with the CVCFL AML/CFT compliance staff). Audit is a kind of assessment of checking of a planned activity. Only those will check or examine the institution who does not have any stake in it. To ensure objective assessment it is important to engage an independent body to do audit.

8.7.3 Whom they report

The individuals conducting the audit should report directly to the board of directors/senior management.

8.7.4 The ways of performing audit function

Audit function shall be done by the internal audit. At the same time external auditors appointed by CVCFL to conduct annual audit shall also review the adequacy of AML/CFT program during their audit.

8.7.5 Internal compliance department

CVCFL internal compliance department should be well resourced and enjoy a degree of independence within the organization. Those performing the independent testing must be sufficiently qualified to ensure that their findings and conclusions are reliable. The responsibilities of internal compliance department are:

- Address the adequacy of AML/CFT risk assessment.
- Examine/attest the overall integrity and effectiveness of the management systems and the control environment.
- Examine the adequacy of Customer Due Diligence (CDD) policies, procedures and processes, and whether they comply with internal requirements.
- Determine personnel adherence to CVCFL AML/CFT policies, procedures and processes.
- Perform appropriate transaction testing with particular emphasis on high risk operations (products, service, customers and geographic locations).
- Assess the adequacy of CVCFL processes for identifying and reporting suspicious activity.
- Communicate the findings to the board and/or senior management in a timely manner.
- Recommend corrective action for deficiencies.
- Track previously identified deficiencies and ensures that management corrects them.
- Assess training adequacy, including its comprehensiveness, accuracy of materials, training schedule and attendance tracking.
- Determine when assessing the training program and materials:

- ❖ The importance that the board and the senior management place on ongoing education, training and compliance
- ❖ Employee accountability for ensuring AML/CFT compliance.
- ❖ Comprehensiveness of training, in view of specific risks of individual business lines.
- ❖ Participation of personnel from all applicable areas of CVCFL.
- ❖ Frequency of training.
- ❖ Coverage of CVCFL policies, procedures, processes and new rules and regulations.
- ❖ Coverage of different forms of money laundering and terrorist financing as they relate to identifying suspicious activity.
- ❖ Penalties for noncompliance and regulatory requirements.

8.7.6 External auditor

External auditor shall play an essential part in reviewing the adequacy of controls by communicating their findings and recommendations to management via the annual management letter, which accompanies the audit report. External audit should focus their audit programs on risk factors and conducts intensive reviews of higher risk areas where controls may be deficient. External auditors may report incidences of suspected criminal activity uncovered during audits, to the financial sector supervisors.

Section-9: Customer Due Diligence

9.1 Know Your Customer program

The adoption of effective Know Your Customer (KYC) program is an essential part of financial institutions' risk management policies. Having sufficiently verified/corrected information about customers "Knowing Your Customer" (KYC) - and making use of that information underpins all AML/CFT efforts, and is the most effective defense against being used to launder the proceeds of crime. Keeping that in view, CVCFL adopted adequate KYC program to minimize significant risks, especially legal and reputation risk. Sound KYC policies and procedures not only contribute to the CVCFL's overall safety and soundness, they also protect the integrity of its system by reducing money laundering, terrorist financing and other related offences.

9.2 Know Your Customer procedure

Money Laundering Prevention Act, 2012 requires all reporting agencies to maintain correct and concrete information with regard to identity of its customer during the operation of their accounts. According to FATF recommendation where CVCFL is unable to identify the customer and verify that customer's identity using reliable, independent source documents, data or information, and to identify the beneficial owner, and to take reasonable measures to verify the identity of the beneficial owner and unable to obtaining information on the purpose and intended nature of the business relationship, it should not open the account, commence business relations or perform the transaction; or should terminate the business relationship; and should consider making a suspicious transactions report in relation to the customer.

9.2.1 Nature of customer's business

When a business relationship is being established, the nature of the business that

the customer expects to conduct with the institution should be ascertained at the outset to establish what might be expected later as normal activity. CVCFL shall update this information as appropriate, and as opportunities arise. In line with that information CVCFL shall judge whether a transaction carried out by its customers is or is not suspicious.

9.2.2 Identifying real person

CVCFL shall establish to its satisfaction that it is dealing with a real person (natural, corporate or legal), and must verify the identity of persons who are authorized to operate any account, or transact business for the customer. To safeguard against opening of fictitious account, whenever possible, the prospective customer should be interviewed personally.

9.2.3 Document is not enough

The best identification documents possible should be obtained from the prospective customer i.e. those that are the most difficult to obtain illicitly. No single piece of identification can be fully guaranteed as genuine, or as being sufficient to establish identity so verification will generally be a cumulative process. The overriding principle is that CVCFL must know who their customers are, and have the necessary documentary evidence to verify this. It should always be remembered that collection of document is not enough for KYC, identification of the customer is very important.

9.2.4 Who is a customer?

For the purpose of KYC Procedure a “Customer” is defined in AML Circular No. 24 dated March 03, 2010, as:

- any person or institution maintaining an account of any type with a bank or financial institution or having banking related business;
- the person or institution as true beneficial owner in whose favour the account is operated;
- the trustee, intermediary or true beneficial owner of the transaction of the accounts operated by the trust and professional intermediaries (such as lawyer/law firm, chartered accountant, etc) under the existing legal infrastructure;
- high value single transaction conducted in a single Demand Draft, Pay Order, Telegraphic Transfer by any person or institution or any person/institution involved in a financial transaction that may pose reputation and other risks to the institution. In this case if a transaction appears abnormal in relation to the usual transaction of the concerned person or institution that transaction will be treated as high value;

9.2.5 Customer acceptance policy

CVCFL should be considered the factors such as customers’ background, country of origin, public or high profile position, linked accounts, business activities or other risk indicators. It is important that the customer acceptance policy is not so restrictive that it results in a denial of access by the general public to financial services, especially for people who are financially or socially disadvantaged. On the other hand, quite extensive due diligence would be essential for an individual with a high net worth whose source of funds is unclear. Decisions to enter into business relationships with higher risk customers, such as public figures or politically exposed persons should be taken exclusively at senior management level. CVCFL should also be considered the following aspects of customer relationship:

- (i) No account should be opened in anonymous or fictitious name.
- (ii) Parameters of risk perception should be clearly defined in terms of the source of fund, the nature of business activity, location of customer and his clients, mode of payments, volume of turnover, service offered, social and financial status etc. to categorize customers into different risk grades.
- (iii) Documentation requirements and other information to be collected in respect of different categories of customers depending on perceived risk.
- (iv) Not to open an account or close an account where CVCFL is unable to apply appropriate customer due diligence measures i.e. CVCFL is unable to verify the identity and/or obtain documents required as per the risk categorization due to non cooperation of the customer or non reliability of the data/information furnished to the financial institution. Decision by CVCFL to close an account should be taken at a reasonably high level after giving due notice to the customer explaining the reasons for such a decision.
- (v) Circumstances, in which a customer is permitted to act on behalf of another person/entity, should be clearly spelt out in conformity with the established law and practices of financial service as there could be occasions when an account is operated by a mandate holder or where an account is opened by an intermediary in fiduciary capacity.
- (vi) Necessary checks before opening a new account to ensure that the identity of the customer does not match with any person with known criminal background or with banned entities such as individual terrorists or terrorist organizations etc.
- (vii) The status of a customer may change as relation with a customer progresses. The transaction pattern, volume of a customer's account may also change. With times an ordinary customer can turn into a risky one. To address this issue, customer acceptance policy should include measures to monitor customer's activities throughout the business relation.

9.2.6 Customer identification

Customer identification is an essential element of KYC standards. The customer identification process applies naturally at the outset of the relationship. To ensure that records remain up-to-date and relevant, there is a need for CVCFL to undertake regular reviews of existing records. An appropriate time to do so is when a transaction of significance takes place, when customer documentation standards change substantially, or when there is a material change in the way that the account is operated. However, if CVCFL becomes aware at any time that it lacks sufficient information about an existing customer, it should take steps to ensure that all relevant information is obtained as quickly as possible. Once verification of identity has been satisfactorily completed, no further evidence is needed to undertake subsequent transactions

9.2.7 What constitutes a customer's identity

Identity generally means a set of attributes which uniquely define a natural or legal person. There are two main constituents of a person's identity, remembering that a person may be any one of a range of legal persons (an individual, corporate body, partnership, etc). For the purposes of this guidance, the two elements are:

- the physical identity (e.g. Birth Certificate, TIN/VAT Registration, Passport/National ID, Driving License etc.); and
- the activity undertaken.

Confirmation of a person's address is also useful in determining whether a

customer is resident in a high-risk country. Knowledge of both residence and nationality may also be necessary, in a non money-laundering context, to avoid breaches of UN or other international sanctions to which Bangladesh is a party. Where a passport is taken as evidence, the number, date and place of issuance should be recorded. The other main element in a person's identity is sufficient information about the nature of the business that the customer expects to undertake, and any expected or predictable, pattern of transactions. For some business these may be obvious, however, for more complex businesses this may not be the case. The extent of the description required will depend on the institution's own understanding of the applicant's business.

Once account relationship has been established, reasonable steps should be taken by the institution to ensure that descriptive information is kept up-to-date as opportunities arise. It is important to emphasize that the customer identification process does not end at the point of application. The need to confirm and update information about identity, such as changes of address, and the extent of additional KYC information to be collected over time will differ from sector to sector and between institutions within any sector. It will also depend on the nature of the product or service being offered, and whether personal contact is maintained enabling file notes of discussion to be made or whether all contact with the customer is remote.

9.2.8 Individual customers

CVCFL shall obtain following information while opening accounts or establishing other relationships with individual customers:

- Correct name and/or names used;
- parent's names;
- date of birth;
- current and permanent address;
- details of occupation/employment and sources of wealth or income
- Contact information, such as – mobile/telephone no.

The original, certified copy of the following Photo ID also play vital role to identify the customer:

- Current valid passport;
- Valid driving license;
- National ID Card;
- Employer provided ID Card, bearing the photograph and signature of the applicant;

Identification documents which do not bear photographs or signatures, or are easy to obtain, are normally not appropriate as sole evidence of identity, e.g. birth certificate, certificate from any local government organs, credit cards, non-Bangladeshi driving license. Any photocopies of documents showing photographs and signatures should be plainly legible. Where applicants put forward documents with which an institution is unfamiliar, either because of origin, format or language, the institution must take reasonable steps to verify that the document is indeed genuine, which may include contacting the relevant authorities or obtaining a notarized translation. Financial Institutions should also be aware of the authenticity of passports.

- One or more of the following steps is recommended to verify addresses:
- provision of a recent utility bill, tax assessment or bank statement containing details of the address (to guard against forged copies it is strongly recommended that original documents are examined);
- checking the Voter lists;

- checking the telephone directory;
- visiting home/office;
- sending thanks letter.

The information obtained should demonstrate that a person of that name exists at the address given, and that the applicant is that person.

9.2.9 No face-to-face contact

Where there is no face-to-face contact, photographic identification would clearly be inappropriate procedures to identify and authenticate the customer. CVCFL should ensure that there is sufficient evidence, either documentary or electronic, to confirm address and personal identity. At least one additional check should be undertaken to guard against impersonation. In the event that internal procedures require sight of a current passport or ID card where there is no face-to-face contact, then a certified true copy should be obtained. CVCFL should not allow non face to face contact to a resident in establishing relationship.

9.2.10 Appropriateness of documents

There is obviously a wide range of documents which might be provided as evidence of identity. It is for each institution to decide the appropriateness of any document in the light of other procedures adopted. However, particular care should be taken in accepting documents which are easily forged or which can be easily obtained using false identities.

9.2.11 Joint accounts

In respect of joint accounts where the surname and/or address of the account holders differ, the name and address of all account holders, not only the first named, should normally be verified in accordance with the procedures set out above.

9.2.12 Change in address or other details

Any subsequent change to the customer's name, address, or employment details of which CVCFL becomes aware should be recorded as part of the Know Your Customer process. Generally this would be undertaken as part of good business practice and due diligence but also serves for money laundering prevention.

9.2.13 Record keeping

All documents collected or gathered for establishing relationship must be filed in with supporting evidence. Where this is not possible, the relevant details should be recorded on the applicant's file. Institutions which regularly conduct one-off transactions, should record the details in a manner which allows cross reference to transaction records.

9.2.14 Introducer

To identify the customer and to verify his/her identity, an introducer may play important role. An introduction from a respected customer, personally known to the management, or from a trusted member of staff, may assist the verification procedure but does not replace the need for verification of address as set out above. Details of the introduction should be recorded on the customer's file. However, personal introductions without full verification should not become the norm, and directors/senior managers must not require or request staff to breach account opening procedures as a favor to an applicant.

9.2.15 Persons without standard identification documentation

It is generally believed that financial inclusion is helpful in preventing money laundering and terrorist financing. Most people need to make use of the financial system at some point in their lives. It is important, therefore, that the socially or financially disadvantaged such as the elderly, the disabled, students and minors should not be precluded from obtaining financial services just because they do not possess evidence of identity or address where they cannot reasonably be expected to do so. In these circumstances, a common sense approach and some flexibility without compromising sufficiently rigorous AML procedures is recommended. Internal procedures must allow for this, and must provide appropriate advice to staff on how identity can be confirmed in these exceptional circumstances. The important point is that a person's identity can be verified from an original or certified copy of another document, preferably one with a photograph. CVCFL shall not allow "high value" transactions to this kind of customers.

A certifier must be a suitable person, such as for instance a lawyer, accountant, director or manager of a regulated institution, a notary public, a member of the judiciary or a senior civil servant. The certifier should sign the copy document (printing his name clearly underneath) and clearly indicate his position or capacity on it together with a contact address and phone number. In these cases it may be possible for the institution to accept confirmation from a professional (e.g. doctor, lawyer, directors or managers of a regulated institution, etc) who knows the person. Where the individual lives in accommodation for which he or she is not financially responsible, or for which there would not be documentary evidence of his/her address, it may be acceptable to accept a letter from the guardian or a similar professional as confirmation of a person's address. A manager may authorize the opening of a business relationship if s/he is satisfied with confirmation of identity circumstances but must record his/her authorization on the customer's file, and must also retain this information in the same manner and for the same period of time as other identification records.

9.2.16 Minor

For minor, the normal identification procedures set out above should be followed as far as possible. Where such procedures would not be relevant, or do not provide satisfactory evidence of identity, verification might be obtained in the form of the home address of parent(s). Under normal circumstances, a family member or guardian who has an existing relationship with the institution concerned would introduce a minor. In cases where the person opening the account is not already known, the identity of that person, and any other person who will have control of the account, should be verified.

9.2.17 Corporate bodies and other entities

Because of the difficulties of identifying beneficial ownership, and the possible complexity of organization and structures, corporate entities and trusts are the most likely vehicles to be used for money laundering, particularly when a legitimate trading company is involved. Particular care should be taken to verify the legal existence of the applicant and to ensure that any person purporting to act on behalf of the applicant is authorized to do so. The principal requirement is to look behind a corporate entity to identify those who have ultimate control over the business and the company's assets, with particular attention being paid to any shareholders or others who exercise a significant influence over the affairs of the company. Enquiries should be made to confirm that the company exists for a legitimate trading or economic purpose, and that it is not merely a "brass plate company" where the controlling principals cannot be identified. Before a business relationship is established, measures should be taken by way of company search and/or other

commercial enquiries to ensure that the applicant company has not been, or is not in the process of being, dissolved, and struck off, wound-up or terminated. In addition, if CVCFL becomes aware of changes in the company structure or ownership, or suspicions are aroused by a change in the nature of business transacted, further checks should be made. No further steps to verify identity over and above usual commercial practice will normally be required where the applicant for business is known to be a company, or a subsidiary of a company, quoted on a recognized stock exchange.

The following documents should normally be obtained from companies:

- Certified copy of Certificate of Incorporation or equivalent, details of the registered office, and place of business;
- Certified copy of the Memorandum and Articles of Association, or by-laws of the client.
- Copy of the board resolution to open the account relationship and the empowering authority for those who will operate any accounts;
- Explanation of the nature of the applicant's business, the reason for the relationship being established, an indication of the expected turnover, the source of funds, and a copy of the last available financial statements where appropriate;
- Satisfactory evidence of the identity of each of the principal beneficial owners being any person holding 10% interest or more or with principal control over the company's assets and any person (or persons) on whose instructions the signatories on the account are to act or may act where such persons are not full time employees, officers or directors of the company;
- Satisfactory evidence of the identity of the account signatories, details of their relationship with the company and if they are not employees an explanation of the relationship. Subsequent changes to signatories must be verified;
- Copies of the list/register of directors.
- Where the business relationship is being opened in a different name from that of the applicant, the institution should also satisfy itself that the reason for using the second name makes sense. The following persons (i.e. individuals or legal entities) must also be identified in line with this part of the notes:
 - All of the directors who will be responsible for the operation of the account / transaction.
 - All the authorized signatories for the account/transaction.
 - All holders of powers of attorney to operate the account/transaction.
 - The beneficial owner(s) of the company
 - The majority shareholders of a private limited company.

A letter issued by a corporate customer is acceptable in lieu of passport or other photo identification documents of their shareholders, directors and authorized signatories. Where the institution already knows their identities and identification records already accord with the requirements of these notes, there is no need to verify identity again. When authorized signatories change, care should be taken to ensure that the identities of all current signatories have been verified. In addition, it may be appropriate to make periodic enquiries to establish whether there have been any changes in directors/shareholders, or the nature of the business/activity being undertaken. Such changes could be significant in relation to potential money laundering activity, even though authorized signatories have not changed.

9.2.18 Companies registered abroad

Particular care should be exercised when establishing business relationships with companies incorporated or registered abroad, or companies with no direct business link to Bangladesh. Such companies may be attempting to use geographic or legal complication to interpose a layer of opacity between the source of funds and their final destination. In such circumstances, CVCFL should carry out effective checks on the source of funds and the nature of the activity to be undertaken during the proposed business relationship. This is particularly important if the corporate body is registered or has known links to countries without anti-money laundering legislation and procedures equivalent to Bangladesh. In the case of a trading company, a visit to the place of business may also be made to confirm the true nature of the business.

9.2.19 Partnerships and unincorporated businesses

In the case of partnerships and other unincorporated businesses whose partners/directors are not known to the CVCFL, the identity of all the partners or equivalent should be verified in line with the requirements for personal customers. Where a formal partnership agreement exists, a mandate from the partnership authorizing the opening of an account and conferring authority on those who will operate it should be obtained. Evidence of the trading address of the business or partnership should be obtained and a copy of the latest report and accounts (audited where applicable). An explanation of the nature of the business or partnership should be ascertained (but not necessarily verified from a partnership deed) to ensure that it has a legitimate purpose.

9.2.20 Powers of Attorney/ Mandates to operate accounts

The authority to deal with assets under a power of attorney constitutes a business relationship and therefore, where appropriate, it may be advisable to establish the identities of holders of powers of attorney, the grantor of the power of attorney and third party mandates. Records of all transactions undertaken in accordance with a power of attorney should be kept.

9.2.21 Timing and duration of verification

The best time to undertake verification is prior to entry into the account relationship. Verification of identity should, as soon as is reasonably practicable, be completed before any transaction is completed. However, if it is necessary for sound business reasons to open an account or carry out a significant one-off transaction before verification can be completed, this should be subject to stringent controls which should ensure that any funds received are not passed to third parties. Alternatively, a senior member of staff may give appropriate authority. This authority should not be delegated, and should only be done in exceptional circumstances. Any such decision should be recorded in writing. Verification, once begun, should normally be pursued either to a satisfactory conclusion or to the point of refusal. If a prospective customer does not pursue an application, staff may (or may not) consider that this is itself suspicious.

9.3 Know Your Employee (KYE)

Institutions and businesses learn at great expense that an insider can pose the same ML/TF threat as a customer. It has become clear in the field that having co-equal programs to know your customer and to know your employee is essential. In an effort to identify and anticipate trouble before it costs time, money and reputation damage, CVCFL shall look closely at the people inside their own organizations. Keeping that in mind, CVCFL shall introduce a KYE program that will allow it to

understand an employee's background, conflicts of interest and susceptibility to money laundering complicity. The program will perform the background screening of prospective and current employees, especially for criminal history, to keep out unwanted employees and identifying those to be removed.

Section-10: Record keeping

10.1 Statutory requirement

According to Section 25(1) of Money Laundering Prevention Act, 2012, CVCFL shall retain correct and full records of customers' identification and transactions while operating an account of a customer. Again, according to FATF recommendation no. 11 CVCFL shall maintain, for **at least five years**, all necessary records on transactions, both domestic and international, to enable them to comply swiftly with information requests from the competent authorities. Such records must be sufficient to permit reconstruction of individual transactions (including the amounts and types of currency involved, if any) so as to provide, if necessary, evidence for prosecution of criminal activity. The records prepared and maintained by CVCFL on its customer relationship and transactions should be such that:

- requirements of legislation and Bangladesh Bank directives are fully met;
- competent third parties will be able to assess the institution's observance of money laundering policies and procedures;
- any transactions effected via the institution can be reconstructed;
- any customer can be properly identified and located;
- all suspicious reports received internally and those made to Bangladesh Bank can be identified; and
- the institution can satisfy within a reasonable time any enquiries or court orders from the appropriate authorities as to disclosure of information.

Records relating to verification of identity will generally comprise:

- a description of the nature of all the evidence received relating to the identity of the verification subject;
- the evidence itself or a copy of it or, if that is not readily available, information reasonably sufficient to obtain such a copy.

Records relating to transactions will generally comprise:

- details of personal identity, including the names and addresses, etc. pertaining to:
 - ❖ the customer;
 - ❖ the beneficial owner of the account or product;
 - ❖ the non-account holder conducting any significant one-off transaction;
 - ❖ any counter-party;
- details of transaction including:
 - ❖ nature of such transactions;
 - ❖ volume of transactions customer's instruction(s) and authority(ies);
 - ❖ source(s) of funds;
 - ❖ destination(s) of funds;
 - ❖ book entries;
 - ❖ custody of documentation;

- ❖ date of the transaction;
- ❖ form in which funds are offered and paid out.
- ❖ parties to the transaction
- ❖ identity of the person who conducted the transaction on behalf of the customer

These records of identity must be kept for at least five years from the date when the relationship with the customer has ended. This is the date of:

- closing of an account
- providing of any financial services
- carrying out of the one-off transaction, or the last in a series of linked one-off transactions; or
- ending of the business relationship; or
- commencement of proceedings to recover debts payable on insolvency.

CVCFL shall ensure that records pertaining to the identification of the customer, his/her address (e.g. copies of documents like passport, national ID card, driving licence, trade licence, utility bills etc.) obtained while opening the account and during the course of business relationship, are properly preserved for at least five years after the business relationship is ended and should be made available to the competent authorities upon request without delay.

10.2 Retrieval of records

To satisfy the requirements of the law and to meet the purpose of record keeping, it is important that records are capable of retrieval without undue delay. It is not necessary to retain all the documents relating to customer identity and transaction physically at the premises of the branch of CVCFL, provided that they have reliable procedures for keeping the hard copy at a central archive, holding records in electronic form, and that can be reproduced and recollected without undue delay. It is not always necessary to retain documents in their original hard copy form, provided that CVCFL has reliable procedures for holding records in microchips or electronic form, as appropriate, and that these can be reproduced without undue delay. In addition, CVCFL may rely on the records of a third party, such as a bank or clearing house in respect of details of payments made by customers. However, the primary requirement is on CVCFL itself and the onus is thus on the business to ensure that the third party is willing and able to retain and, if asked to, produce copies of the records required. However, the record requirements are the same regardless of the format in which they are kept or whether the transaction was undertaken by paper or electronic means. Documents held centrally must be capable of distinguishing between the transactions relating to different customers and of identifying where the transaction took place and in what form.

10.3 STR and investigations

Where CVCFL has submitted a report of suspicious transaction to BFIU or where it is known that a customer or any transaction is under investigation, it shall not destroy any records related to the customer or transaction without the consent of the BFIU or conclusion of the case even though the five-year limit may have been elapsed. To ensure the preservation of such records, CVCFL CAMLCO shall maintain a register or tabular records of all investigations and inspection made by the investigating authority or Bangladesh Bank and all disclosures to the BFIU. The register should be kept separate from other records and contain as a minimum

the following details:

- the date of submission and reference of the STR;
- the date and nature of the enquiry;
- the authority who made the enquiry, investigation and reference; and
- details of the account(s) involved.

10.4 Branch level record keeping

To ensure the effective monitoring and demonstrate their compliance with the concerned regulations, CVCFL shall ensure the keeping or availability of the following records at the branch level either in hard form or electronic form:

- Information regarding Identification of the customer,
- KYC information of a customer,
- Transaction report,
- Suspicious Transaction/Activity Report generated from the branch,
- Exception report,
- Training record,
- Return submitted or information provided to the Head Office or competent authority.

10.5 Training records

CVCFL will comply with the regulations concerning staff training, they shall maintain training records which include:

- details of the content of the training programs provided;
- the names of staff who have received the training;
- the date/duration of training;
- the results of any testing carried out to measure staffs understanding of the requirements; and
- an on-going training plan.

10.6 Sharing of record/information of/to a customer

Under MLPA 2012, and ATA, 2009 (as amended in 2012), CVCFL shall not share account related information to investigating authority i.e., Anti Corruption Commission or person authorized by ACC to investigate the said cases without having court order or prior approval from Bangladesh Bank.

Section-11: Risk Assessment Guidelines

11.1.1 Introduction

As a lead agency for prevention of money laundering and combating financing of terrorism, Bangladesh Financial Intelligence Unit (BFIU) is very keen to achieve highest success in this regard. The success of AML&CFT program highly depends on efficient assessment of related threat/vulnerability/risk and placing necessary tools for combating ML&TF risks as per the result of assessed threat/vulnerability/risk.

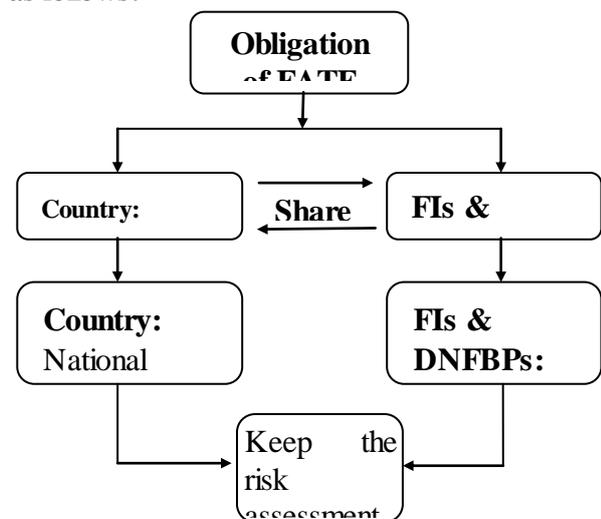
The purpose of this guideline is to:

- provide general information about ML & TF risks related with or generated through the products, services, delivery channels, and geographical presence;
- assist CVCFL to assess their ML&TF risks efficiently;
- enable CVCFL in implementing an AML & CFT program appropriate to their business having regard to the business size, nature and complexity;
- provide a broad risk management framework based on high-level principles and procedures that a FI may wish to consider when developing and implementing a risk-based approach to identify, mitigate and manage the ML & TF risks;
- enable the CVCFL to understand how and to what extent, it is vulnerable to ML&TF risks; and
- help CVCFL to allocate the resources efficiently to mitigate the ML & TF risk.

11.1.2 Obligation for ML&TF Risk Assessment and Management

Recommendation 1 of Financial Action Task Force (FATF), the international standard setter on anti money laundering (AML) and combating terrorist financing (CTF) states that countries should require financial institutions and designated non-financial businesses and professions (DNFBPs) to identify, assess and take effective action to mitigate their money laundering and terrorist financing risks. Rule 21 of MLP Rules 2013 contains that every Reporting Organization-Financial Institution (RO-FI) shall conduct periodic risk assessment and forward the same to the Bangladesh Financial Intelligence Unit (BFIU) for vetting. Rule 21 also contains that RO-FI shall utilize this risk assessment report after having vetted by BFIU.

The obligation of FATF Recommendation-1 may be shown as follows:



Money Laundering Prevention Act, 2012 empowers BFIU sufficiently to establish a sound and efficient AML & CFT regime in Bangladesh. Every reporting organization has to comply with the instructions issued by BFIU under the power of Money

Laundering Prevention Act (MLPA), 2012 and Anti Terrorism Act (ATA), 2009 (including all amendments). This Guideline has been issued through BFIU circular letter aiming to strengthen AML&CFT regime in Bangladesh. Therefore, it is obligatory for CVCFL to comply with this Guideline.

Money Laundering Prevention Act, 2012 empowers BFIU sufficiently to establish a sound and efficient AML & CFT regime in Bangladesh. Every reporting organization has to comply with the instructions issued by BFIU under the power of Money Laundering Prevention Act (MLPA), 2012 and Anti Terrorism Act (ATA), 2009 (including all amendments). This Guideline has been issued through BFIU circular letter aiming to strengthen AML&CFT regime in Bangladesh. Therefore, it is obligatory for CVCFL to comply with this Guideline.

11.1.3 Assessing risk

CVCFL should be required to take appropriate steps to identify and assess their money laundering and terrorist financing risks arisen from or through customers, products or services and transactions or delivery channels and geographical presence. They should document those assessments in order to be able to demonstrate their basis, keep these assessments up to date, and have appropriate mechanisms to provide risk assessment information to competent authorities.

11.1.4 Risk management and mitigation

CVCFL should be required to have policies, controls and procedures that enable them to manage and mitigate effectively the risks that have been identified. They should be required to monitor the implementation of those controls and to enhance them, if necessary. The policies, controls and procedures must be approved by senior management, and the measures taken to manage and mitigate the risks (whether higher or lower) should be consistent with national requirements and with guidance from BFIU.

11.1.5 What is risk

Risk can be defined as the combination of the probability of an event and its consequences. In simple term, risks can be seen as a combination of the chance that

something may happen and the degree of damage or loss that may result if it does occur.

11.1.6 What is risk management

Risk management is a systematic process of recognizing risk and developing methods to both minimize and manage the risk. This requires the development of a method to identify, assess, treat (deal with), control and monitor risk exposures. In risk management, a process is followed where the risks are assessed against the likelihood (chance) of them occurring and the severity or amount of loss or damage (impact) which may result if they do happen.

11.1.7 Which risks do CVCFL need to consider

For the AML & CTF aspects, CVCFL should take into account two main sources of ML & TF risks i.e., ML & TF risk arises from or through doing their business and non-compliance of regulatory requirements.

ML & TF risk that arises or generated in doing business is the risk that business may be used for ML & TF. The CVCFL must at least take into consideration the following segment of their business in assessing ML & TF risk:

- customer risks, i.e. ML&TF risk arisen from or generated through customers
- products or services risks
- business practices and/or delivery method risks
- country or jurisdictional risks

Regulatory risk is associated with not meeting all obligations of all CVCFL under the Money Laundering Prevention Act, 2012, Anti Terrorism Act, 2009 (including all amendments), the respective Rules issued under these two Acts and instructions issued by BFIU. Examples of regulatory obligations are failure to report STR/SAR, unable or inappropriately verification of customers and lacking of AML&CFT program (how a business identifies and manages the ML&TF risk it may face) etc.

It is unrealistic that a FI would operate in a completely ML&TF risk-free environment.

Therefore, it is suggested that a FI shall identifies the ML&TF risk it faces, and then works out the best ways to reduce and manage that risk.

11.2. Risk Management Framework

11.2.1 Introduction

The CVCFL will have flexibility to construct and tailor their risk management framework for the purpose of developing risk-based systems and controls and mitigation strategies in a manner that is most appropriate to their business structure (including financial resources and staff), their products and/or the services they provide. Such risk-based systems and controls should be proportionate to the ML&TF risk(s) a FI reasonably faces.

The risk management framework discussed in this guideline aims to assist CVCFL to develop and implement their AML&CFT programs in compliance with the existing legal and regulatory requirements and international standards and best practices.

For effective risk management, the CVCFL should at all levels follow the principles below:

- Risk management contributes to the demonstrable achievement of objectives and improvement of performance, governance and reputation.
- Risk management is not a stand-alone activity that is separate from the main activities and processes of the FI. Risk management is part of the responsibilities of management and an integral part of all organizational processes, including strategic planning.
- Risk management helps decision makers making informed choices, prioritize actions and distinguish among alternative courses of action.
- Risk management explicitly takes account of uncertainty, the nature of that uncertainty, and how it can be addressed.
- A systematic, timely and structured approach to risk management contributes to efficiency and to consistent, comparable and reliable results.
- Risk management is based on the best available information.
- Risk management is aligned with the FI's external and internal context and risk profile.
- Risk management is transparent and inclusive.
- Risk management is dynamic, iterative and responsive to change.

Following the above mentioned principles CVCFL are expected to develop and maintain logical, comprehensive and systematic methods to address each of the components referred to in this Guideline and that such methods and CVCFL' approach to ML&TF risk are understood, implemented and maintained, to some appropriate extent, within their organizations.

CVCFL would be expected to demonstrate to BFIU and Bangladesh Bank (BB) (for example, when a BFIU/BB inspection is being conducted) that their risk based systems and controls are suitable to their particular business and consistent with prudent and good practices.

In assessing and mitigating ML & TF risk, CVCFL should consider a wide range of financial products and services, which are associated with different ML & TF risks. These include, but are not limited to:

- Different deposit schemes: where CVCFL offer products and services directly to persons, business customers, Corporate bodies, Government offices, NGOs, Clubs, societies such as term deposit scheme, wealth builder scheme, other savings products;
- Corporate finance and investment services: where CVCFL provide corporate finance products such as lease finance, term loan, project finance, working capital finance, short-term finance and investment services to corporations, large and medium size enterprises, governments and institutions;
- Consumer finance: where CVCFL finance their customers to purchase different consumer products and services.

CVCFL should be mindful of those differences when assessing and mitigating the ML & TF risk to which they are exposed.

11.2.2 Risk Management Framework

A risk management framework would consist of:

- (a) establishing the internal and external context within which the designated service is, or is to be, provided. These may include:
 - the types of customers;
 - the nature, scale, diversity and complexity of their business;
 - their target markets;
 - the number of customers already identified as high risk;
 - the jurisdictions the FI is exposed to, either through its own activities or the activities of customers, especially jurisdictions with relatively higher levels of corruption or organized crime, and/or deficient AML & CFT controls and listed by FATF;
 - the distribution channels, including the extent to which CVCFL deals directly with the customer or the extent to which it relies (or is allowed to rely on) third parties to conduct CDD and the use of technology;
 - the internal audit and regulatory findings;
 - the volume and size of its transactions, considering the usual activity of the CVCFL and the profile of its customers.
- (b) risk identification;
- (c) risk assessment or evaluation; and
- (d) risk treatment (mitigating, managing, control, monitoring and periodic reviews).

In identifying and assessing the ML & TF risk to which they are exposed, CVCFL should consider a range of factors which may include:

Figure 1: The risk management framework at a glance

- **Risk identification:**

Identify the main ML&TF risks:

- customers
- products & services
- business practices/delivery methods or channels
- country/jurisdiction

Identify the main regulatory risks:

- failure to report STRs/SARs
- inappropriate customer verification
- inappropriate record keeping
- lack of AML/CFT program

- **Risk assessment/evaluation**

Measure the size & importance of risk:

- likelihood – chance of the risk happening
- impact – the amount of loss or damage if the risk happened
- likelihood X impact = level of risk (risk score)

- **Risk treatment**

Manage the business risks:

- minimize and manage the risks
- apply strategies, policies and procedures

Manage the regulatory risks:

- put in place systems and controls
- carry out the risk plan and AML&CFT program

- **Risk monitoring and review**

Monitor and review the risk plan:

- develop and carry out monitoring process
- keep necessary records
- review risk plan and AML&CFT program
- do internal audit or assessment
- do AML&CFT compliance report

12.2.3 The risk management process

12.2.3.1 Risk identification

Identify the main ML&TF risks:

- customers
- products & services
- business practices/delivery methods or channels
- country/jurisdiction

Identify the main regulatory risks:

- failure to report STRs/SARs
- inappropriate customer verification
- inappropriate record keeping
- lack of AML&CFT program

CVCFL should identify sources of risk, areas of impacts, events (including changes in circumstances) and their causes and their potential consequences. The aim of this step is to generate a comprehensive list of risks based on those events that might create, enhance, prevent, degrade, accelerate or delay the achievement of objectives. It is important to identify the risks associated with not pursuing an opportunity. Comprehensive identification is critical, because a risk that is not identified at this stage will not be included in further analysis.

Identification should include risks whether or not their source is under the control of the organization, even though the risk source or cause may not be evident. Risk identification should include examination of the knock-on effects of particular consequences, including cascade and cumulative effects. It should also consider a wide range of consequences even if the risk source or cause may not be evident. As well as identifying what might happen, it is necessary to consider possible causes and scenarios that show what consequences can occur. All significant causes and consequences should be considered.

The FI should apply risk identification tools and techniques that are suited to its objectives and capabilities, and to the risks faced. Relevant and up-to-date information is important in identifying risks. This should include appropriate background information where possible. Personnel with appropriate knowledge should be involved in identifying risks.

In identification of ML & TF risk CVCFL must consider at least risk arisen doing its business i.e. its customers, products or services, delivery channels or methods and jurisdiction and risk of non-compliance.

ML & TF risk arises from business:

CVCFL must consider the risk posed by any element or any combination of the elements listed below:

- Customers
- Products and services

- Business practices/delivery methods or channels
- Countries it does business in/with (jurisdictions).

Under these four groups, individual risks to a bank can be determined. While not an exhaustive list, some of these individual risks may include:

➤ **Customers:** followings are some indicators (but not limited to) to identify ML & TF risk arises from customers of a bank.

- a new customer
- a new customer who wants to carry out a large transaction
- a customer or a group of customers making lot of transactions to the same individual or group
- a customer who has a business which involves large amounts of cash
- a customer whose identification is difficult to check
- a customer who brings in large amounts of used notes and/or small denominations.
- customers conducting their business relationship or transactions in unusual circumstances, such as:
 - significant and unexplained geographic distance between the institution and the location of the customer
 - frequent and unexplained movement of accounts to different institutions
 - frequent and unexplained movement of funds between institutions in various geographic locations
- a non- resident customer
- a corporate customer whose ownership structure is unusual and excessively complex
- customers that are politically exposed persons (PEPs) or influential persons (IPs) or head of international organizations and their family members and close associates
- customers submits account documentation showing an unclear ownership structure
- customer opens account in the name of his/her family member who intends to credit large amount of deposits not consistent with the known sources of legitimate family income
- a customer comes with premature encashment of fixed deposit
- a customer generally tries to convince for cash deposit but insists for financial instrument while withdrawing the deposit

- government employee having several large amounts of fixed deposit accounts

➤ **Products and services:**

- prioritized or privileged financial service
- credit card
- anonymous transaction
- non face to face business relationship or transaction
- payment received from unknown or unrelated third parties
- any new product & service developed
- service to walk-in customers

➤ **Business practice/delivery methods or channels:**

- direct to the customer
- online/internet
- phone
- fax
- email
- third-party, agent or broker

➤ **Country/jurisdiction:**

- any country which is identified by credible sources as having significant level of corruption and criminal activity
- any country subject to economic or trade sanctions
- any country known to be a tax haven and identified by credible sources as providing funding or support for terrorist activities or that have designated terrorist organizations operating within their country
- any country identified by FATF or FSRBs as not having adequate AML&CFT system
- any country identified as destination of illicit financial flow
- branch in any land port, sea port city or any border area

▪ **Regulatory risk**

This risk is associated with not meeting the requirements of the Money laundering Prevention Act, 2012, Anti Terrorism Act, 2009 (including all amendments) and instructions issued by BFIU. Examples of some of these risks are:

- customer/beneficial owner identification and verification not done properly
- failure to keep record properly
- failure to scrutinize staffs properly

- failure to train staff adequately
- not having an AML&CFT program
- failure to report suspicious transactions or activities
- not submitting required report to BFIU regularly
- not having an AML&CFT Compliance Officer
- failure of doing Enhanced Due Diligence (EDD) for high risk customers (i.e., PEPs, IPs)
- not complying with any order for freezing or suspension of transaction issued by BFIU or BB
- not submitting accurate information or statement requested by BFIU or BB.

11.2.3.2. Risk assessment:

For assessing risk, in this chapter we have used, the Table -1, which is a simple & generic table with Risk Score and Treatment. Risk Score can be found by blending likelihood and impact; the details will be explained later on. Table -1 is used, only the examples of customer risk assessment and developed phase by phase so that user can have a good idea of risk assessment.

Table 1: Risk Management Worksheet – risk

Risk group:

Customers				
Risk	Likelihood	Impact	Risk Score	Treatment/Action
A new customer	Unlikely	Moderate	Low	Okay to go ahead
A new customer who wants to carry out a large transaction	Unlikely	Major	High	Do not allow transaction until risk is reduced - Follow EDD: Obtaining and verifying additional information e.g. occupation, volume of assets, nature of the business, source of funds or source of wealth, information available through public databases, internet, etc.), and updating more regularly the identification data of customer and beneficial owner and obtaining approval of senior management to commence or continue the business relationship.
A customer or a group of customers maintaining several accounts in the same name or group	Likely	Minor	Medium	May go ahead but preferably reduce risk- Follow standard CDD: Apply KYC procedure, Obtaining and verifying source of Fund document, nature of customer's business and also following customer acceptance policy.
A customer who has a business which involves large amounts of cash	Likely	Minor	Medium	May go ahead but preferably reduce risk- Follow standard CDD: Apply KYC procedure, Obtaining and verifying source of Fund

Customers				
Risk	Likelihood	Impact	Risk Score	Treatment/Action
				document, nature of customer's business and also following customer acceptance policy. Perform on-going monitoring and scrutinizing transactions, based on a reasonable monetary threshold.
A customer whose identification is difficult to check	Unlikely	Major	High	Do not allow transaction until risk is reduced - Follow EDD: i) obtain a declaration from Governing Body/Board of Trustees/Executive Committee/sponsors on ultimate control, purpose and source of funds etc; ii) obtain an undertaking from Governing Body/Board of Trustees/Executive Committee /sponsors to inform the bank/DFI about any change of control or ownership during operation of the account and iii) obtain a fresh Resolution of the Governing Body/Executive Committee of the entity in case of change in person(s) authorized to operate the account.
Customers conducting their business relationship or transactions in significant and unexplained geographic distance between the institution and the location of the customer	Unlikely	Moderate	Medium	May go ahead but preferably reduce risk- Follow standard CDD: Ensure that funds transfers which are out of character/inconsistent with the history, pattern, source of earnings and purpose, shall be viewed with suspicion and properly investigated for appropriate action, as per law.
Customers conducting their business relationship or transactions in frequent and unexplained movement of accounts to different institutions	Likely	Moderate	Medium	May go ahead but preferably reduce risk- Follow standard CDD: Ensure that funds transfers which are out of character/inconsistent with the history, pattern, source of earnings and purpose, shall be viewed with suspicion and properly investigated for appropriate action, as per law.
Customers conducting their business relationship or transactions in frequent and unexplained movement of funds between institutions in various geographic locations	Unlikely	Moderate	Medium	May go ahead but preferably reduce risk- Follow standard CDD: Ensure that funds transfers which are out of character/inconsistent with the history, pattern, source of earnings and purpose, shall be viewed with suspicion and properly investigated for appropriate action, as per law.

Customers				
Risk	Likelihood	Impact	Risk Score	Treatment/Action
A non- resident customer	Likely	Moderate	Medium	May go ahead but preferably reduce risk - CDD: Apply KYC procedure, Obtaining and verifying Beneficial Owners, Source of Funds, Customer Acceptance Policy,
A corporate customer whose ownership structure is unusual and excessively complex	Unlikely	Major	High	Do not allow transaction until risk is reduced - Follow EDD: i) obtain a declaration from Governing Body/Board of Trustees//Director /Executive Committee/sponsors on ultimate control, purpose and source of funds etc; ii) obtain an undertaking from Governing Body/Board of Trustees/Executive Committee /sponsors to inform the bank/DFI about any change of control or ownership during operation of the account and iii) obtain a fresh Resolution of the Governing Body/Executive Committee of the entity in case of change in person(s) authorized to operate the account. iv) obtain approval of senior management to commence or continue the business relationship.
Customers that are politically exposed persons (PEPs) or influential persons (IPs) or head of international organizations and their family members and close associates	Likely	Major	High	Do not allow transaction until risk is reduced - Follow EDD: i) If a client has not been physically present for identification purposes, one or more additional measures must be taken to enhance due diligence, for example by, inter alia, either gathering additional documents, data or information, or taking additional steps to verify documents or obtain a confirmatory certificate from a credit or financial institution subject to the money laundering directive; and ii) if a business relationship or occasional transaction is to be undertaken with a PEP in which case the business must provide for senior management approval for the relationship to be established, must take adequate measures to establish the source of wealth and funds which are involved and must conduct enhanced monitoring of any relationship entered into.

Customers				
Risk	Likelihood	Impact	Risk Score	Treatment/Action
Customers submits account documentation showing an unclear ownership structure	Unlikely	Major	High	Do not allow transaction until risk is reduced - Follow EDD: i) obtain a declaration from Governing Body/Board of Trustees//Director /Executive Committee/sponsors on ultimate control, purpose and source of funds etc; ii) obtain an undertaking from Governing Body/Board of Trustees/Executive Committee /sponsors to inform the bank/DFI about any change of control or ownership during operation of the account and iii) Obtain a fresh Resolution of the Governing Body/Executive Committee of the entity in case of change in person(s) authorized to operate the account. iv) Obtain approval of senior management to commence or continue the business relationship.
Customer opens account in the name of his/her family member who intends to credit large amount of deposits not consistent with the known sources of legitimate family income	Likely	Major	High	Do not allow transaction until risk is reduced - Follow EDD: i) Obtain a self-declaration for source and beneficial ownership of funds; ii) Update details of funds providers, if any along with customer's profile; and iii) Identify and verify funds providers if monthly credit turnover exceeds an appropriate threshold to be decided by CVCFL
A customer comes with premature encashment of fixed deposit	Likely	Moderate	Medium	May go ahead but preferably reduce risk- Follow standard CDD: Ensure that funds transfers which are out of character/ inconsistent with the history, pattern, purpose, shall be viewed with suspicion and properly investigated for appropriate action, as per law.
A customer generally tries to convince for cash deposit but insists for financial instrument while withdrawing the deposit	Unlikely	Major	High	Do not allow transaction until risk is reduced - Follow EDD: Obtaining and verifying additional information e.g. occupation, volume of assets, nature of the business, source of funds or source of wealth, information available through public databases, internet, etc.), and updating more regularly the identification data of customer and beneficial owner and obtaining approval of senior management to commence or continue the business

Customers				
Risk	Likelihood	Impact	Risk Score	Treatment/Action
				relationship.
A customer who wants to settle his loan early	Likely	Moderate	Medium	May go ahead but preferably reduce risk- Follow standard CDD: Ensure that payment made which are out of character/ inconsistent with the history/business/source of fund, pattern, purpose, shall be viewed with suspicion and properly investigated for appropriate action, as per law.
Government employee having several large amounts of fixed deposit accounts	Likely	Moderate	Medium	May go ahead but preferably reduce risk - CDD: Apply KYC procedure, Obtaining and verifying Beneficial Owners, Source of Funds, Customer Acceptance Policy,

PRODUCTS AND SERVICES

Risk group:	Products and Services			
Risk	Likelihood	Impact	Risk Score	Treatment/Action
Payment received from unknown or unrelated third parties	Unlikely	Moderate	Medium	May go ahead but preferably reduce risk- Follow standard CDD: Ensure that payment made which are out of character/ inconsistent with the history/business/source of fund, pattern, purpose, shall be viewed with suspicion and properly investigated for appropriate action, as per law.
Home equity and loan against FDR/deposits/financial instruments	Unlikely	Minor	Low	Okay to go ahead
Sale and lease back facility	Likely	Moderate	Medium	May go ahead but preferably reduce risk- Follow standard CDD: Ensure that funds transfers which are out of character/ inconsistent with the history, pattern, purpose, shall be viewed with suspicion and properly investigated for appropriate action, as per law.
Any new product & service developed	Unlikely	Minor	Low	Okay to go ahead

BUSINESS PRACTICE/DELIVERY METHODS OR CHANNELS

Risk group:	Business Practice/Delivery Methods or Channels			
Risk	Likelihood	Impact	Risk Score	Treatment/Action
Direct to the customer	Likely	Moderate	Medium	May go ahead but preferably reduce risk- Follow standard CDD: Ensure that payment made which are out of character/ inconsistent with the history/business/source of fund, pattern, purpose, shall be viewed with suspicion and properly investigated for appropriate action, as per law.

COUNTRY/JURISDICTION

Risk group:	Country/Jurisdiction			
Risk	Likelihood	Impact	Risk Score	Treatment/Action
Any country which is identified by credible sources as having significant level of corruption and criminal activity	Unlikely	Major	High	Do not allow transaction until risk is reduced - Follow EDD: Obtaining and verifying additional information e.g. screening customer with UN Sanction list, occupation, volume of assets, nature of the business, source of funds or source of wealth, information available through public databases, internet, etc.), follow customer acceptance policy of CVCFL and obtaining approval of senior management to commence or continue the business relationship.
Any country subject to economic or trade sanctions	Unlikely	Major	High	Do not allow transaction until risk is reduced - Follow EDD: Obtaining and verifying additional information e.g. screening customer with UN Sanction list, occupation, volume of assets, nature of the business, source of funds or source of wealth, information available through public databases, internet, etc.), follow customer acceptance policy of CVCFL and obtaining approval of senior management to commence or continue the business relationship.
Any country known to be a tax haven and identified by credible sources as providing funding or support for terrorist activities or that have designated terrorist organizations operating within their country	Unlikely	Major	High	Do not allow transaction until risk is reduced - Follow EDD: Obtaining and verifying additional information e.g. screening customer with UN Sanction list, occupation, volume of assets, nature of the business, source of funds or source of wealth, information available through public databases, internet, etc.), follow customer acceptance policy of CVCFL and obtaining approval of senior management to commence or continue the business relationship.

Risk group:	Country/Jurisdiction			
Risk	Likelihood	Impact	Risk Score	Treatment/Action
Any country identified by FATF or FSRBs as not having adequate AML&CFT system	Unlikely	Major	High	Do not allow transaction until risk is reduced - Follow EDD: Obtaining and verifying additional information e.g. screening customer with UN Sanction list, occupation, volume of assets, nature of the business, source of funds or source of wealth, information available through public databases, internet, etc.), follow customer acceptance policy of CVCFL and obtaining approval of senior management to commence or continue the business relationship.
Any country identified as destination of illicit financial flow	Unlikely	Major	High	Do not allow transaction until risk is reduced - Follow EDD: Obtaining and verifying additional information e.g. screening customer with UN Sanction list, occupation, volume of assets, nature of the business, source of funds or source of wealth, information available through public databases, internet, etc.), follow customer acceptance policy of CVCFL and obtaining approval of senior management to commence or continue the business relationship.
Branch in any land port, sea port city or any border area	Unlikely	Major	Medium	May go ahead but preferably reduce risk- Follow standard CDD: Apply KYC procedure, Obtaining and verifying source of Fund document, nature of customer's business and also following customer acceptance policy. Perform on-going monitoring and scrutinizing transactions, based on a reasonable monetary threshold.

REGULATORY RISK

Risk group:	Regulatory Risk			
Risk	Likelihood	Impact	Risk Score	Treatment/Action
Customer/beneficial owner identification and verification not done properly	Unlikely	Major	Medium	Follow standard CDD: GAP Analysis, Self Assessment, Independent testing procedure, frequent training, KYE and setting specific action point against shortfall or any non compliance. As per policies of CVCFL it is the responsibility of each employee to become familiar with rules and regulations that relate to his or her assignment. Moreover, disciplinary

Risk group:	Regulatory Risk			
Risk	Likelihood	Impact	Risk Score	Treatment/Action
				action would be taken if employees consistently fail to perform in accordance with AML/CFT framework for a consecutive period of six months. Besides, CVCFL shall complete the KYE before appointment in the company.
Failure to keep record properly	Unlikely	Major	Medium	Follow standard CDD: CVCFL shall retain correct and full records of customers' identification and transactions while operating an account of a customer. Again, according to FATF recommendation no. 11 CVCFL shall maintain, for at least five years. Where CVCFL has submitted a report of suspicious transaction to BFIU or where it is known that a customer or any transaction is under investigation, it shall not destroy any records related to the customer or transaction without the consent of the BFIU or conclusion of the case even though the five-year limit may have been elapsed. Disciplinary action would be taken if employees consistently fail to perform in accordance with AML/CFT framework for a consecutive period of six months.
Failure to scrutinize staffs properly	Unlikely	Major	Medium	Follow standard CDD: Before appointing any employee CVCFL shall perform the screening mechanism through KYE in details with proper records/documents. CVCFL shall introduce a KYE program that will allow it to understand an employee's background, conflicts of interest and susceptibility to money laundering complicity. The program will perform the background screening of prospective and current employees, especially for criminal history, to keep out unwanted employees and identifying those to be removed.
Failure to train staff adequately	Unlikely	Major	Medium	Follow standard CDD: Within two months of appointment all employees (including trainees and temporary personnel) responsible for

Risk group:	Regulatory Risk			
Risk	Likelihood	Impact	Risk Score	Treatment/Action
				carrying out transactions and/or for initiating and/or establishing business relationships shall undergo anti money laundering training process and subsequently after every three years.
Not having an AML&CFT program	Unlikely	Major	Medium	Follow standard CDD: GAP Analysis, Self Assessment, Independent testing procedure, frequent training, KYE and setting specific action point against shortfall or any non compliance.
Failure to report suspicious transactions or activities	Unlikely	Major	Medium	Follow standard CDD: GAP Analysis, Self Assessment, Independent testing procedure, frequent training, KYE and setting specific action point against shortfall or any non compliance. Disciplinary action would be taken if employees consistently fail to perform in accordance with AML/CFT framework.
Not submitting required report to BFIU regularly	Unlikely	Major	Medium	Follow standard CDD: GAP Analysis, Self Assessment, Independent testing procedure, frequent training, KYE and setting specific action point against shortfall or any non compliance.
Not having an AML&CFT Compliance Officer	Unlikely	Major	Medium	Follow standard CDD: GAP Analysis, Self Assessment, Independent testing procedure, frequent training, KYE and setting specific action point against shortfall or any non compliance.
Failure of doing Enhanced Due Diligence (EDD) for high risk customers (i.e., PEPs, IPs)	Unlikely	Major	Medium	Follow standard CDD: GAP Analysis, Self Assessment, Independent testing procedure, frequent training, KYE and setting specific action point against shortfall or any non compliance.
Not complying with any order for freezing or suspension of transaction issued by BFIU or BB	Unlikely	Major	Medium	Follow standard CDD: GAP Analysis, Self Assessment, Independent testing procedure, frequent training, KYE and setting specific action point against shortfall or any non compliance.
Not submitting accurate information or statement requested	Unlikely	Major	Medium	Follow standard CDD: GAP Analysis, Self Assessment, Independent testing procedure, frequent training, KYE and setting

Risk group:	Regulatory Risk			
Risk	Likelihood	Impact	Risk Score	Treatment/Action
by BFIU or BB.				specific action point against shortfall or any non compliance.

A table similar to *Table* shown above - *Risk management worksheet* - could be used for each risk group in preparation for assessing and managing those risks: customers, products and services, business practices/delivery methods, country/jurisdiction and the regulatory risks. Compilation of all risk groups by following table-1 will be treated as risk register of that FI.

11.2.3.3. Calculation of Risk Score

Measure the size & importance of risk:

- likelihood – chance of the risk happening
- impact – the amount of loss or damage if the risk happened
- likelihood X impact = level of risk (risk score)

Having identified the risks involved, they need to be assessed or measured in terms of the chance (likelihood) they will occur and the severity or amount of loss or damage (impact) which may result if they do occur. The risk associated with an event is a combination of the chance (likelihood) that the event will occur and the seriousness of the damage (impact) it may do.

Therefore each risk element can be rated by:

- the chance of the risk happening – **‘likelihood’**
- the amount of loss or damage if the risk happened – **‘impact’ (consequence)**.

To help assess the risks identified in the first stage of this process, we can apply the risk rating scales for likelihood (*Table 2*) on page 15 and impact (*Table 3*) on page 16 and from these get a level of risk or risk score using the risk matrix (*Figure 2*) on page 16.

LIKELIHOOD	X	IMPACT	=	RISK LEVEL/SCORE
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▪ **Likelihood scale**

A likelihood scale refers to the potential of an ML&TF risk occurring in the business for the particular risk being assessed. Three levels of risk are shown in Table 2, but CVCFL can have as many as they believe are necessary. This likelihood can be ascertained based on the available information, group consultation or by applying subjective judgment. CVCFL shall engage all concerned and competent personnel in ML & TF risk management process including ascertaining the likelihood scale.

Table 2: Likelihood scale

Frequency	Likelihood of an ML&TF risk
Very likely	Almost certain: it will probably occur several times a year
Likely	High probability it will happen once a year
Unlikely	Unlikely, but not impossible

▪ **Impact scale**

An impact scale refers to the seriousness of the damage (or otherwise) which could occur should the event (risk) happen.

In assessing the possible impact or consequences, the assessment can be made from several viewpoints. It does not cover everything and it is not prescriptive. Impact of an ML&TF risk could, depending on individual FI and its business circumstances, be rated or looked at from the point of view of:

- how it may affect the business (if through not dealing with risks properly CVCFL suffers a financial loss from either a crime or through fines from BFIU or regulator);
- the risk that a particular transaction may result in the loss of life or property through a terrorist act;
- the risk that a particular transaction may be involved in funds generated from any of the following crimes: corruption and bribery, counterfeiting currency, counterfeiting deeds and documents, smuggling of goods/workers/immigrants, banking offences, narcotics offences, psychotropic substance offences, illegal arms trading, kidnapping, terrorism, theft, embezzlement, or fraud, forgery, extortion, smuggling of domestic and foreign currency, black marketing, fraud etc.;
- the risk that a particular transaction may be involved in financing of terrorism;

- reputational risk – how it may affect CVCFL if it is found to have (unknowingly) aided an illegal act, which may mean BFIU or government sanctions and/or being shunned by the community of customers;
- how it may affect the wider community of customers if it is found to have aided an illegal act; the community may get a bad reputation as well as the business.
 - Legal risk- how it may affect the CVCFL if it becomes a part of legal proceedings.

All these impacts should be considered during measurement of impact scale.

Table 3: Impact scale

Consequence	Impact – of an ML & TF risk
Major	Huge consequences – major damage or effect. Serious terrorist act or large-scale money laundering.
Moderate	Moderate level of money laundering or terrorism financing impact.
Minor	Minor or negligible consequences or effects.

▪ **Risk matrix and risk score**

Use the risk matrix to combine LIKELIHOOD and IMPACT to obtain a risk score. The risk score may be used to aid decision making and help in deciding what action to be taken in view of the overall risk. How the risk score is derived can be seen from the risk matrix (Figure 2) and risk score table (Table 4) shown below. Four levels of risk score are shown in Figure 2 and Table 4, but the FI can have as many as they believe are necessary.

Figure 2: Risk matrix

Threat level for ML/TF risk

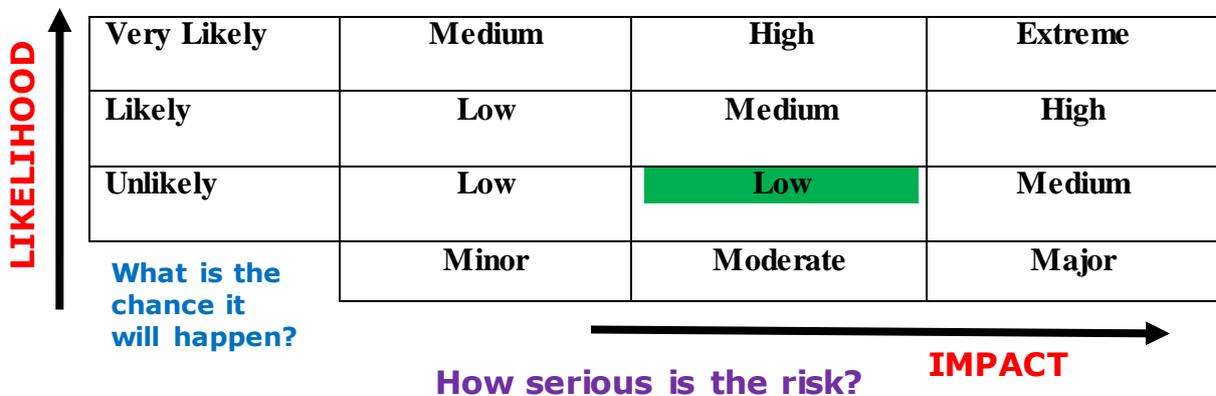


Table 4: Risk score table

Rating	Description
Extreme	<p>Risk almost sure to happen and/or to have very serious consequences.</p> <p>Response: Do not allow transaction to occur without reducing the risk to acceptable level- Follow EDD</p>
High	<p>Risk likely to happen and/or to have major consequences.</p> <p>Response: Do not allow transaction until risk is reduced- Follow EDD</p>
Medium	<p>Possible this could happen and/or have moderate consequences.</p> <p>Response: May go ahead but preferably reduce risk- Follow standard CDD</p>
Low	<p>Unlikely to happen and/or have minor or negligible consequences.</p> <p>Response: Okay to go ahead.</p>

- **Risk Assessment and Management Exercise:**

- From the above discussion, CVCFL will have an idea to calculate risk score by blending likelihood and impact, the risk matrix and risk score and can assess the risks of individual customer, product/service, delivery channel and risks related to geographic region by using the simplified risk management worksheet (Table-01). It can also fix up its necessary actions against the particulars outcomes of risks. All the exercises done by CVCFL would be called together "**Risk Registrar**".

Once threat levels and risk scores have been allocated CVCFL can be entered in the risk management worksheet (*Table 5*) next to the risk.

Table 5: Risk management worksheet – threat level and risk score

Risk group	Customers			
Risk	Likelihood	Impact	Risk score	Treatment/Action
New customer (example only)	Likely (example only)	Moderate (example only)	Medium (example only)	
Customer who brings in large amounts of used notes and/or small denominations (example only)	Likely (example only)	Major (example only)	High (example only)	
Customer whose business address and registered office are in the different geographic location (example only)	Very likely (example only)	Major (example only)	Extreme (example only)	

11.2.3.4 Risk treatment

Manage the business risks:

- minimize and manage the risks
- apply strategies, policies and procedures

Manage the regulatory risks:

- put in place systems and controls
- carry out the risk plan and AML&CFT program

This stage is about identifying and testing methods to manage the risks the FI may have identified and assessed in the previous process. In doing this they will need to consider putting into place strategies, policies and procedures to help reduce (or treat) the risk. Examples of a risk reduction or treatment step are:

- setting transaction limits for high-risk products
- having a management approval process for higher-risk products
- process to place customers in different risk categories and apply different identification and verification methods
- not accepting customers who wish to transact with a high-risk country.

Table 6: Risk management worksheet – risk treatment or action

Risk group	Customers			
Risk	Likelihood	Impact	Risk score	Treatment/Action
New customer <i>(example only)</i>	Likely <i>(example only)</i>	Moderate <i>(example only)</i>	Medium <i>(example only)</i>	Standard ID check
Customer who brings in large amounts of used notes and/or small denominations <i>(example only)</i>	Likely <i>(example only)</i>	Major <i>(example only)</i>	High <i>(example only)</i>	Standard + additional ID check
Customer whose business address and registered office are in the different geographic location <i>(example only)</i>	Very likely <i>(example only)</i>	Major <i>(example only)</i>	extreme <i>(example only)</i>	Do not accept as customer

Another way to reduce the risk is to use a combination of risk groups to modify the overall risk of a transaction. CVCFL may choose to use a combination of customer, product/service and country risk to modify an overall risk.

It is important to remember that identifying, for example, a customer, transaction or country

as high risk does not necessarily mean that money laundering or terrorism financing is involved. The opposite is also true: just because a customer or transaction is seen as low risk does not mean the customer or transaction is not involved in money laundering or terrorism financing. Experience and common sense should be applied to the risk management process of an entity.

11.2.3.5 Monitor and review

Monitor & review the risk plan:

- develop and carry out monitoring process
- keep necessary records
- review risk plan and AML&CFT program
- do internal audit or assessment
- do AML&CFT compliance report

Keeping records and regular evaluation of the risk plan and AML & CFT program is essential. The risk management plan and AML&CFT program cannot remain static as risks change over time; for example, changes to customer base, products and services, business practices and the law.

Once documented, the FI should develop a method to check regularly on whether AML & CFT program is working correctly and effectively. If not, CVCFL needs to work out what needs to be improved and put changes in place. This will help keep the program effective and also meet the requirements of the AML & CFT Acts and respective Rules.

11.2.3.6 Additional tools to help risk assessment

The following tools or ideas can be useful in helping to manage risk. It can be included in the previous risk assessment process so that the decisions are to be better informed.

11.2.3.6.1 Applying risk appetite to risk assessment

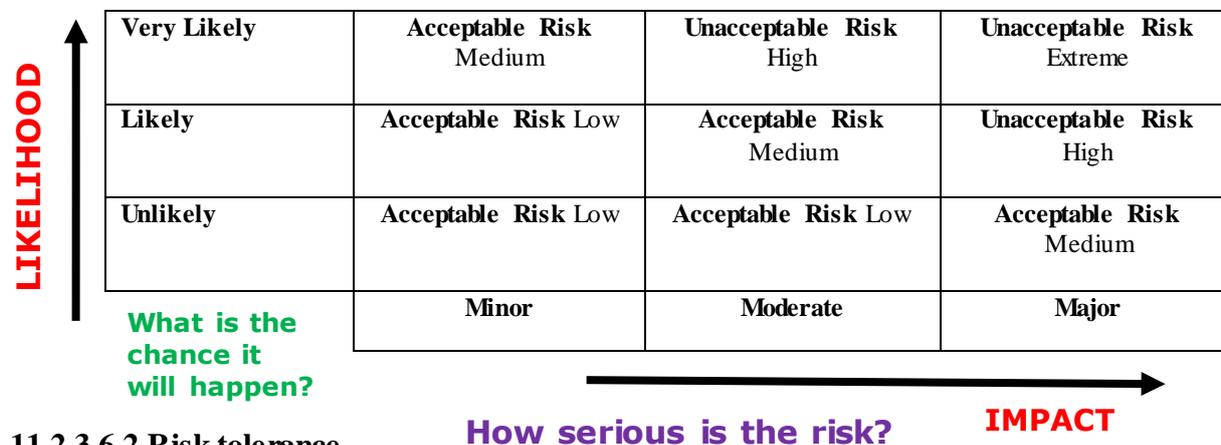
Risk appetite is the amount of risk CVCFL is prepared to accept in pursuit of its business goals. Risk appetite can be an extra guide to the risk management strategy and can also help deal with risks. It is usually expressed as an acceptable/unacceptable level of risk. Some questions to ask are:

- What risks will the CVCFL accept?
- What risks will the CVCFL not accept?
- What risks will the CVCFL treat on a case by case basis?
- What risks will the CVCFL send to a higher level for a decision?

The risk matrix can be used to show the risk appetite of the CVCFL.

In a risk-based approach to AML & CFT the assessment of risk appetite is a judgment that must be made by the FI. It will be based on its business goals and strategies, and an assessment of the ML & TF risks it faces in providing the designated services to its chosen markets.

Figure 3: Sample risk matrix showing risk appetite



11.2.3.6.2 Risk tolerance

In addition to defining FI’s risk appetite, the entity can also define a level of variation to how it manages that risk. This is called risk tolerance, and it provides some flexibility whilst still keeping to the risk framework that has been developed.

11.3. Risk management: some important issues

11.3.1 Risk Management Strategies

CVCFL may adopt the following components (where appropriate to the nature, size and complexity of its business), among others, as part of its risk management strategy:

- a) reviews at senior management level of the bank’s progress towards implementing stated ML&TF risk management objectives
- b) clearly defined management responsibilities and accountabilities regarding ML & TF risk management
- c) adequate staff resources to undertake functions associated with ML & TF risk management
- d) specified staff reporting lines from ML & TF risk management system level to board or senior management level, with direct access to the board member(s) or senior manager(s) responsible for overseeing the system
- e) procedural controls relevant to particular designated services
- f) documentation of all ML & TF risk management policies
- g) a system, whether technology based or manual, for monitoring the bank’s compliance with relevant controls
- h) policies to resolve identified non-compliance

- i) appropriate training program(s) for staff to develop expertise in the identification of ML & TF risk(s) across the bank's designated services
- j) an effective information management system which should:
 - i) produce detailed and accurate financial, operational and compliance data relevant to ML & TF risk management
 - ii) incorporate market information relevant to the global AML & CFT environment which may assist the banks to make decisions regarding its risk management strategy
 - iii) enable relevant, accurate and timely information to be available to a relevant officer (for example, the AML & CFT Compliance Officer) within the CVCFL
 - iv) allow CVCFL to identify, quantify, assess and monitor business activities relevant to ML & TF risk(s)
 - v) allow CVCFL to monitor the effectiveness of and compliance with its internal AML & CFT systems and procedures
 - vi) allow CVCFL to regularly assess the timeliness and relevance of information generated, together with its adequacy, quality and accuracy.

It should be noted that CVCFL can adopt other strategies in addition to taking into account of any of the above factors (where relevant), if it considers this approach is appropriate in accordance with its risk management framework.

11.3.2 Ongoing Risk Monitoring

A FI's ongoing monitoring of its risk management procedures and controls may also alert CVCFL to any potential failures including (but not limited to):

- a) failure to include all mandatory legislative components
- b) failure to gain board and/or executive approval of the AML & CFT program
- c) insufficient or inappropriate employee due diligence
- d) frequency and level of risk awareness training not aligned with potential exposure to ML & TF risk(s)
- e) changes in business functions which are not reflected in the AML & CFT program (for example, the introduction of a new product or distribution channel)
- f) failure to undertake independent review (at an appropriate level and frequency) of the content and application of the AML & CFT program
- g) legislation incorrectly interpreted and applied in relation to a customer identification procedure

- h) customer identification and monitoring systems, policies and procedures that fail to:
- i) prompt, if appropriate, for further identification and/or verification when the ML & TF risk posed by a customer increases
 - ii) detect where a customer has not been sufficiently identified and prevent the customer from receiving the designated service
 - iii) take appropriate action where a customer provides insufficient or suspicious information in relation to an identification check
 - iv) take appropriate action where the identification document provided is neither an original nor a certified copy
 - v) recognize foreign identification documentation issued by a high risk jurisdiction
 - vi) record comprehensive details of identification documents, for example, the date of issue
 - vii) consult appropriate resources in order to identify high-risk customers
 - viii) identify when an expired or old identification document (for example, a driver's license) has been used
 - ix) collect any other name(s) by which the customer is known
- i) lack of access to information sources to assist in identifying higher risk customers (and the jurisdictions in which they may reside), such as PEPs, terrorists and narcotics traffickers
- j) lack of ability to consistently and correctly train staff and/or third parties, particularly in areas with high turnover in:
- i) customer identification policies, procedures and systems
 - ii) identifying potential ML & TF risks
- k) acceptance of documentation that may not be readily verifiable.

11.3.3 Higher risk scenario

When assessing the money laundering and terrorist financing risks relating to types of customers, countries or geographic areas, and particular products, services, transactions or delivery channels, examples of potentially higher-risk situations include the following:

a) Customer risk factors

- The business relationship is conducted in unusual circumstances (e.g. significant unexplained geographic distance between the financial institution and the customer)
- Non-resident customers
- Legal persons or arrangements that are personal asset-holding vehicles

- Companies that have nominee shareholders or shares in bearer form
- Business that are cash-intensive
- The ownership structure of the company appears unusual or excessively complex given the nature of the company's business

b) Country or geographic risk factors

- Countries identified by credible sources, such as mutual evaluation or detailed assessment reports or published follow-up reports, as not having adequate AML & CFT systems
- Countries subject to sanctions, embargos or similar measures
- Countries identified by credible sources as having significant levels of corruption or other criminal activity
- Countries or geographic areas identified by credible sources as providing funding or support for terrorist activities, or that have designated terrorist organizations operating within their country

c) Product, service, transaction or delivery channel risk factors

- Priority financial service
- Anonymous transactions (which may include cash)
- Non-face-to-face business relationships or transactions
- Payment received from unknown or un-associated third parties.

11.3.4 Lower risks Scenario

There are circumstances where the risk of money laundering or terrorist financing may be lower. When assessing the money laundering and terrorist financing risks relating to types of customers, countries or geographic areas, and particular products, services, transactions or delivery channels, examples of potentially lower risk situations include the following:

a) Customer risk factors

- CVCFL – where they are subject to requirements to combat money laundering and terrorist financing consistent with the FATF Recommendations, have effectively implemented those requirements, and are effectively supervised or monitored in accordance with the Recommendations to ensure compliance with those requirements
- Public companies listed on a stock exchange and subject to disclosure requirements (either by stock exchange rules or through law or enforceable

means), which impose requirements to ensure adequate transparency of beneficial ownership

- Public administrations or enterprises.

b) Product, service, transaction or delivery channel risk factors:

- Financial products or services that provide appropriately defined and limited services to certain types of customers, so as to increase access for financial inclusion purposes.

(c) Country risk factors

- Countries identified by credible sources, such as mutual evaluation or detailed assessment reports, as having effective AML & CFT systems
- Countries identified by credible sources as having a low level of corruption or other criminal activity. In making a risk assessment, countries or financial institutions could, when appropriate, also take into account possible variations in money laundering and terrorist financing risk between different regions or areas within a country.

Note that having a lower money laundering and terrorist financing risk for identification and verification purposes does not necessarily mean that the same customer poses lower risk for all types of CDD measures, in particular for ongoing monitoring of transactions.

11.3.5 Risk variables

When assessing the money laundering and terrorist financing risks relating to types of customers, countries or geographic areas, and particular products, services, transactions or delivery channels risk, a bank should take into account risk variables relating to those risk categories. These variables, either singly or in combination, may increase or decrease the potential risk posed, thus impacting the appropriate level of CDD measures. Examples of such variables include:

- The purpose of an account or relationship
- The level of assets to be deposited by a customer or the size of transactions undertaken
- The regularity or duration of the business relationship.

11.3.6 Counter Measures for Risk

11.3.6.1 Enhanced due diligence measures

CVCFL should examine, as far as reasonably possible, the background and purpose of all complex, unusual large transactions, and all unusual patterns of transactions, which have no apparent economic or lawful purpose. Where the risks of money laundering or terrorist financing are higher, CVCFL should be required to conduct enhanced due diligence (EDD) measures for higher-risk business relationships include:

- Obtaining and verifying additional information on the customer (e.g. occupation, volume of assets, information available through public databases, internet, etc.), and updating more regularly the identification data of customer and beneficial owner
- Obtaining and verifying additional information on the intended nature of the business relationship
- Obtaining and verifying information on the source of funds or source of wealth of the customer
- Obtaining and verifying information on the reasons for intended or performed transactions
- Obtaining and verifying the approval of senior management to commence or continue the business relationship
- Conducting enhanced monitoring of the business relationship, by increasing the number and timing of controls applied, and selecting patterns of transactions that need further examination
- Requiring the first payment to be carried out through an account in the customer's name with a bank subject to similar CDD standards.

11.3.6.2 Simplified CDD measures

Where the risks of money laundering or terrorist financing are lower, CVCFL is allowed to conduct simplified CDD measures, which should take into account the nature of the lower risk. The simplified measures should be commensurate with the lower risk factors (e.g. the simplified measures could relate only to customer acceptance measures or to aspects of ongoing monitoring). Examples of possible measures are:

- Verifying the identity of the customer and the beneficial owner after the establishment of the business relationship (e.g. if account transactions rise above a defined monetary threshold)
- Reducing the frequency of customer identification updates

- Reducing the degree of on-going monitoring and scrutinizing transactions, based on a reasonable monetary threshold
- Not collecting specific information or carrying out specific measures to understand the purpose and intended nature of the business relationship, but inferring the purpose and nature from the type of transactions or business relationship established. Simplified CDD measures are not acceptable whenever there is a suspicion of money laundering or terrorist financing, or where specific higher-risk scenarios apply.

11.3.7 Ongoing due diligence

CVCFL should be required to ensure that documents, data or information collected under the CDD process is kept up-to-date and relevant by undertaking reviews of existing records, particularly for higher-risk categories of customers.

Section-12: Suspicious transaction report

12.1 Definition of STR

Generally Suspicious Transaction Report (STR) means a formatted report of suspicious transactions/activities where there are reasonable grounds to suspect that funds are the proceeds of predicate offence or may be linked to terrorist activity or the transactions do not seem to be usual manner.

According to Section (2)(z) of MLPA, 2012 “suspicious transaction” means such transactions which deviates from usual transactions; of which there is ground to suspect that,

- the property is the proceeds of an offence;
- it is financing to any terrorist activity, a terrorist group or an individual terrorist;
- which is, for the purposes of this Act, any other transaction or attempt of transaction delineated in the instructions issued by Bangladesh Bank from time to time.

In Anti Terrorism Act, 2009 (as amended in 2012), STR refers to the transaction that relates to financing for terrorism or terrorist individual or entities. One important thing is that according to the guidance notes issued by BB, CVCFL need not to establish any proof of occurrence of a predicate offence; it is a must to submit STR only on the basis of suspicion.

12.2 Obligation and reasons for submission of STR

As per the Money Laundering Prevention Act, 2012, Anti Terrorism Act, 2009 (as amended in 2012) and Bangladesh Bank circulars issued from time to time, CVCFL is obligated to submit STR to BB. STR is very crucial for the safety and soundness of CVCFL and hence CCU of CVCFL should consider the following while submitting STR to BB through using specified format (Appendix-B):

- It is a legal requirement in Bangladesh;
- It helps protect the reputation of CVCFL ;
- It helps to protect CVCFL from unfounded allegations of assisting criminals,

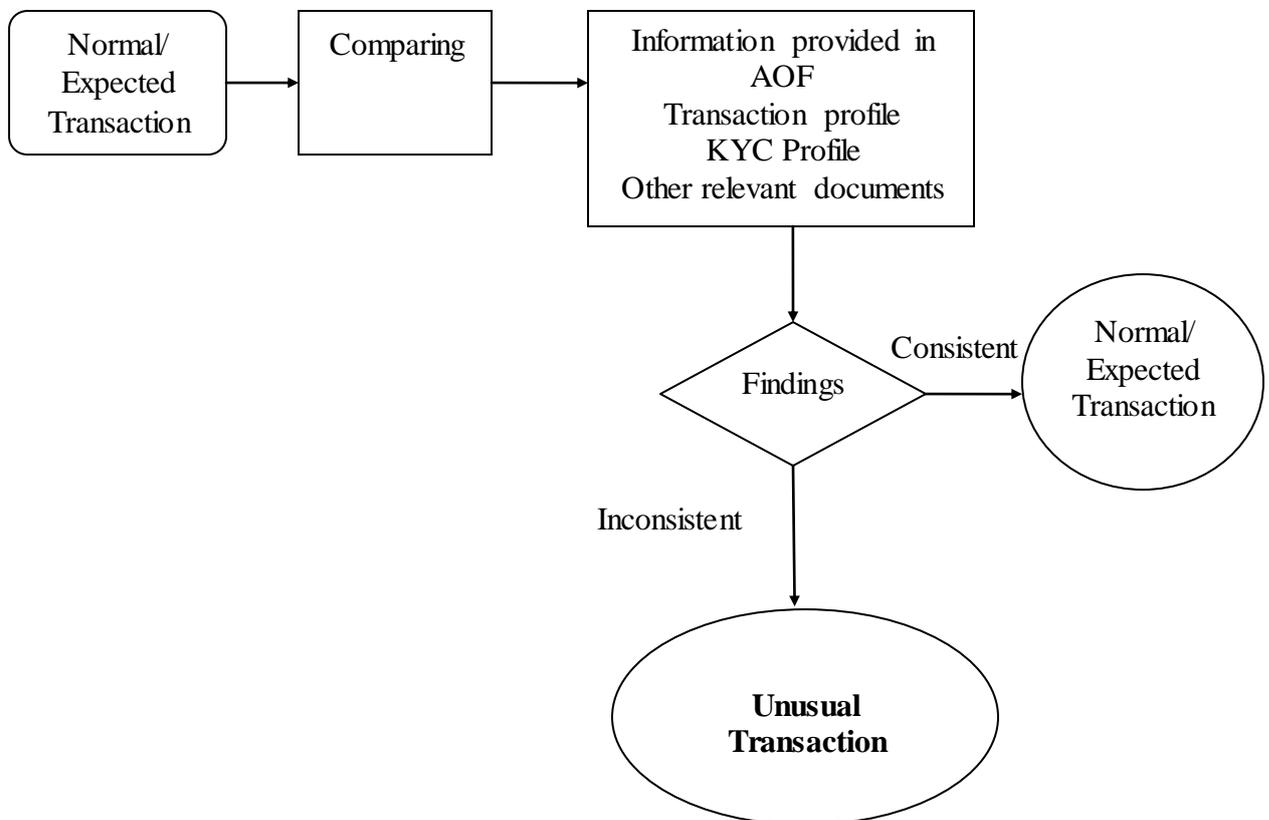
- including terrorists;
- It helps the authorities to investigate money laundering, terrorist financing, and other financial crimes.

12.3 Identification and evaluation of STR

Identification of STR is very crucial for CVCFL to mitigate the risk. Identification of STR depends upon the detection mechanism in place by CVCFL. Such suspicion may not only at the time of transaction but also at the time of doing KYC/KYE and attempt to transaction.

Identification of STR may be started identifying unusual transaction and activity. Such unusual transaction may be unusual in terms of complexity of transaction, nature of transaction, volume of transaction, time of transaction etc. Generally the detection of unusual transactions/activities may something be sourced as follows:

- Comparing the KYC profile, if any inconsistency is found and there is no valid reasonable explanation;
- By monitoring customer transactions;
- By using red flag indicator;
- Simply, if any transaction/activity is consistent with the provided information by the customer can be treated as normal and expected. When such transaction/activity is not normal and expected, it may treat as unusual transaction/activity.



As discussed above, the identification of STR may be sourced from unusual transaction or activity. In case of reporting of STR, CVCFL should conduct the following 3 stages:

Identification

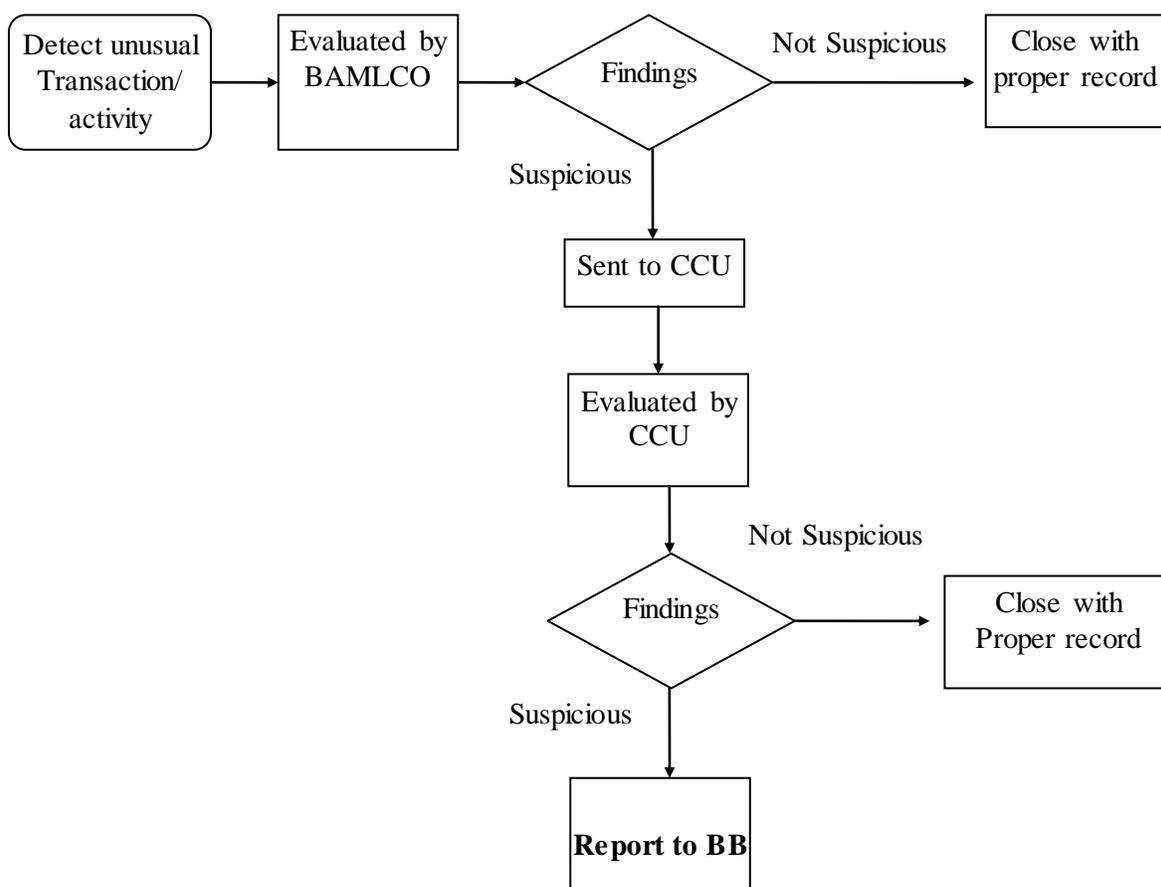
This stage is very vital for STR reporting. Depending on size, need and complexity of financial institutions monitoring of unusual transactions may be automated, manually or both. The use of software can only be complemented managerial oversight and not be replaced the need for constant monitoring of activity of the accounts of customers. Monitoring mechanisms should be more rigorous in high-risk areas of an institution and supported by adequate information systems to alert management and other appropriate staff (e.g., the compliance officer) of unusual /suspicious activity. Training of staff in the identification of unusual /suspicious activity should always be an ongoing activity. Considering the nature of business, CVCFL must be vigilant in KYC/KYE and sources of funds of the customer to identify STR.

Evaluation

These problems must be in place CCU and as well as at branch level. After identification of STR, at branch level, BAMLCO should evaluate the transaction/activity to identify suspicion by interviewing the customer or through any other means. In evaluation stage concerned, BAMLCO must be tactful considering the tipping off provision of the acts. If BAMLCO is not satisfied, he should forward the report to CCU. After receiving report from branch, CCU should also evaluate the report whether the STR report should be sent to BFIU or not. At every stages of evaluation (whether reported to BB or not) financial institutions should keep records with proper manner.

Disclosure

This is the final stage and CVCFL should submit STR to Bangladesh Bank if it is still suspicious. The following flow chart shall shows STR identification and reporting procedures:



12.4 Risk-based approach

An integrated risk-based system depends mainly on a proper assessment of the relevant risk sectors, products, services, and clients and on the implementation of appropriate risk-focused due diligence and record-keeping. These in turn become the foundation for monitoring and compliance mechanisms that allow rigorous screening of high-risk areas and accounts. Without sufficient due diligence and risk profiling of a customer, adequate monitoring for suspicious activity would be impossible. A risk-based monitoring system for financial institutions clients should:

- compare the client's account/transaction history to the client's specific profile information and a relevant peer group, and/or examine the clients account/transaction history against established money-laundering criteria/scenarios, in order to identify patterns of suspicious activity or anomalies;
- establish a process to compare customer or transaction-specific data against risk-scoring models;
- be capable of recognizing patterns and of "learning" which transactions are normal for a client, rather than designating certain transactions as unusual (for example, not all large transaction are unusual and may easily be explained);

- issue alerts if unusual transactions are identified;
- track alerts in order to ensure they are appropriately managed within the institution and that suspicious activity is reported to the authorities as required; and
- maintain an audit trail for inspection by the institution's audit function and by financial institutions supervisors.

12.5 Tipping off

Section 6 of MLPA 2012 and FATF Recommendation 21 prohibits financial institution, their directors, officers and employees from disclosing the fact that an STR or related information is being reported to BFIU. A risk exists that customers could be unintentionally tipped off when the CVCFL is seeking to perform its CDD obligation in those circumstances. The customer's awareness of a possible STR or investigation could compromise future effort to investigate the suspected money laundering or terrorist financing operation.

12.6 Penalties of tipping off

Under section 6 of MLPA, 2012, if any person, institution or agent empowered under this Act divulges any information collected, received, retrieved or known by the person, institution or agent during the course of employment or appointment, or after the expiry of any contract of service or appointment for any purpose other than the purposes of this Act shall be punished with imprisonment for a term not exceeding 2 (two) years or a fine not exceeding taka 50 (fifty) thousand or with both.

12.7 "Safe Harbor" provision for reporting

Safe harbor laws encourage financial institutions to report all suspicious transactions by protecting financial institutions and employees from criminal and civil liability when reporting suspicious transactions in good faith to competent authorities. In section (28) of MLPA, 2012 provides the safe harbor for reporting.

12.8 Red flags or indicators of STR

CVCFL CCU shall consider the following points as red flags or indicators of STR:

12.8.1 Moving customers

A customer who moves every month, particularly if there is nothing in that person's information suggesting that frequent changes in residence is normal, could be suspicious.

12.8.2 Out of market windfalls

If we think a customer who just appeared at CVCFL sounds too good to be true, we might be right. Pay attention to one whose address is far from CVCFL, especially if there is no special reason why CVCFL were given the business. Aren't there institutions closer to home that could provide the service? If the customer is a

business, the distance to its operations may be an attempt to prevent CVCFL from verifying there is no business after all. Don't be bullied by CVCFL sales personnel who follow the "no question asked" philosophy of taking in new business.

12.8.3 Suspicious Customer Behavior

- Customer has an unusual or excessively nervous demeanor.
- Customer discusses CVCFL record-keeping or reporting duties with the apparent intention of avoiding them.
- Customer threatens an employee in an effort to discourage required record-keeping or reporting.
- Customer is reluctant to proceed with a transaction after being told it must be recorded.
- Customer appears to have a hidden agenda or behaves abnormally, such as turning down the chance to obtain a higher interest rate on a large account balance.
- Customer who is a public official opens account in the name of a family member who begins making large deposits not consistent with the known source of legitimate family income.
- Customer who is a student uncharacteristically transacts large sums of money.
- Agent, attorney or financial advisor acts for another person without proper documentation such as a power of attorney.

12.8.4 Suspicious customer identification circumstances

- Customer furnishes unusual or suspicious identification documents and is unwilling to provide personal data.
- Customer is unwilling to provide personal background information when opening an account.
- Customer's permanent address is outside the CVCFL's service area.
- Customer asks many questions about how CVCFL disseminates information about the identification of a customer.
- A business customer is reluctant to reveal details about the business activities or to provide financial statements or documents about a related business entity.

12.8.5 Suspicious activity in credit transactions

- A customer's financial statement makes representations that do not conform to accounting principles.
- Customer suddenly pays off a large problem loan with no plausible explanation of source of funds.
- Customer purchases certificates of deposit and uses them as collateral for a loan.

12.8.6 Suspicious commercial account activity

- Business customer presents financial statements noticeably different from those of similar businesses.
- Large business presents financial statements that are not prepared by an accountant.

12.8.7 Suspicious employee activity

- Employee exaggerates the credentials, background or financial ability and resources of a customer in written reports the CVCFL requires.
- Employee frequently is involved in unresolved exceptions or recurring exceptions on exception reports.
- Employee lives a lavish lifestyle that could not be supported by his/her salary.
- Employee frequently overrides internal controls or established approval authority or circumvents policy.

Section-13: Conclusion

13.1 Governing Law

This Prevention of Money Laundering and Terrorist Financing Manual shall be governed by the existing circulars and guidelines issued by Bangladesh Bank and laws and regulations of the Government of the Peoples Republic of Bangladesh.

13.2 Approval and commencement

As per the Guidance Notes issued by Bangladesh Bank dated September 16, 2012, CAPM Venture Capital & Finance Limited (CVCFL) formulated their own Prevention of Money Laundering and Terrorist Financing Manual considering its nature and size of business and approved by the BOD of CVCFL in the 06th meeting held on June 04, 2016 under agendum # BOARD/006/2016/Agenda-6.11 and shall be effective from on June 05, 2016

Know Your Employee (KYE) Form

1.	Name of employee	:	
2.	Father's name	:	
3.	Mother's name	:	
4.	Spouse's name	:	
5.	Present address	:	
6.	Permanent address	:	
7.	Contact number	:	
8.	E-mail ID	:	
9.	Nationality	:	
10.	National ID number	:	
11.	TIN (if any)	:	
12.	Passport number (if any)	:	
13.	Date of birth	:	
14.	Birth registration number	:	
15.	Gender	:	
16.	Blood group	:	
17.	Marital status	:	
18.	Religion	:	

19. Previous experience:

Sl. #	Name of organization	Position	Duration

20. Professional qualification:

Sl. #	Name of degree	Institution	Year

21. Academic qualification:

Exam Title	Concentration/ Major	Institute	Result	Passing Year

22. Reference(s):

		Reference - 1	Reference - 2
Name	:		
Organization	:		
Designation	:		
Address	:		
Contact #	:		
E-mail ID	:		
Relation	:		

Signature of the employee

Date:

For office use only

Information verified from:

Sl. #	Name of document	Obtained	
		Yes	No
1	One copy color photograph		
2	Copy of national ID		
3	Copy of TIN (if any)		
4	Copy of passport (if any)		
5	Copy of birth registration certificate		
6	Copy of experience certificate(s)		
7	Copy of professional certificate(s)		
8	Copy of all educational certificates		

Information verified from referee:

Reference - 1	Reference - 2

Information regarding present position:

Current position	:	
Department	:	
Duration	:	

Description		Information compiled by	Verified by	Authorized by
Signature	:			
Name	:			
Designation	:			
Remarks	:			

Suspicious Transaction Report (STR)

A Reporting institution		
1	Name of the FI:	
2	Name of the Branch:	
B Details of report		
1	Date of sending report	
2	Is this the addition of an earlier report?	Yes <input type="checkbox"/> No <input type="checkbox"/>
3	If yes, mention the date of previous report	
C Suspect account details		
1	Account #	
2	Name of the account	
3	Nature of account	(Lease/Loan/ML/Factoring/TDR/Other please specify)
4	Nature of ownership	(Individual/proprietorship/partnership/company /other, please specify)
5	Date of opening	
6	Address	
D Account holder details		
1	Name of the account holder	
2	Address	
3	Profession	
4	Nationality	
5	Other account(s) number (if any)	
6	Other business	
7	Father's name	
8	Mother's name	
9	Spouse's name	
10	Date of birth	
11	TIN	
12	NID #	
13	Passport #	
E Introducer details		
1	Name of introducer	
2	Account #	
3	Relation with account holder	
4	Address	
5	Date of opening	
6	Whether introducer is maintaining good relation	

F Reasons for considering the transaction(s) as unusual/suspicious

- a. Identity of clients
- b. Activity in account
- c. Background of client
- d. Multiple accounts
- e. Nature of transaction
- f. Value of transaction
- g. Other reason (please specify)

(Mention summary of suspicious and consequence of events)
[To be filled by the CAMLCO]

G Suspicious activity information:

Summary characterization of suspicious activity:

a. <input type="checkbox"/> Bribery/Gratuity	h. <input type="checkbox"/> Counterfeit debit/credit card	o. <input type="checkbox"/> Mortgage Loan Fraud
b. <input type="checkbox"/> Cheque Fraud	i. <input type="checkbox"/> Counterfeit instrument	p. <input type="checkbox"/> Mysterious Disappearance
c. <input type="checkbox"/> Cheque Kitting	j. <input type="checkbox"/> Credit Card fraud	q. <input type="checkbox"/> Misuse of position of self dealing
d. <input type="checkbox"/> Commercial Loan Fraud	k. <input type="checkbox"/> Debit card Fraud	r. <input type="checkbox"/> Structuring
e. <input type="checkbox"/> Computer Intrusion	l. <input type="checkbox"/> Defalcation/Embezzlement	s. <input type="checkbox"/> Terrorist Financing
f. <input type="checkbox"/> Consumer Loan Fraud	m. <input type="checkbox"/> False statement	t. <input type="checkbox"/> Wire Transfer Fraud
g. <input type="checkbox"/> Counterfeit Check	n. <input type="checkbox"/> Identity Theft	u. <input type="checkbox"/> Other _____

H Transaction details

Sl. #	Date	Taka	Type*

*Cash/Transfer/Clearing/TT/etc (add separate paper if necessary)

I Counter part's details

Sl. #	Date	Bank	Branch	Account #	Taka

J Has the suspicious transaction/actively had a material?

Impact on or otherwise affected the financial soundness: Yes No

K Has CVCFL taken any action in this context? If yes, give details.

L Documents to be enclosed

1. Account opening form along with submitted documents;
 2. KYC profile, Transaction profile;
 3. Account statement for last one year;
 4. Supporting voucher/correspondence mention in sl. # H
 - 5.
 - 6.

Signature:
(CAMLCO or Authorized officer of CCU)

Name:
Designation:
Phone #:
Date: