

IDLC FINANCE LIMITED

Risk Based Guidance notes on prevention of Money Laundering and Terrorist Financing

1. Introduction

These guidance notes have been prepared in light of directives issued by Bangladesh Bank, the central bank of Bangladesh, namely:

- a. BFIU Circular No 04/2012 issued by the Bangladesh Financial Intelligence Unit (BFIU) of Bangladesh Bank on 16 September 2012;
- b. Guidance Notes on Prevention of Money Laundering and Terrorist Financing, also issued by the BFIU at around the same time; and
- c. BFIU Master Circular no.12 on prevention of money laundering and terrorist financing issued on 29 June, 2015.

Those directives require all financial institutions to develop their own Money Laundering and Terrorist Financing Prevention Guidance Notes which are tailored to the nature and scope of their individual businesses while considering the BFIU Guidance Notes as minimum standard.

These guidance notes (IDLC guidance notes) contain both:

- a) Policy positions of IDLC Finance Limited (“IDLC”) on Anti Money Laundering and Anti – Terrorism Finance issues; and
- b) Guidance on how to implement those policies in practice during day-to-day operations.

Applicability of IDLC Guidance Notes vis-à-vis Guidance Notes issued by the BFIU

*These IDLC guidance notes have been prepared keeping in mind the **Guidance Notes on Prevention of Money Laundering and Terrorist Financing** issued by the Bangladesh Financial Intelligence Unit (BFIU) of Bangladesh Bank. While every effort has been made to include all relevant aspects of the Guidance Notes on Prevention of Money Laundering and Terrorist Financing issued by the BFIU, circumstances may arise where specific guidance may not be available in the IDLC guidance notes. In such circumstances, the **Guidance Notes on Prevention of Money Laundering and Terrorist Financing** issued by the BFIU shall be consulted and followed.*

2. Key concepts – definitions and explanations

Account(s)

Unless otherwise mentioned, in these guidance notes, account(s) shall refer to both liability (i.e. customer deposit) account(s) as well as asset (i.e. loan/lease) account(s).

Beneficial owner

“Beneficial Owner” has the same meaning as in AML Circular No. 24/2010 issued on 3 March 2010 by the (erstwhile) Anti Money Laundering department of Bangladesh Bank. A person will be treated as a beneficial owner if:

- a) S/he has controlling share of a company or/and, controlling shareholder means 20% and above;
- b) Any person having direct or indirect control on any amount of transaction, being operated in a different name than the real beneficiary.

Customer

“Customer” has the same meaning as in AML Master Circular No. 12/ 2015 issued on June 29, 2015 by the BFIU. A customer is defined as:

- Any person or institution maintaining an account of any type with a FIs or having business relationship with FIs;
- Any person or institution that is the true beneficial owner of an account or business relationship or a third person or entity in whose favour the account is operated;
- In case of an account operated by a professional intermediary, under the existing under the existing legal framework, the true beneficial owner of such accounts or business relationship

Money laundering

“Money laundering” has the same meaning as in Section 2(v) of the Money Laundering Prevention Act 2012 (MLPA 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 country with the intention of hiding or disguising its illegal source; or
 - (iv) 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;”

Predicate Offence

Following offences as extracted from AML Act 2012 shall be considered as predicate offence and related proceeds shall be subject to the purview of this guidance notes:

1. Corruption and bribery
2. Counterfeiting currency
3. Counterfeiting documents
4. Extortion
5. Fraud
6. Forgery
7. Illicit arms trafficking
8. Illicit dealing in narcotic drugs and psychotropic substances
9. Illicit dealing in stolen and other goods
10. Kidnapping, illegal restraint, hostage-taking
11. Murder, grievous bodily injury
12. Woman and child trafficking
13. Smuggling
14. Unauthorized cross-border transfer of domestic and foreign currency

15. Theft or robbery or dacoity
16. Trafficking in human beings
17. Dowry
18. Smuggling and VAT related crime
19. Tax related crime
20. Plagiarism
21. Terrorism and Terrorist Financing
22. Counterfeiting and Piracy of Products
23. Environmental Crime
24. Sexual Exploitation
25. Taking market advantage through transactions by using price sensitive information of the capital market before it becomes public and trying to control or manipulate the market to gain personal advantage (Insider trading and market manipulation)
26. Organized Crime
27. Realizing money through intimidation
28. Any other offence which Bangladesh Bank with the approval of the Government and by notification in the Official gazette declares as predicate offence for the purpose of this Act.

Non-resident Bangladeshi (NRB)

Non-resident Bangladeshi means a Bangladeshi citizen who resides in a foreign country, regardless of whether he/she is a citizen of that foreign country.

Reporting organisation

A reporting organisation is one that is specified in section 2(w) of the Money Laundering Prevention Act 2012 as being a reporting organisation. Reporting organisations have myriad compliance and reporting responsibilities under the MLPA 2012.

All financial institutions are designated as reporting organisations under clause b of section 2(w) of the MPLA 2012. *As a result, IDLC Finance Limited, being a financial institution, is a reporting organisation within the meaning of the MPLA 2012.*

Suspicious Transaction

The term “suspicious transaction” has the same meaning as in section 2 (z) of the Money Laundering Prevention Act 2012:

“Suspicious transaction means such transaction –

- (i) Which deviates from usual transactions;
- (ii) Of which there is ground to suspect that,
 - (1) the property is the proceeds of an offence,
 - (2) it is financing to any terrorist activity, a terrorist group or an individual terrorist
- (ii) 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”

Terrorist Financing

In these guidelines, the term “terrorist financing” has the same meaning as in Article 7 of the Anti-Terrorism Act, 2009 as amended in 2012 and 2013:

Offences relating to financing terrorist activities:

(1) If 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.

(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 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.

(3) If 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.

(4) If 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.

3. Money laundering – what it is, how it is done and implications for IDLC

Setting aside legal definitions for purposes of simplicity, an act can be treated as money laundering if it involves the process of presenting illegal income as legal income. The fundamental concept of money laundering is the process by which proceeds from an illegal activity are disguised to conceal their illicit origins.

3.1 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 jewellery) 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 such as bribery, extortion, robbery and street level sales of drugs where the initial proceeds usually take the form of cash that needs to enter the financial system by some means. 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 3 basic stages which are as follows:

Placement - the physical disposal of the initial proceeds derived from illegal activity.

Layering - separating illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the audit trail and provide anonymity.

Integration - the provision of apparent legitimacy to wealth derived criminally. If the layering process has succeeded, integration schemes place the laundered proceeds back into the economy in such a way that they re-enter the financial system appearing as normal business funds.

The 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 organisations.

3.2 Terrorist financing

Similarly, terrorist financing can be simply defined as financial support, in any form, of terrorism or of those who encourage, plan, or engage in terrorism.

3.3 Money laundering and terrorist financing – where IDLC comes in

By the very nature of their business, financial institutions such as IDLC serve as channel for the introduction and channelling of large sums of money through the financial system of the country. IDLC may be used by the launderers or terrorist financiers at all/any stages of the money laundering process.

3.4 Susceptibility of IDLC products and services to money laundering and terror financing

IDLC may be susceptible to the risk of money laundering in a variety of ways.

Lease/Term Loan Finance

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

Factoring

Suppliers and the buyers may ally together to legalize their proceeds of crime. Without conducting any *bona-fide* transaction the supplier may get finance from IDLC and IDLC may get repayment from buyer. Since IDLC, as a lender, will usually be focused on getting repayment without considering the sources of the fund, this can be taken as an opportunity by the money launderer to place their ill-gotten money.

Consumer loans

Any person may take personal loan/car loan/home loan from IDLC 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.

SME/Women Entrepreneur Loan

Small, medium and women entrepreneurs can take loan facilities from IDLC and repay that (in some cases before maturity) with illegally earned money. They may 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.

Deposit Scheme

While IDLC as an FI may sell deposit products with a minimum maturity period of at least six months, the depositors can encash their deposit money prior to the maturity date with prior

approval from Bangladesh Bank. This deposit product may be used as a lucrative vehicle to place ill-gotten money in the financial system in absence of strong measures.

3.5 Structural Vulnerabilities

In addition to the above, IDLC may experience structural vulnerabilities arising from:

- Failure to develop sufficient capacity to verify the identity and source of funds of their clients.
- Human resources lacking the adequate skills and training in tracing money laundering and terrorist financing activities.
- Lack of necessary framework to monitor and report transactions of a suspicious nature to the financial intelligence unit of the central bank.

3.6 Relationship between money laundering and terrorist financing

Key difference	Key similarity
<p>Source of funds – Money laundering involves funds obtained through <u>illegal</u> means. However, funds use to finance terrorism may originate from <u>both legitimate and illegal</u> sources.</p>	<p>Concealment of source of funds – It is important to disguise the source of funds used for terrorism, regardless of the legitimacy of their source. As a result, techniques used to launder money are essentially the same as those used to conceal the sources of, and uses for, terrorist financing.</p>

3.7 Need for preventing money laundering and terrorism financing

Money laundering has wide ranging negative consequences at both macro and micro level.

3.7.1 Impact on society and the economy as a whole

- **Encourages the idea that “Crime pays”** – When criminals can enjoy the proceeds of their ill-gotten wealth with little or no consequence, it emboldens them to undertake further criminal activities and encourages others towards a life of crime. This in turn leads to increased law enforcement and health care costs as governments and societies struggle to battle increased crime.
- **Leads to higher tax rates for ordinary taxpaying citizens** – Money laundering leads to reduced government tax collections as well as more expensive government tax collection efforts. It also means that, due to corruption, more money is spent on public expenditure than would actually be necessary. All of this ultimately translates into more taxes and higher tax rates for honest taxpayers than would normally be the case if the untaxed proceeds of crime were legitimate leading to higher living costs.
- **Undermines legitimate business** – The use of front companies that make use of unlawful income puts legitimate businesses at a substantial competitive disadvantage.

- **Transfers economic power to criminal elements** – Money laundering enables criminals to exercise undue influence and power over the economy and society as a whole through legitimate means.
- **Undermines confidence in the financial system** – The probity of the financial system is heavily dependent on the perception that it operates on sound legal, professional and ethical principles. Money laundering undermines public confidence in the financial system and its institutions.

3.7.2 Consequences for financial institutions

- **Creates instability** – For financial institutions, money laundering “... .. can lead to an unstable liability base and to unsound asset structures thereby creating risks of monetary instability and even systemic crisis”.
- **Damages reputation** – Failure to effectively deal with money laundering issues and terror financing can lead to severe loss of reputation and goodwill.
- **Financial and legal penalties** – Failure to comply with legal and regulatory requirements relating to the combating of money laundering and terror financing can lead to major punitive action.

3.8 IDLC’s responsibilities

As a reporting organisation under the purview of the Money Laundering Prevention Act (MLPA), 2012 IDLC’s responsibilities are as follows:

3.8.1 With regard to money laundering

- a) To maintain complete and correct information with regard to the identity of its customers during the operation of their accounts; (For details please consult [Clause # 7](#))
- b) To preserve previous records of transactions of any customer’s account for at least 5 (five) years from the date of closure; (For details please consult [Clause # 10](#))
- c) To provide Bangladesh Bank, on its demand, information maintained under (a) and (b) above;
- d) To report any suspicious transaction or attempt of such transaction as defined under section 2(z) of the MLPA 2012 to Bangladesh Bank immediately on its own accord. (For details please consult [Clause # 9](#))

3.8.2 With regard to terrorist financing activities

According to section 16 of Anti-Terrorism Act, 2009 (as amended in 2012 and 2013), IDLC’s responsibilities to combat financing of terrorism are -

- 1) To take necessary measures, with appropriate caution and responsibility, to prevent and identify financial transactions which are connected to any offence under relevant Anti-

Terrorism legislation and if any suspicious transaction is identified, to spontaneously report it to the Bangladesh Bank without any delay. (For details please consult Chapter no 9);

- 2) The Board of Directors, or in the absence of the Board of Directors, the Chief Executive Officer, by whatever name called, of each reporting organisation shall approve and issue directions regarding the duties of its officers, and shall ascertain whether the directions issued by Bangladesh Bank under section 15, which are applicable to the reporting agency, have been complied with or not.

3.9 IDLC policy statement on money laundering and terrorist financing

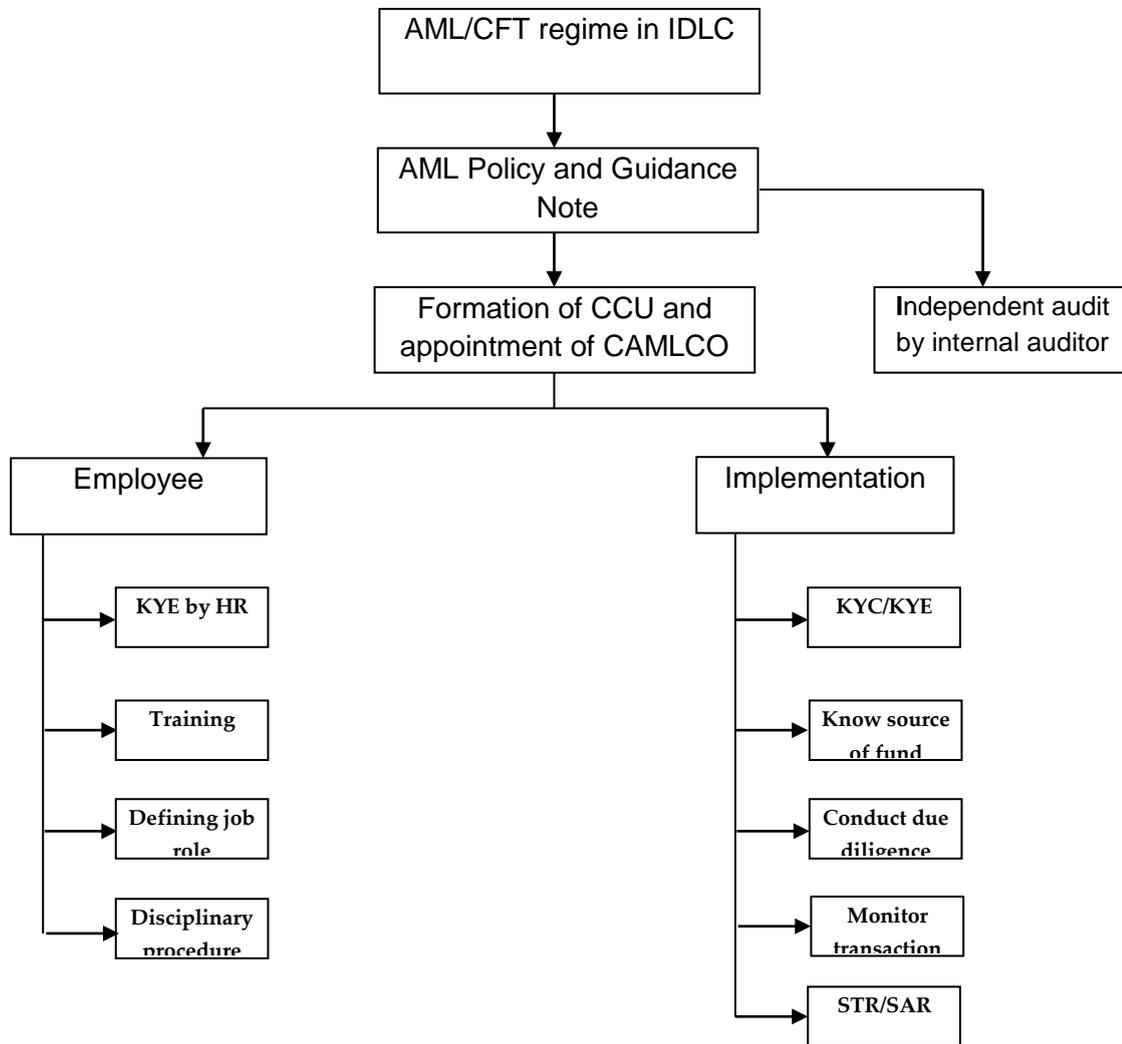
IDLC considers money laundering and terrorism financing to be morally, socially and economically undesirable activities that should be combated at every opportunity. IDLC is fully aware of its moral, social and legal obligations to combat money laundering and terrorist financing and remains fully committed to complying with all relevant legal and regulatory requirements in this regard.

4. IDLC compliance program for combating money laundering and terrorism financing

The IDLC compliance program for combating money laundering and terrorism financing consists of the following components:

- a. Development, implementation and execution of internal policies, procedures and controls to identify and report instances of money laundering and terrorism financing;
- b. Creation of structure and sub-structure within the organisation, headed by a Central Compliance Unit (CCU), for AML and CFT compliance;
- c. Appointment of an AML/CFT Compliance Officer, known as the Chief Anti Money Laundering Officer (CAMLCO), to lead the CCU;

- d. Independent audit function including internal and external audit function to test the programs;
- e. Ongoing employee training programs.

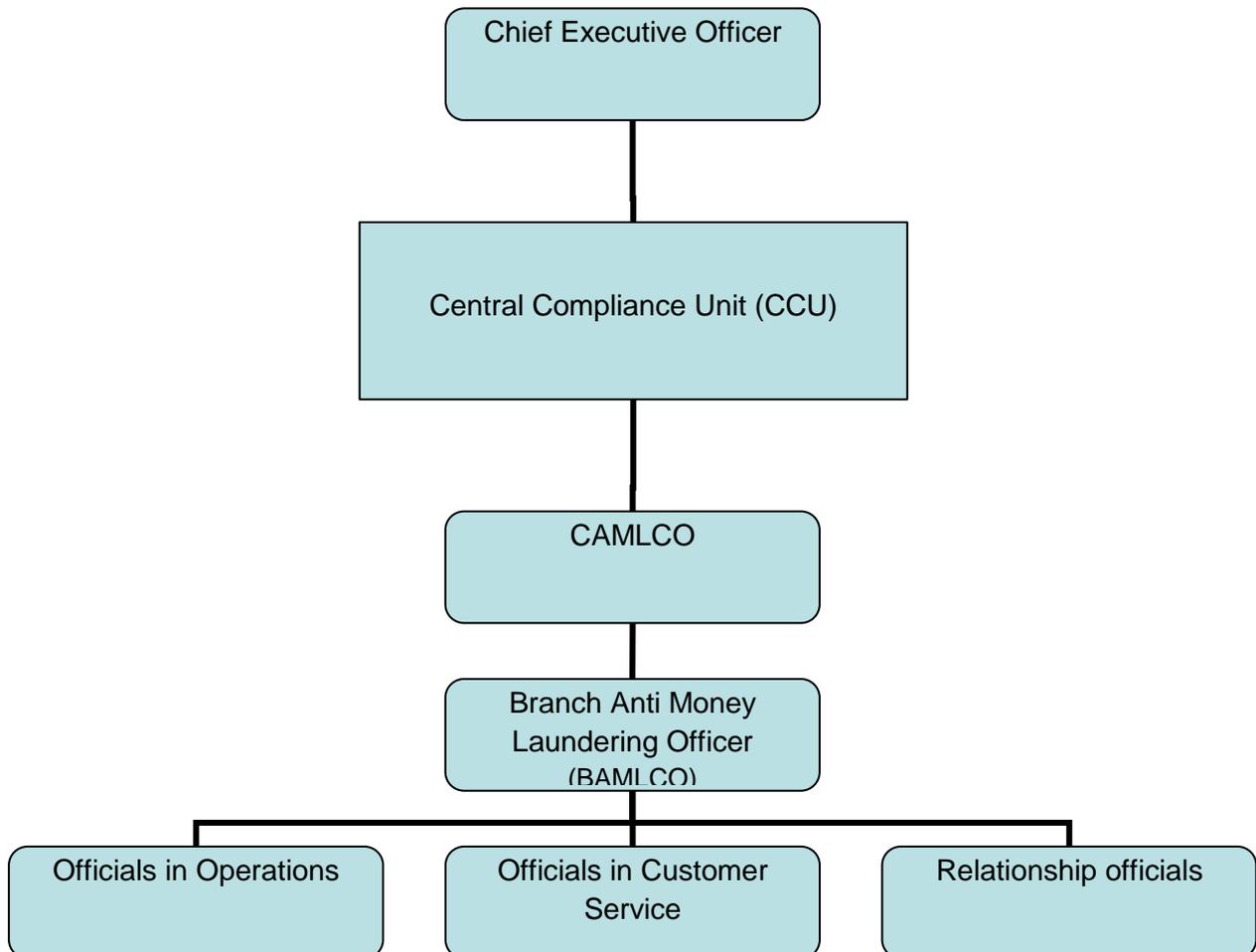


5. IDLC statement of compliance policy

- a) All IDLC employees are required to comply with applicable laws and regulations and corporate ethical standards.
- b) All activities carried out by IDLC must comply with applicable governing laws and regulations.
- c) It is the responsibility of each individual employee in IDLC to comply with rules and regulations in the normal course of their assignments. Individual employees are responsible for familiarizing themselves with the rules and regulations relating to their respective assignments. Ignorance of the rules and regulations cannot be an excuse for non-compliance.
- d) All staff should contact compliance officer or other knowledgeable individual when there is a question regarding compliance matters.
- e) Employees will be held accountable for carrying out their compliance responsibilities.

This statement of compliance shall be applicable in addition to the IDLC Professional Code of Conduct which requires, among other things, IDLC employees to “Maintain knowledge of and comply with all applicable laws, rules and regulations”.

6. Reporting line for AML and CFT compliance



6.1 Central Compliance Unit

Purpose

- Ensure compliance of regulatory rules and regulations related to AML
- Implements and enforces Company's AML policies to prevent money laundering
- Ensure AML program in place and that is working effectively

6.2 Chief Anti Money Laundering Compliance Officer (CAMLCO)

The Head of Internal Control and Compliance (HoICC) is the designated Chief AML/CFT Compliance Officer (CAMLCO) for IDLC. The CAMLCO sits at the corporate head office and has been vested with the necessary authority to implement and enforce corporate-wide AML/CFT policies, procedures and measures. The CAMLCO reports directly to the CEO & MD of IDLC. The CAMLCO is also responsible for coordinating and monitoring the day to day compliance with applicable AML/CFT related laws, rules and regulations as well as with its internal policies, practices, procedures and controls.

6.3 Deputy Chief Anti Money Laundering Compliance Officer- DCAMLCO:

If deemed necessary, management will appoint a Deputy Anti Money Laundering Compliance Officer for overall management of AML/CFT activities across the company. The DCAMLCO at minimum should have working experience of five (5) years in financial industry and should have adequate knowledge on AML/CFT rules, regulations, guidelines, international standard regulations as well as circulars and guidance issued by BFIU from time to time.

6.4 Branch Anti Money Laundering Compliance Officer (BAMLCO)

There shall be a designated Branch Anti-Money Laundering Compliance Officer (BAMLCO) at each IDLC branch. In IDLC, the role of BAMLCO shall be fulfilled by the respective branch-in-charges. Each BAMLCO shall have a minimum three (3) year experience in financial services industry and hold adequate knowledge on AML/CFT rules, regulations, guidelines, company's own AML/CFT policy, circulars and instructions issued by BFIU

7. Customer Due Diligence – KYC Policies and Procedures

An effective Know Your Customer program is one of the key pillars in IDLC to prevent from money laundering and terrorist financing risk. The KYC does not only mean that preserving customer's identity document but to exercise proper due diligence to know the character, occupation, association etc through indirect interaction.

KYC policies and procedures must be applied to both individuals and to institutional customers as well as to beneficial owners (where different from customers/account holders) for both asset and liability products.

7.1 Customer risk assessment

Sources of risk

Customer risk assessment of AML/CFT will focus on two (2) broad categories of risk requiring management under an AML/CFT program:

- a. *Business risk* i.e. the risk that IDLC may be used for money laundering or terrorism financing by customers
- b. *Regulatory risk* i.e. the risk that IDLC fails to meet regulatory obligations under the Money Laundering Prevention Act 2012 and Anti-Terrorism Act 2009 (amended in 2013).

7.2 Enhanced customer due diligence

Enhanced Due Diligence shall comprise of the following AML/CFT activities:

- Intensive and regular monitoring of account, business relation and transactions
- Collection and regular updating of additional information on business, assets, transaction etc.

- Establishment of business relation upon approval from senior management.

EDD shall be exercised while entering into business relationships with any high risk customers.

7.3 Periodic Screening of United Nation Security Council Resolution (UNSCR) database and reporting thereof

IDLC shall maintain and update the list of UN sanctioned individuals and entities as integrated in system database as per regulatory directive. The integration shall automatically prevent any disbursement in favour of the UN sanctioned and blacklisted individuals and entities.

8. Know Your Employee (KYE)

Like KYC, IDLC shall always keep monitoring on its employees through KYE procedure. KYE procedure and checklist shall be decided and approved by the management from time to time based on changing requirement. HR shall maintain the updated KYE program.

Policy statement

IDLC shall have in place program(s) that allows it to understand an employee's background, conflicts of interest and susceptibility to money laundering complicity. Such a program shall consist of policies, procedures, internal controls, job descriptions, code of conduct/ethics, levels of authority, compliance with personnel laws and regulations, accountability, dual control, and other deterrents should be firmly in place.

9. Record Keeping

9.1 Statutory requirement

Section 25 (1) of Money Laundering Prevention Act, 2012, requires reporting organisations to retain correct and full records of customers' identification and transactions while operating an account of a customer, and to retain the records of customers' identification and transactions at least for five years after closing of relationships with the customers. Such records serve as essential constituents of the audit trail that the law seeks to establish.

Policy statement

IDLC shall prepare and maintain records of its relationship with customers and transactions such that:

- a) Requirements of legislation and Bangladesh Bank directives are fully met;*
- b) Competent third parties will be able to assess IDLC's observance of money laundering policies and procedures;*
- c) Any transactions done via IDLC will have audit trail;*
- d) Customer can be properly identified and located;*

- e) IDLC can sufficiently satisfy within a reasonable time any regulatory and judicial enquiries or court orders from the appropriate authorities as to disclosure of information.

10. Training and awareness creation

Employee training and awareness are an integral part of the IDLC compliance program for combating money laundering and terrorism financing. Employees in different business functions need to understand how IDLC's policy, procedures, and controls affect them in their day to day activities.

Policy statement

All IDLC employees shall undergo education and training on combating money laundering and terrorism financing within two years of joining and at least once every two years thereafter. Human Resources Department shall arrange the training programs in consultation with the department concerned and preserve detailed records of such training programs to provide if warranted by ICC or regulatory authorities.

11. Independent audit function

11.1 Why an independent audit function is necessary

An independent audit function is necessary to assess the AML/CFT program regularly and look for new risk factors and thereby ensure the continued effectiveness of the AML/CFT program.

Policy statement

The IDLC internal audit and inspection wing shall review and assess the adequacy of the company's AML/CFT program on a regular basis.

11.2 Ensuring independence and effectiveness of the audit function

Independence of the assessor is essential in ensuring that the assessment is objective. Independence may be hampered in a variety of ways including restricting the degree of decision making freedom and by withholding the support and resources necessary for the audit function to carry out its job effectively.

Policy statement

IDLC shall ensure that the internal audit and inspection wing should be well resourced and operationally independent of other departments within the company. Internal Audit and Inspection Wing shall ensure that those performing the independent testing are sufficiently qualified to ensure that their findings and conclusions are reliable.