

Unofficial Translation

This translation is for the convenience of those unfamiliar with the Thai language.

Please refer to the Thai text for the official version.

**Guidelines for On-site Examination on  
AML/CFT compliance**

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### **Examination Objectives**

1. To evaluate whether policies or measures and operating procedures of information system pertaining to AML/CFT of financial institution (FI) are adequate and compliant with international standard and regulatory rules.

2. To assess whether FI's internal control system regarding to AML/CFT is equipped with restricted control, continuous review for regulation adherence and independent inspection unit for operation of staff

3. To acknowledge FI of impacts or damage, inclusive of reputation risk that might occur in light of partially or entirely involvement in AML/CFT in order to prevent FI from being intermediaries for money launderer and terrorist financier in using illegal money for legal activity

### **Scope of Examination**

The scope for AML/CFT examination is to consider adequacy; completeness and appropriateness of policies and measures for AML/CFT; regulations, procedures and manual/operation procedures of risk induction unit and risk monitoring unit; structure of responsible units as well as internal control system, internal reporting system, client record keeping, process of reporting to AMLO or other authorities, and sampling of transactions. In the case where examiner has found suspicious transactions when conducting on-site examination, examiner shall verify such transactions and interview relevant staff regarding reporting to AMLO.

### **Examination Guidelines**

The examination is conducted by determining FI's policies on AML/CFT, manual / guidelines / regulations including communication process and training program specified by FI. Examiner shall interview, observe and conduct sampling of various transactions such as account opening transactions, risk classification report, review report, daily report and transaction report especially suspicious transaction, exception report, and management report. Examiner shall also verify suspicious transactions found from on-site examination.

## **1. Policy on AML/CFT established by FI**

Examiner should verify if the Board of Directors has established the visibly written AML/CFT policy at least containing as of the followings.

1. FI includes within AML policies those international standards i.e. customer due diligence for banks by BIS or 40+9 recommendations by FATF

2. Policy must comply with rules or regulatory policy with adequate organizational structure, authority designation and follow-up control as well as resource or budget management for such policy

3. Policy must comprise procedures of customer acceptance and customer risk classification, including procedures for on-going account monitoring.

4. FI must develop customer acceptance policy and rules that require more extensive due diligence for higher risk customers or persons whose names are indicated in terrorist or warning lists of AMLO's or other organizations' databases.

Note : According to BIS Customer Due Diligence for Banks, 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 banking 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 relationship with higher risk customers should be taken exclusively at senior management level.

5. Risk factor assessment is in place for relevant units or transactions, for non-compliance with rules and regulations or for operation malpractice that could result from staff or operating procedures.

6. Action plan has been developed for relevant AML/CFT policies completely, including plan monitoring and evaluation.

## **2. Guidelines and procedures in line with FI's AML/CFT policy**

### **2.1 Know Your Customer (KYC) Procedures**

To minimize the risk of FI from being intermediaries for money laundering, when a customer opens a new account, FI should establish KYC by interviewing and requesting customer identification in order to rate customer risk

exposure. Therefore, examiner shall verify if FI has developed guidelines and procedures for operating transaction with risky customer at least as of the followings.

1. KYC standard must be compliant with both domestic and international laws and regulations and also rules of home country.
2. Risk assessment process has been developed for conducting financial transaction with new customer.
3. Information gathering and KYC is adequate and coherent with risk exposure of customer.
4. The monitoring and accounting management process is adequate and coherent with risk exposure of individual customer groups.
5. The customer identification process is in place to keep track of customers possibly enlisted in AMLO lists, warning lists databases of other organizations, or high risk persons specified by FATF.

## **2.2 Customer Due Diligence (CDD)**

Examiner shall verify if FI have procedures for CDD in place including;

1. FI has classified customers into groups with risk rating assigned to each group for the purpose of developing customer database, which higher risk customers are required more information than normal customers.
2. All factors such as customer history, country of origin, social status, transactional account, transaction types and risk indicator tools must be considered.
3. FI needs to have more extensive due diligence for individual with a high net worth whose source of funds is unclear, high risk individual specified by FATF or BIS CDD, customers whose addresses are unidentified, or customers who are suspected of being associated with terrorism (Terrorists List).
4. For high risk customers, approval for account opening should be taken exclusively at senior management level.

### 3. Procedures in line with AML/CFT policy

Examiner shall determine if CDD procedures is in writing and after getting approval by the Board of FI, the written CDD should be acknowledged and understood by the management and related staff. All the measures in the policy must be adherent to regulations and international standards. Therefore, policy and operating procedures should at least consist of

1. The identification process of client with whom FI conducts business; the satisfactory verification of customer's identity ; the up-to-date record retention of client with regular review of such information
2. Specific operating procedures for non-resident
3. The customer identification process and information inspection for private banking
4. The methodology to inspect information of customer whose banking services were denied by other FIs
5. Operating procedures for existing customers having business transaction afore the issuance of Customer Acceptance Policy and having identification satisfactory problem
6. Operating procedures for customers that are themselves financial institutions
7. Specific operating procedures for business transaction with companies having nominee shareholders or shares of unidentified bearer form
8. Operating procedures and risk mitigation measures in light of transaction with introducers or intermediaries or non-face-to-face customers
9. Policy and operating procedures in contacting with high-risk customers.
10. Operating procedures in case of knowing or assuming the funding is illegally received or misused from public money
11. Policy and operating procedures concerning correspondent accounts

12. Policy and operating procedures for FI's branch or office locating in countries whose anti-money laundering policy is lower standard

13. Operating procedures for verifying customer's name against terrorist lists provided by regulatory agencies, whenever suspicious person's name is found, FI should contact AML/CFT compliance officer or related regulatory agency.

14. Reporting of suspicious transactions to the management and regulatory agency

15. Review of policy compliance and operating procedures for customer acceptance of relevant units

#### **4. Organizational Structure**

##### **4.1 Specific Unit responsible for AML/CFT**

Examiner shall verify if FI has established a specific unit independent from business unit or has in place a compliance unit to cooperate with the established policy as well as to evaluate adequacy and appropriateness of policy and operating measures pertaining to AML/CFT, to review the operation of staff for compliance with the specified policy and operating procedures and for reporting to the senior management or the Board of FI of transaction being defective from non-compliance. Accordingly, senior management should take responsibility for assessment and review of customer acceptance policy and directly report to the Board of financial institution.

##### **4.2 Compliance Officer**

Examiner shall verify if FI has appointed capable compliance officer to take full responsibility in monitoring the AML/CFT compliance. In this concern, the Board of FI and the management should authorize adequate power and resources to compliance officer in handling all issues efficiently. Notwithstanding the compliance officer could delegate the authority to another party, the compliance officer is yet subject to full responsibility of the delegated staff, that is

1. Senior management must develop internal control system that covers all regulations (approved afore by the Board of FI) i.e. account opening, reporting of

suspicious transactions, monitoring of operation and reporting of foreign currency holding.

2. The compliance officer is subject to report to the management in order to continuously monitor and entrust the complete compliance with law and regulation pertaining to AML. Some presented reports include audit report, non-compliance report and resolution report.

3. All staff is subject to adhere with laws and regulations in regarding to AML/CFT. This requirement as well should be clearly indicated in job description of individual staff and be part of performance evaluation.

#### **4.3 The Coordination between Front-Line Staff and Compliance**

Examiner shall pay attention to the coordination between customer acceptance unit and compliance unit because the operation of customer acceptance unit such as depository and credit facility must conform to the regulation or order of customer acceptance procedure, the requirement for customer identification, the detailed identification evidence of customer and etc. Hence, should there be any vagueness of customer acceptance policy or of financial institution's order or any changes of regulations, front-line unit is required to cooperate with compliance unit to find truths maintaining the clarity of regulation. Therefore, it is recommended the two units meet and discuss regularly for effectiveness of operation and mitigation of deficiency.

### **5. Rules and Manual/Operating Procedures Development for Front-Line Staff**

Examiner shall verify rules and manual/operating procedures of front line staff as follows.

#### **5.1 Rules**

Upon having written policy, examiner shall verify if FI has incorporated the policy into written operating procedures, regulation or manual and informed relevant staff to ensure the practical utility. To do so, FI should

1. Disseminate the abovementioned written operating procedures, regulation or manual to enable relevant staff to study and correctly follow the written documents to reach the objectives, for example, the requirement for identification of new customer or of customer having cash transaction of more than or equal to 2 million baht.

2. Provide training or explanation including on-the-job training for the effectiveness of operation and the channel to clarify any questioning issues.

3. In light of changes in regulation or newly issued measures or contingent cases, FI could implement those as order for staff to follow as well as readjust the existing manual/operational steps to reflect the changes.

4. Rules and regulation must be compliant with regulatory measures and amendment is required when there are changes in regulatory measures or the established rules are not practical.

## **5.2 Development of Manual/Operating Procedures of Front-Line Staff**

Manual/operating procedures of front-line staff is to allow relevant customer acceptance staff to follow and operate in the same direction as well as to specify the methodology to solve confronting problem in light of regulation is changed and previous regulation needs adjustment i.e. in the form of order to modify the regulation. Accordingly, the manual should contain

1. Rules for accepting depository customer must be adherent to the notification of BOT and the notification of Identification Requirement of AMLO.

2. Rules for customer identification of both existing and new customers.

3. Rules for transaction reporting in the form of PorPorNgor. 1-01 to 1 -03 and PorPorNgor. 1-05, according to AMLO regulations

Concerning complete manual/operating procedures, relevant staff is obliged to study in detail and attend an explanatory and training session to minimize any operation difficulties. Besides, relevant staff should study international guidelines as well as the Anti-Money Laundering Act for better understanding.

## **6. Training**

### **6.1 Training Schedule**

Examiner shall verify annual plan for human resource development that FI has specified in advance. For the development or training of front-line staff, FI should schedule the session based on the emergence of situation or the course of contact. In this regard, cooperation with AMLO is recommended for the front-line staff to participate in training session arranged by AMLO to familiarize the staff with policy as well as procedures in preparing report according to AMLO's report forms.

### **6.2 Trainees from Front-Line Unit**

Examiner shall verify if FI has conducted on-going training session that embraces every angle of laws and regulation as well as policies and procedures of AML/CFT. Contents and materials of training should be updated to reflect the changes of laws and regulations and to enable training course remains up-to-date. In addition, training course should acknowledge new means of money laundering as well as provide examples and encourage trainees to attempt case studies. As a matter of fact, a well-qualified training session should focus on

- Staff and the management contacting with customer, directly or indirectly via telephone call
- Staff and the management reviewing transaction of customer
- Staff and the management handling cash deposit/withdrawal
- Staff and the management involving in branch / customer service center / credit business / private banking / correspondent banking / transferring / safety box / registrar

## **7. Internal Control System**

In order to ensure the compliance of FI with laws and regulations regarding to AML, examiner is advised to do the following.

1. Verify the correctness and effectiveness of management system and controlling of transaction testing especially the examination of units or financial instruments or financial services with high risk to assure the rigorous compliance.

2. Assess the acknowledgement and understanding including operating procedures of staff in regarding to enforced regulation.

3. Evaluate the adequacy of procedure used to identify suspicious transactions

FI should have control and monitoring / examination system and reporting system to the management by restricting the process according to the measures established. In case of errors in spite of meticulously following the regulation, it is likely that measures might be impractical. In that concern, review is required. In most case, the problem arises from ignorance of regulation and leads to organizational defection. Hereinafter, control and monitoring system is necessary.

### **7.1 Control and Monitoring System of Operating Procedures**

Examiner shall verify as follows.

1. Relevant staffs have operated in compliant with established regulations and to control the deficiency not to occur to FI for example, the CDD is complete with no exception to particular customer

2. The operation for every new customer or when there is a suspicious transaction that require restricted regulation conformity is achieved in order to alleviate potential future problem. Should exception is applied, FI could be utilized as intermediaries for money laundering and terrorist financier, exposing directly to reputational risk of FI.

3. FI has in place preventive measures for conducting transactions with high-risk customer to prevent the usage of FI as intermediaries for money laundering or as source of fund for illegal business conduction, resulting directly to reputational damage of FI, for example, FI should never agree to open an account or should inform regulatory agency immediately whenever individual suspected of being associated with terrorism has requested for account opening.

4. Staffs have monitored whether customers follow accordingly to what stated on the account opening date or credit application date or transaction date. This is a proactive action that would allow financial institution to realize before the haphazard actually happens. For example, a client stated the business for retail banking but accounted item is somewhat different.

5. Staffs have conducted ongoing account monitoring in order to frequently update client's information, especially of high-risk customers. In view of suspicious accounting transaction, additional information from customer is necessary and must be followed by reporting of such case to the management to completely fulfill regulation requirement.

## **7.2 Internal Audit System**

Examiner must assess whether internal audit system of FI;

1. Set up precise scope of examination in each year and get approved correctly. For the scope or detail of examination, it should include the evaluation of AML i.e. the testing amount of CDD, the inspection of reporting required by AMLO and etc.

2. Establish in AML the initial assessment for risk level and clearly set up scope of audit including sampling number for the audit program

3. Appoint appropriate task forces who are knowledgeable for AML/CFT and well trained. The result of examination should be presented to the audit committee and the Board of directors of FI.

4. Ensure the conformity with regulations such as whether updating of information is required for high-risk customers and whether chief of audit is required to control over each step of inspection i.e. allow explanation from inspected units concerning incident found from initial inspection before presenting the audit result to the audit committee.

5. Ensure that front-line unit operating procedures are consistent with FI's rules and such rules are compliant with regulatory measures, for example, documents relating to account opening or transaction conducting for at least five years after an account is closed or the relationship is stopped.

6. Verify if account opening transactions of both new and existing customers have been conducted in compliance with rules, for example, all new customers provide complete required evidences certified with signatures, while existing customers were monitored and informed to submit up-to-date evidences. Customers must be classified into groups for risk rating with explanation in light of risk rating has been changed.

7. Verify if results of audit have been presented to the Audit Committee within the timeline specified in the audit plan. Reasonable clarification in light of extended period is necessary.

8. Follow the resolution required from inspection result of previous year audit and investigate the problems arise to solve the deficiencies.

9. Verify if The Audit Committee has any recommendation on audit results for further inspection.

### **8. IT System**

To assess the IT system, examiner could assess the system by determining the correctness of output data against the input data. Customer data entered into computer system for online reporting to AMLO should be verified as follows.

1. Verify the connection procedures between computer system of FI and that of AMLO.

2. Evaluate the security system including the correctness of data for internal data transmission and check if the data has been verified before submitting to other persons or units.

3. Assess if FI has in place system for inspecting or detecting unusual or suspicious transaction i.e. setting the deposit amount limit for each level and having special monitoring system for high-risk accounts.

4. Assess if FI has in place system for on-going verifying both new and existing customers' names against with terrorist lists or suspicious names list announced by regulatory agency.

5. Assess if FI has in place system linking inter- branches transactions data for investigating and monitoring customer activities and verify if FI has reported to AMLO in the case where any customer has deposited or withdrawn money in an aggregate amount equal to or exceeding 2.0 million baht, either the same or different accounts of all branches.

## **9. System for transactions reporting to AMLO and record keeping**

### **9.1 System for transactions reporting to AMLO**

Examiner shall assess the adequacy of computer system to support transaction reporting of FI and pay close attention to customer identification process including information summary process and system connection process of transaction reporting from FI to AMLO. In this concern, it is recommended that examiner should randomly inspect variety of transactions especially those with suspicious issues or with huge amount of cash deposit and interview FI's officers for further assessment of reporting required by the Anti-Money Laundering Act for FI to submit to AMLO. Such reports are as follows.

Report	Frequency
<u>PorPorGnor.1-01 Report of Cash Transaction</u> for the transaction involves with cash in an amount equal to or exceeding 2 mil. baht	Every 15 Days
<u>PorPorGnor.1-02 Report of Transaction relevant to Assets</u> for the transaction involves with an asset equal to or exceeding 5 mil. baht.	Every 15 Days
<u>PorPorGnor.1-03 Report of Transaction with Suspicion</u> In the case where transaction is unusually complicated and deviated from the normal transaction.	Every 15 Days
<u>PorPorGnor.1-05 Report of Transaction having Belief or Suspicion</u> In the case where there is a probable cause to believe that such transaction may relate to asset involved in a commission of offense or is a suspicious transaction.	Within 7 Days following the day of belief or suspicion
Summary Report of Transactions	Every 6 Months

## **9.2 Keeping of Customer Information and Transaction Data**

Examiner shall conduct transaction sampling and interview FI regarding to keeping of reports submitted to AMLO at least 5 years after the account closure date or the cut off date to make them available and ready for ad hoc examination. Besides, the record retention of individual FI could vary i.e. documents may be classified by risk exposure because higher risk customers are required to keep more information as well as individual account information while some FIs have not yet to have risk classification system.