

**SECURITIES AND EXCHANGE  
COMMISSION NIGERIA**

**ANTI-MONEY LAUNDERING/  
COMBATING FINANCING OF  
TERRORISM (AML/CFT) COMPLIANCE  
MANUAL**

**FOR  
CAPITAL MARKET OPERATORS**

**2010**

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## **PREAMBLE**

Section 13 (n), (aa) and (dd) of the Investment and Securities Act 2007, empowers the Commission to protect the integrity of the Securities Market against all forms of abuses, fraudulent and unfair trade practices. Given the prominence AML/CFT issues have assumed in International financial circle and the risks they pose to the financial market globally and Nigeria in particular, the need was seen for a comprehensive and stringent provision to fight this menace.

Pursuant to the above, the Securities and Exchange Commission (SEC) has put together this Compliance manual meant to guide Capital Market Operators (CMOs) in the implementation of the Know Your Customer (KYC) requirements for the capital market. The manual has been enriched by the enabling AML/CFT legislation enacted by Nigeria, using the FATF – Recommendations, as a benchmark and some international best practices documents.

The manual would not only minimize the risk faced by the Market on laundering the proceeds of crime but will also provide protection against fraud, reputational and other financial market risks. Consequently, all Capital Market Operators are required to adopt a risk – based approach in the identification and management of their AML/CFT risk in line with the requirements of this manual.

***Nigerian Capital Market Operators*** should note that AML/CFT guidelines in this manual have prescribed sanctions for non-compliance with this Manual and other relevant anti-money laundering laws and regulations concerning clients due diligence issues, non-remittance of prescribed reports as well as failure to keep appropriate records. It is, therefore, in their best interest to ensure compliance at all times consistent with the prescriptions contained herein.

## DEFINITION OF TERMS

For the proper understanding of this Manual, certain terms used are defined as follows:

- Applicant for Business:** The person or company seeking to establish a 'business relationship' or an occasional clients undertaking a 'one-off' transaction whose identity must be verified.
- Beneficial owner:** Beneficial owner refers to the natural person(s) who ultimately owns or controls a clients and/or the person on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.
- Beneficiary:** Beneficiary owner refers to those natural persons, or groups of natural persons who receive charitable, humanitarian or other types of assistance through the services of the Non Profit Organizations. They include all trusts (other than charitable or statutory permitted non-charitable trusts) must have beneficiaries, who may include the settlor, and a maximum time, known as the perpetuity period, normally of 100 years.
- Business Relationship:** Business relationship' is any arrangement between the *Capital Market Operator* and the applicant for business which purpose is to facilitate the carrying out of transactions between the parties on a 'frequent, habitual or regular' basis.
- Capital Market Operator:** means any person (individual or corporate) duly registered by the Commission to perform specific functions in the Capital Market.
- Cooling off rights:** means the rights of an investor to return products purchased and get a refund if the individual changes his mind.
- Cross-border transaction:** Cross-border transaction means any transaction where the originator and beneficiary Operators are located in different jurisdictions. This term also

refers to any chain of transaction that has at least one cross-border element.

**Designated categories of offences:** Designated categories of offences means:

- participation in an organized crime group and racketeering;
- terrorism, including terrorist financing;
- trafficking in human beings and migrant smuggling;
- sexual exploitation, including sexual exploitation of children;
- illicit trafficking in narcotic drugs and psychotropic substances;
- illicit arms trafficking;
- illicit trafficking in stolen and other goods;
- corruption and bribery;
- fraud;
- counterfeiting currency;
- counterfeiting and piracy of products;
- environmental crime;
- murder, grievous bodily injury;
- kidnapping, illegal restraint and hostage-taking;
- robbery or theft;
- smuggling;
- extortion;
- forgery;
- piracy; and
- insider trading and market manipulation.

**Designated non-financial businesses and professions:** Designated non-financial businesses and professions means:

- Casinos (which also includes internet casinos).
- Real estate agents.
- Dealers in precious metals.
- Dealers in precious stones.
- Legal practitioners, notary public and accountants – this refers to sole practitioners, partners or employed professionals within

professional firms. It is not meant to refer to "internal"

professionals that are employees of other types of businesses, nor to professionals working for government agencies, who may already be subject to measures that would combat money laundering.

- Trust and Company Service providers refers to all persons or businesses that are not covered elsewhere under these Recommendations, and which as a business, provide any of the following services to third parties:
  - acting as a formation agent of legal persons;
  - acting as (or arranging for another person to act as) a director or secretary of a company, a partner of a partnership, or a similar position in relation to other legal persons;
  - providing a registered office; Business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement;
  - acting as (or arranging for another person to act as) a trustee of an express trust;
  - acting as (or arranging for another person to act as) a nominee shareholder for another person.

**Domestic transfer:**

Domestic transfer means any wire transfer where the originator and beneficiary institutions are both located in Nigeria.

This term therefore refers to any chain of wire transfers that takes place entirely within Nigeria's borders, even though the system used to effect the wire transfer may be located in another jurisdiction.

**False disclosure:**

False disclosure refers to a misrepresentation of the value of currency or bearer negotiable instruments being transported, or a misrepresentation of other relevant data which is asked for in the disclosure or otherwise requested by the authorities.

**The FATF Recommendations:**

The FATF Recommendations refers to the Forty Recommendations and to the Nine Special Recommendations on Terrorist Financing.

**Funds Transfer:**

The terms funds transfer refers to any transaction carried out on behalf of an originator (both natural and legal) through a *capital Market Operator* by electronic means with a view to making an amount of money available to a beneficiary through another *capital Market Operator*. The originator and the beneficiary may be the same person.

**Legal persons:**

Legal persons refer to bodies corporate foundations, partnerships, or associations, or any similar bodies that can establish a permanent clients relationship with a capital Market Operator or otherwise own property. Non-profit Organizations/Non-governmental

**Organizations:**

The term non-profit organization/non governmental organizations refers to a legal entity or organisation that primarily engages in raising or disbursing funds for purposes

such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of good works.

**Originator:**

The originator is the account holder, or where there is no account, the person (natural or legal) that places the order with the *capital Market Operator* to perform the *Capital Market Transaction*.

**One-off Transaction:**

A 'one-off transaction' means any transaction carried out other than in the course of an established business relationship.

It is important to determine whether an applicant for business is undertaking a one-off transaction or whether the transaction is or will be a part of a business relationship as this can affect the identification requirements.

**Payable through account:**

Payable through account refers to correspondent accounts that are used directly by third parties to transact business on their own behalf.

**Physical presence:**

means meaningful mind and management located within a country. The existence simply of a local agent or low level staff does not constitute physical presence.

**Proceeds:**

Proceeds refer to any property derived from or obtained, directly or indirectly, through the commission of an offence.

**Property:**

Property means assets of every kind, whether corporeal or incorporeal, moveable or immovable, tangible or intangible, and legal documents or instruments evidencing title to, or interest in such assets.

<b>Relevant authority:</b>	Means any persons or organization which has mandate over your activity as an individual.
<b>Risk:</b>	All references to risk in this Manual refer to the risk of money laundering and/or terrorist financing.
<b>Settlor:</b>	Settlors are persons or companies who transfer ownership of their assets to trustees by means of a trust deed. Where the trustees have some discretion as to the investment and distribution of the trusts assets, the deed may be accompanied by a non-legally binding letter setting out what the settlor wishes to be done with the assets.
<b>Shell bank:</b>	Shell bank means a bank that has no physical presence in the country in which it is incorporated and licensed, and which is unaffiliated with a regulated financial services group that is subject to effective consolidated supervision.
<b>Suspicious Transaction:</b>	For the purpose of this Manual, a suspicious transaction may be defined as one which is unusual because of its size, volume, type or pattern or otherwise suggestive of known money laundering methods. It includes such a transaction that is inconsistent with a client's known, legitimate business or personal activities or normal business for that type of account or that lacks an obvious economic rationale.
<b>Terrorist:</b>	It refers to any natural person who: (i) commits, or attempts to commit, terrorist acts by any means, directly or indirectly, unlawfully and willfully; (ii) participates as an accomplice in terrorist acts; (iii) organises or directs others to commit terrorist acts; or (iv) contributes to the

commission of terrorist acts by a group of persons acting with a common purpose where the contribution is made intentionally and with the aim of furthering the terrorist act or with the knowledge of the intention of the group to commit a terrorist act.

**Terrorist act:**

A terrorist act includes but are not limited to:

**(i)** An act which constitutes an offence within the scope of, and as defined in one of the following treaties: Convention for the Suppression of Unlawful Seizure of Aircraft (1970), Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation (1971), Convention on the Prevention

and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents (1973), International Convention against the Taking of Hostages (1979), Convention on the Physical Protection of Nuclear Material (1980), Protocol for the

Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation, supplementary to the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation (1988), Convention for the Suppression of Unlawful Acts against the

Safety of Maritime Navigation (1988), Protocol for the Suppression of Unlawful Acts against the Safety of Fixed Platforms located on the Continental Shelf (1988), and the International Convention for the Suppression of Terrorist Bombings (1997); and

**(ii)** any other act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an 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 organisation to do or to abstain from doing any act.

**Terrorist financing:**

Terrorist financing (FT) includes the financing of terrorist acts, and of terrorists and terrorist organisations.

**Terrorist financing offence:**

A terrorist financing (FT) offence refers not only to the primary offence or offences, but also to ancillary offences.

**Terrorist organization:**

Refers to any group of terrorists that: (i) commits, or attempts to commit, terrorist acts by any means, directly or indirectly, unlawfully and wilfully; (ii) participates as an accomplice in terrorist acts; (iii) organises or directs others to commit terrorist acts; or (iv) contributes to the commission of terrorist acts by a group of persons acting with a common purpose where the contribution is made intentionally and with

the aim of furthering the terrorist act or with the knowledge of the intention of the group to commit a terrorist act.

**Those who finance Terrorism:**

Those who finance terrorism refers to any person, group, undertaking or other entity that provides or collects, by any means, directly or indirectly, funds or other assets that may be used, in full or in part, to facilitate the commission of terrorist acts, or to any persons or entities acting on behalf of, or at the direction of such persons, groups, undertakings or other entities. This includes those who provide or collect funds or other assets with the intention that they shall be used or in the knowledge that they are to be used, in full or in part, in order to carry out terrorist acts.

**Trustee:**

Trustees, include paid professionals or companies or unpaid persons who hold the assets in a trust fund separate from their own assets. They invest and dispose of them in accordance with the settlor's trust deed, taking account of any letter of wishes. There may also be a protector who may have power to veto the trustees' proposals or remove them, and/or a custodian trustee, who holds the assets to the order of the managing trustees.

**Unique identifier:**

A unique identifier refers to any unique combination of letters, numbers or symbols that refer to a specific originator.

## **PART A**

### **1. AML/CFT INSTITUTIONAL POLICY FRAMEWORK**

#### **A. General Guidelines on Institutional Policy**

- i. Every *Capital Market Operator* shall adopt policies stating its commitment to comply with AML/CFT obligations under the law and regulatory directives and to actively prevent any transaction that otherwise facilitates criminal activity or terrorism.
- ii. *Every Capital Market Operator shall* formulate and implement internal controls and other procedures that will deter criminals from using its facilities for money laundering and terrorist financing and to ensure that its obligations are always met.

#### **B. AML/CFT Compliance Officer Designation and Duties**

Each *Capital Market Operator shall* designate its AML/CFT Compliance Officer with the relevant competence, authority and independence to implement the institution's AML/CFT compliance programme.

The duties of the AML/CFT Compliance Officer, among others, include:

- i. Developing an AML/CFT Compliance Programme;
- ii. Receiving and vetting suspicious transaction reports from staff;
- iii. Filing suspicious transaction reports with the NFIU;
- iv. Rendering "nil" reports with the NFIU, where necessary to ensure compliance;
- v. Ensuring that the *Capital Market Operators* compliance programme is implemented;
- vi. Coordinating the training of staff in AML/CFT awareness, detection methods and reporting requirements; and
- vii. Serving both as liaison officer with the *SEC* and NFIU and a point-of contact for all employees on issues relating to money laundering and terrorist financing.

#### **C. Cooperation with Relevant Authorities**

Each *Capital Market Operator* is required to state that it will comply promptly with all the requests made in pursuant with the law and provide

information to the **SEC**, NFIU and other relevant government agencies on AML and CFT matters.

where there is a request for Information on money laundering and terrorist financing each Capital Market Operator shall do the following:

- (a) Search immediately the institution's records to determine whether it maintains or has maintained any account for or has engaged in any transaction with each individual, entity or organisation named in the request;
- (b) Report promptly to the requesting authority the outcome of the search; and
- (c) Protect the security and confidentiality of such requests.

#### **D. SCOPE OF OFFENSIVE PROCEEDS**

**A. *Capital Market Operators shall*** identify and report to the NFIU, the proceeds of crime derived from the following:

- i. Participation in an organized crime groups and racketeering;**
- ii. Terrorism, including terrorist financing;**
- iii. Trafficking in human beings and migrant smuggling;**
- iv. Sexual exploitation, including sexual exploitation of children;**
- v. Illicit trafficking in narcotic drugs and psychotropic substances;**
- vi. Illicit arms trafficking;**
- vii. Illicit trafficking in stolen and other goods;**
- viii. Corruption and Bribery;**
- ix. Fraud;**
- x. Counterfeiting currency;**
- xi. Counterfeiting and piracy of products;**
- xii. Environmental crime;**
- xiii. Murder, grievous bodily injury;**

- xiv. **Kidnapping, illegal restraint and hostage taking;**
- xv. **Robbery or theft;**
- xvi. **Smuggling;**
- xvii. **Extortion;**
- xviii. **Forgery;**
- xix. **Piracy; and**
- xx. **Insider trading and market manipulation.**

## **B. Measures to Be Taken Against ML/TF**

*Capital Market Operators* secrecy and confidentiality laws shall not in any way, inhibit the implementation of the requirements in this *guideline* in view of *the provisions* in the EFCC Act; MLP Act,2004 and *ISA, giving* the relevant authorities the power to access information to properly perform their functions in combating money laundering and financing of terrorism; the sharing of information between relevant authorities, either domestically or internationally; and the sharing of information between *Capital Market Operators*, where this is required or necessary.

## **PART B**

### **2. CUSTOMER DUE DILIGENCE (CDD)**

#### **A. General**

- i. *Capital Market Operators shall not be* permitted to keep anonymous accounts or accounts in fictitious names, provided that where nominee accounts are maintained, details of the beneficial owners shall be provided on request;
- ii. *Capital Market Operators shall* undertake clients due diligence (CDD) measures when:
  - a. business relationship is established;
  - b. carrying out occasional transactions above the threshold of N250,000 or as may be determined by *SEC* from time to

time, including where the transaction is carried out in a single operation or several operations that appear to be linked; and

- c. carrying out occasional transactions that are wire transfers, including those applicable to cross-border and domestic transfers between *Capital Market Operators* and when credit or debit cards are used as a payment system to effect money transfer.

It does not, however, include the following types of payment:

- i. any transfer flowing from a transaction carried out using a credit or debit card so long as the credit or debit card number accompanying such transfers does flow from the transactions such as withdrawals from a bank account through an ATM machine, cash advances from a credit card or payment for goods.
  - ii. *Capital Market Operator-to-Capital Market Operator* transfers and settlements where both the originator and the beneficiary are *Capital Market Operators* acting on their own behalf.
- d. there is a suspicion of money laundering or terrorist financing, regardless of any exemptions or any other thresholds referred to in this Manual; or
  - e. there are doubts about the veracity or adequacy of previously obtained clients identification data;

Provided that, a *Capital Market Operator shall* not be required (after obtaining all the necessary documents and being so satisfied) to repeatedly perform identification and verification exercise every time a client conducts a transaction.

## **B. CUSTOMER DUE DILIGENCE (CDD) MEASURES**

- i. *Capital Market Operators shall:*
  - a. carry out the full range of the CDD measures in this manual.
  - b. Identify all their clients and verify their identities using reliable, independently sourced documents, data or information.

- ii. The type of clients' information to be obtained and identification data to be used to verify the information shall include the following:

In respect of clients that are legal persons, ***Capital Market Operator Shall:***

- a. verify any person purporting to have been authorized to act on behalf of such a clients by obtaining evidence of his/her identity and verifying the identity of such a person; and
  - b. verify the status of the legal person by obtaining proof of incorporation from the Corporate Affairs Commission (CAC) or similar evidence of establishment or existence and any other relevant information.
- iii. ***Capital Market Operators shall*** identify a ***beneficial-owner*** and take reasonable measures to verify his/her identity using relevant information or data obtained from a reliable source to satisfy themselves that they know who the beneficial-owner is.
- iv. ***Capital Market Operators shall in respect of all clients*** determine whether a client is acting on behalf of another person. Where the client is acting on behalf of another person, the ***Capital market operator*** is required to take reasonable steps to obtain sufficient identification-data and to verify the identity of that other person.
- v. ***Capital Market Operators shall*** take reasonable measures in respect of clients that are legal persons to:
  - a. understand the ownership and control structure of such a client; and
  - b. determine the natural persons that ultimately own or control the client.
- vi. The natural persons include those persons who exercise ultimate and effective control over the legal person. Examples of types of measures needed to satisfactorily perform this function include:
  - a. For companies -The natural persons are those who own the controlling interests and those who comprise the mind and management of the company;

- b. For trusts – The natural persons are the settlor, the trustee and person exercising effective control over the trust and the beneficiaries.
- vii. Where the client or the owner of the controlling interest is a public company subject to regulatory disclosure requirements (i.e. a public company listed on a recognized securities exchange) it is not necessary to identify and verify the identity of the shareholders of such a public company.
- viii. **Capital Market Operators** shall obtain information on the purpose and intended nature of the business relationship of their potential clients.
- ix. **Capital Market Operators** shall conduct ongoing due diligence on the business relationship as stated by the clients.
- x. The ongoing due diligence includes scrutinizing the transactions undertaken by the client throughout the course of the **Capital Market Operator/** client relationship to ensure that the transactions being conducted are consistent with the **Capital Market Operator's** knowledge of the client, its business and risk profiles, and the source of funds (where necessary).
- xi. **Capital Market Operators shall** ensure that documents, data or information collected under the CDD-process are kept up-to-date and relevant by undertaking reviews of existing records, particularly the records in respect of higher-risk business-relationships or clients' categories.
- xii. For clients that may require additional caution to be exercised when transacting with them, activities in the client's accounts shall be monitored on a regular basis for suspicious transactions.
- xiii. While extra care shall be exercised in such cases, the **Capital Market Operator shall** refuse to do business with such clients or automatically classify them as high risk and subject them to an enhanced customer process. In this regard, **Capital Market Operators** shall weigh all the circumstances of the particular situation and assess whether there is a higher than normal risk of money laundering or financing of terrorism.
- xiv. **A Capital Market Operator shall** consider reclassifying a client as higher risk if following initial acceptance of the clients, the pattern of account activity of the clients does not fit in with the **Capital Market**

*Operator's* knowledge of the clients. A suspicious transaction report shall also be considered.

- xv. *A Capital Market Operator shall* not commence business relation or perform any transaction, or in the case of existing business relation, shall terminate such business relation if the clients fails to comply with the clients due diligence requirements. *A Capital Market Operator shall* also consider lodging a suspicious transaction report with the NFIU.

### **C. HIGHER RISK CATEGORIES OF CLIENTS**

- i. The basic principle of a risk based approach is that reporting institutions adopt an enhanced CDD process for higher risk categories of clients, business relationships or transactions. Similarly, simplified CDD process is adopted for lower risk categories of clients, business relationships or transactions.
- ii. for determining a clients risk profile, the following are examples of high risk clients that a reporting institution shall consider exercising greater caution when approving the opening of account or when conducting transactions:
- a. Non-resident clients;
  - b. Clients from locations known for its high crime rate (e.g. drug production, trafficking, smuggling);
  - c. Clients from or in countries or jurisdictions which do not or insufficiently apply the FATF Recommendations (such as jurisdictions designated as Non Cooperative Countries and Territories (NCCT) by the FATF or those known to the reporting institution to have inadequate AML/CFT laws and regulations);
  - d. Politically Exposed Persons (PEPs) and persons/ companies related to them;
  - e. Complex legal arrangements such as unregulated investment vehicles/special purpose vehicles (SPV); or
  - f. Companies that have nominee-shareholders;

- iii. Upon determining clients as “high-risk”, the reporting capital market operator shall undertake enhanced CDD process on the clients which shall include enquiries on:
  - a. the purpose for opening an account;
  - b. the level and nature of trading activities intended;
  - c. the ultimate beneficial owners;
  - d. the source of funds;
  - e. senior management’s approval for opening the account;
- iv. The **Capital Market Operator** shall continue to undertake enhanced monitoring of the business relationship.

#### ***D. Lower Risk Clients, Transactions or Products***

- i. Where there are low risks, **Capital Market Operators shall** apply reduced or simplified CDD measures when identifying and verifying the identity of their clients and the beneficial-owners.
- ii. There are low risks in circumstances where;
  - a. the risk of money laundering or terrorist financing is lower.
  - b. information on the identity of the clients and the beneficial owner of a client is publicly available.
  - c. adequate checks and controls exist elsewhere in national systems.
- iii. The following maybe considered to be low risk clients:
  - a. **Capital Market Operators** provided they are subject to requirements for the combat of money laundering and terrorist financing which are consistent with the provisions of this Manual and are supervised for compliance with them;
  - b. Public companies (listed on a **securities** exchange or similar situations) that are subject to regulatory disclosure requirements;
  - c. Government ministries and parastatals /enterprises;

- d. Life insurance policies where the annual premium and single monthly premium are within the threshold determined by NAICOM;
  - e. Insurance policies for pension schemes if there is no surrender-value clause and the policy cannot be used as collateral;
  - f. A pension, superannuation or similar scheme that provides retirement benefits to employees, where contributions are made by way of deduction from wages and the scheme rules do not permit the assignment of a member's interest under the scheme; and
  - g. Beneficial-owners of pooled-accounts held by Designated Non-Financial Businesses and Professions (DNFBPs) provided that they are subject to requirements to combat money laundering and terrorist financing consistent with the provisions of Money Laundering (Prohibition) Act.
- iv. ***Capital Market Operators*** that apply simplified or reduced CDD measures to clients' resident abroad are required to limit such to clients in countries that have effectively implemented the FATF Recommendations.
- v. ***Capital Market Operators shall*** adopt CDD measures on a risk sensitive-basis as provided for in this manual. ***Capital Market Operators*** shall determine in each case whether the risks are lower or not, having regard to the type of clients, product, transaction or the location of the clients.

## **E. TIMING OF VERIFICATION**

- i. ***Capital Market Operators shall*** verify the identity of the clients, beneficial-owner and occasional clients before or during the course of establishing a business relationship or conducting transactions for them.
- ii. ***Capital Market Operators shall*** complete the verification of the identity of the clients and beneficial owner following the establishment of the business relationship, only when:
  - a. This can take place as soon as reasonably practicable;
  - b. It is essential not to interrupt the normal business conduct of the clients; and
  - c. The money laundering risks can be effectively managed.

- iii. Examples of situations where it may be essential not to interrupt the normal conduct of business are:
  - a. ***Securities transactions:*** In the securities industry, companies and intermediaries may be required to perform transactions very rapidly, according to the market conditions at the time the clients is contacting them and the performance of the transaction may be required before verification of identity is completed.
  - b. Non face-to-face business.
  - c. Life insurance business in relation to identification and verification of the beneficiary under the policy. This may take place after the business relationship with the policy holder is established.

In all such cases, identification and verification shall occur at or before the time of payout or the time when the beneficiary intends to exercise vested rights under the policy.

- iv. Where a client is permitted to utilize the business relationship prior to verification, ***Capital Market Operators shall*** adopt risk management procedures concerning the conditions under which this may occur. These procedures include a set of measures such as a limitation of the number, types and/or amount of transactions that can be performed and the monitoring of large or complex transactions being carried out outside the expected norms for that type of relationship.

## **F. FAILURE TO COMPLETE CDD**

- i. ***Every Capital Market Operator*** that does not comply with the foregoing provisions shall:
  - a. not be permitted to open the account, commence business relations or perform the transaction; and
  - b. Be required to render a suspicious transaction report to the NFIU.
- ii. The ***Capital Market Operators*** that has already commenced the business relationship shall terminate the business relationship and render suspicious transaction reports to the NFIU.

## G. EXISTING CLIENTS

- i. *Capital Market Operators shall* apply CDD requirements to existing clients on the basis of materiality and risk and to continue to conduct due diligence on such existing relationships at appropriate times.
- ii. The appropriate time to conduct CDD by *Capital Market Operators Shall* include when:
  - a. a transaction of significant value takes place,
  - b. clients documentation standards change substantially,
  - c. there is a material change in the way that the account is operated,
  - d. the institution becomes aware that it lacks sufficient information about an existing client.
- iii. The *Capital Market Operators shall* properly identify the clients in accordance with these criteria. The clients' identification records shall be made available to the AML/CFT compliance officer, other appropriate staff and relevant authorities.

## 3. DEFINITION OF POLITICALLY EXPOSED PERSON (PEP)

- a. Politically Exposed Persons (PEPs) are individuals who are or have been entrusted with prominent public functions both in foreign countries as well as in Nigeria. Examples of PEPs include, but are not limited to;
  - (i) Heads of State or government;
  - (ii) Governors;
  - (iii) Local government chairmen;
  - (iv) Senior politicians;
  - (v) Senior government officials;
  - (vi) Judicial or military officials;
  - (vii) Senior executives of state owned corporations;

- (viii) Important political party officials;
  - (ix) Family members or close associates of PEPs; and
  - (x) Members of Royal Families.
- b. *Capital Market Operators shall* in addition to performing CDD measures, put in place appropriate risk management systems to determine whether a potential client or existing clients or the beneficial-owner is a politically exposed person.
- c. *Capital Market Operators shall* obtain senior management approval before they establish business relationships with PEPs and to render monthly returns on their transactions with PEPs to the NFIU.
- d. Where a client has been accepted or has an ongoing relationship with the *Capital Market Operator* and the client or beneficial-owner is subsequently found to be or becomes a PEP, the *Capital Market Operator* is required to obtain senior management approval in order to continue the business relationship.
- e. *Capital Market Operators shall* take reasonable measures to establish the source of wealth and the sources of funds of clients and beneficial-owners identified as PEPs and report all anomalies immediately to the *SEC* and NFIU.
- f. *Capital Market Operators* in a business relationship with PEPs shall conduct enhanced ongoing monitoring of that relationship. In the event of any transaction that is abnormal, *Capital Market Operators shall* flag the account and report immediately to the NFIU.

#### **4. NEW TECHNOLOGIES AND NON-FACE-TO-FACE TRANSACTIONS**

*Capital Market Operators shall put in place:*

- a. policies or take such measures as may be needed to prevent the misuse of technological developments in money laundering or terrorist financing schemes such as internationally accepted Credit or Debit Cards.
- b. policies and procedures to address any specific risks associated with non -face to face business relationships or transactions. These policies and procedures shall be applied automatically when establishing clients relationships and conducting ongoing due diligence.

- b. A *Capital Market Operator* that relies upon a third party shall immediately obtain the necessary information concerning property which has been laundered or which constitutes proceeds from, instrumentalities used in and intended for use in the commission of money laundering and financing of terrorism or other predicate offences. Such capital market operator shall satisfy itself that copies of identification data and other relevant documentation relating to the CDD requirements are made available by the third party upon request without delay.
  
- d. The *Capital Market Operator shall* be satisfied that the third party is a regulated institution with measures in place to comply with requirements of CDD.

## **5. RELIANCE ON INTERMEDIARIES AND THIRD PARTIES ON CDD FUNCTIONS**

- a. *Capital Market Operators* relying on intermediaries or other third parties which have no outsourcing or agency relationships, business relationships, accounts or transactions between Capital Market Operators for their clients shall perform some of the elements of the CDD process on the introduced business. The following criteria shall be met:
  - i. Immediately obtain from the third party the necessary information concerning certain elements of the CDD process;
  - ii. Take adequate steps to satisfy themselves that copies of identification data and other relevant documentation relating to CDD requirements will be made available by the third party upon request without delay;
  - iii. Satisfy themselves that the third party is regulated in accordance with Core Principles of AML/CFT and has measures in place to comply with the CDD requirements set out in this Manual; and
  - iv. Make sure that adequate KYC provisions are applied to the third party in order to get account information for competent authorities.
  
- b. The ultimate responsibility for clients' identification and verification remains with the *Capital Market Operators* relying on the third party.

## 6. MAINTENANCE OF RECORDS ON TRANSACTIONS

### *Capital Market Operators shall;*

- a. maintain all necessary records of transactions, both domestic and international, for at least five years following completion of the transaction (or longer if requested by the **SEC** and NFIU in specific cases). This requirement applies regardless of whether the account or business relationship is ongoing or has been terminated.
- b. maintain records of the identification data, account files and business correspondence for at least five years following the termination of an account or business relationship (or longer if requested by the **SEC** and NFIU in specific cases).
- c. ensure that all clients-transaction records and information are available on a timely basis to the **SEC** and NFIU.
- d. **Some** of the necessary components of transaction-records **to be kept** include clients' and beneficiary's names, addresses (or other identifying information normally recorded by the intermediary), the nature and date of the transaction, the type and amount of currency involved, the type and identifying number of any account involved in the transaction.

## 7. ATTENTION ON COMPLEX AND UNUSUAL LARGE TRANSACTIONS

- a. **Capital Market Operators shall** pay special attention to all complex, unusual large transactions or unusual patterns of transactions that have no apparent or visible economic or lawful purpose. **Such** transactions or patterns of transactions include:
  - i) significant transactions relative to a relationship,
  - ii) transactions that exceed certain limits,
  - iii) very high account turnover inconsistent with the size of the account balance or
  - iv) Transactions which fall out of the regular pattern of the account's activity.
- b. **Capital Market Operators shall** examine as far as possible the background and purpose for such transactions and set forth their findings in writing to the NFIU; **such finding shall be kept** available

for *SEC*, NFIU, other relevant authorities and auditors for at least five years.

## 8. COMPLIANCE, MONITORING AND RESPONSE TO SUSPICIOUS TRANSACTIONS

### a. Institutional Policy

*Every capital Market Operator shall;*

- i. have a written policy framework that would guide and enable its staff to monitor, recognize and respond appropriately to suspicious transactions.
- ii. designate an officer appropriately as the AML/CFT Compliance Officer to supervise the monitoring and reporting of suspicious transactions.
- iii. be alert to the various patterns of conduct that have been known to be suggestive of money laundering and maintain a checklist of such transactions which shall be disseminated to the relevant staff.
- iv. When any staff of a *Capital Market Operator* detects any "red flag" or suspicious money laundering activity, the operator is required to promptly institute a "Review Panel" under the supervision of the AML/CFT Compliance Officer. Every action taken must be recorded. The operator and its staff shall maintain confidentiality in respect of such investigation and any suspicious transaction report that may be filed with the relevant authority.

This action is, however, in compliance with the provisions of the money laundering law that criminalize "tipping off" (i.e. doing or saying anything that might tip off someone else that he is under suspicion of money laundering).

- v. A *Capital Market Operator* that suspects or has reason to suspect that funds are the Proceeds of a criminal activity or are related to terrorist financing shall report promptly its suspicions to the NFIU. All suspicious transactions, including attempted transactions are to be reported regardless of the amount

involved. This requirement applies regardless of whether the transactions involve tax matters or other things.

- vi. *Capital Market Operators*, their directors, officers and employees (permanent and temporary) are prohibited from disclosing the fact that a report is required to be filed with the relevant authorities.

**b. Internal controls, compliance and audit**

- i. *Capital Market Operators shall* establish and maintain internal procedures, policies and controls to prevent money laundering and financing of terrorism and to communicate these to their employees.

These procedures, policies and controls *shall* cover the CDD, record retention, the detection of unusual and suspicious transactions, the reporting obligation, among other things.

- ii. The AML/CFT compliance officer and appropriate staff shall have timely access to clients' identification data, CDD information, transaction records and other relevant information.

- iii. *Capital Market Operators shall* develop programs against money laundering and terrorist financing which shall include:

- a. The development of internal policies, procedures and controls, including appropriate compliance management arrangement and adequate screening procedures to ensure high standards when hiring employees;

- b. An ongoing employee training program to ensure that employees are kept informed of new developments, including information on current ML and CFT techniques, methods and trends; and that there is a clear explanation of all aspects of AML/CFT laws and obligations, and in particular, requirements concerning CDD and suspicious transaction reporting; and

- c. Adequately resourced and independent audit function to test compliance with the procedures, policies and controls.

- iv. *A Capital Market Operator shall* also put in place a structure that ensures the operational independence of the Compliance Officer (CCO).

## 9. SANCTIONS

- a. The sanctions provided hereunder are not only proportionate and dissuasive but also designed to affect legal persons/*Capital Market Operators* and their directors/senior management staff, depending on the requirements breached. Every *Capital Market Operator* who fails to comply or contravenes the provisions contained in this manual shall be subject to sanctions by the *SEC and any other relevant authority*.
- b. Any individual, being an official of a *Capital Market Operator*, who fails to take reasonable steps to ensure compliance with the provisions of this Manual, *shall* be sanctioned accordingly. For purpose of emphasis, incidence of false declaration or false disclosure by the *Capital Market Operator* or its officers shall be subject to administrative review and sanction as stipulated in this Manual.
- c. Any *Capital Market Operator* or its officer that contravenes the provisions of this Manual *shall* be subject to applicable sanctions by the *SEC* as follows:

### i. Against the Operator

- a. Imposition of a penalty not exceeding N500,000 from the first to the fifth instances on each offence; and
- b. On the sixth instance, *SEC shall* set up an investigation panel to:
  - i. examine the operator's operations and identify the role of the Board, Management and officers in respect of the malpractice;
  - ii. recommend additional punishment on all officers that are culpable; and
  - iii. recommend ways and means to stop the *Capital Market Operator* from committing such malpractice in future and this may include obtaining an undertaking from the *Capital Market Operator*.

### ii. Against the Officers

Any person being a director, senior management, manager or employee of a *Capital Market Operator*, either acting alone or

in partnership with others, contravenes the provisions of this Manual under any circumstances shall be subject to any or all of the following sanctions:

- i. On the first **two** infraction, be warned in writing by the operator and report to **SEC**;
- ii. On the **third** infraction, the operator may consider terminating **employee's** appointment;
- iii. In each instance, the names of the officers penalized the nature of the offence and the sanction imposed shall be reported to **SEC**.

## 10. SHELL BANKS

- a. These are banks which have no physical presence in any country. Shell banks are prohibited from operating in Nigeria as provided in BOFIA (as amended – in view). **Capital Market Operators** are not allowed to establish correspondent relationships with high risk foreign banks (e.g. shell banks) with no physical presence in any country or with correspondent banks that permit their accounts to be used by such banks.
- b. **Capital Market Operators shall** take all necessary measures to satisfy themselves that **correspondent Capital Market Operators** in a foreign country do not permit their accounts to be used by shell banks.

## 11. SUSPICIOUS TRANSACTIONS “RED FLAGS”

### (a) Potential Transactions Perceived or Identified as Suspicious

- i. Transactions involving high-risk countries vulnerable to money laundering, subject to this being confirmed.
- ii. Transactions involving shell companies.
- iii. Transactions with correspondents that have been identified as higher risk.
- iv. Large transaction activity involving monetary instruments such as traveler's cheques, bank drafts, money order, particularly those that are serially numbered.

- v. Transaction activity involving amounts that are just below the stipulated reporting threshold or enquiries that appear to test an institution's own internal monitoring threshold or controls.

**(b) Terrorist Financing "Red flags"**

- i. Persons involved in a transaction share an address or phone number, particularly when the address is also a business location or does not seem to correspond to the stated occupation (e.g., student, unemployed, or self employed).
- ii. Securities transaction by a nonprofit or charitable organisation, for which there appears to be no logical economic purpose or for which there appears to be no link between the stated activity of the organisation and other parties in the transaction.
- iii. Large *volume of securities transactions through* a business account, *where* there appears to be no logical business or other economic purpose for the transfers, particularly when this activity involves designated high-risk locations.
- iv. The stated occupation of the clients is inconsistent with the type and level of account activity.
- v. Multiple personal and business accounts or the accounts of non profit organisations or charities *that* are used to collect and *channel securities* to a small number of foreign beneficiaries.

**(c) Other Unusual or Suspicious Activities**

- i. Employee exhibits a lavish lifestyle that cannot be justified by his/her salary.
- ii. Employee *failure* to comply with approved operating guidelines.
- iii. Employee is reluctant to take a vacation.

**(d) Other forms of reporting**

*Capital Market Operators shall* report all securities transactions in any currency above a threshold of N1, 000,000 for individual and N5, 000,000 for corporate person to the NFIU.

## 12. **ATTENTION FOR HIGHER RISK COUNTRIES**

- a. *Capital Market Operators shall* give special attention to business relationships and transactions with persons (including legal persons and other Capital Market Operators) from or in countries which do not or insufficiently apply the FATF recommendations.
- b. *Capital Market Operators shall* report, as stated below, transactions that have no apparent economic or visible lawful purpose. The background and purpose of such transactions shall, as far as possible, be examined and written findings made available to assist competent authorities such as **SEC**, NFIU, auditors and law enforcement agencies (LEAs) to carry out their duties.
- c. *Capital Market Operators* that conduct business with foreign institutions which, do not continue to apply or insufficiently apply the provisions of FATF Recommendations, are required to take measures such as the following:
  - i. Stringent requirements for identifying clients and enhancement of advisories, including jurisdiction-specific financial advisories to *Capital Market Operators* for identification of the beneficial owners before business relationships are established with individuals or companies from that jurisdiction;
  - ii. Enhanced relevant reporting mechanisms or systematic reporting of cross border securities transactions on the basis that financial transactions with such countries are more likely to be suspicious;
  - iii. In considering requests for approving the establishment in countries applying the countermeasure of subsidiaries or branches or representative offices of financial institutions, taking into account the fact that the relevant *Capital Market Operator* is from a country that does not have adequate AML/CFT systems;
  - iv. Warning non-financial sector businesses that transactions with natural or legal persons within that country might run the risk of money laundering; limiting business relationships or financial transactions with the identified country or persons in that country.

## 13. **AML/CFT EMPLOYEE-EDUCATION AND TRAINING PROGRAMME**

### **Institutional Policy**

- a. *Capital Market Operators shall* design a comprehensive employee education and training programs not only to make employees fully

aware of their obligations but also to equip them with relevant skills required for the effective discharge of their AML/CFT tasks.

- b. The timing, coverage and content of the employee training program *shall* be tailored to meet the perceived needs of the *Capital Market Operators*. *Capital Market Operators shall* render quarterly returns on their level of compliance to the *SEC* and NFIU.
- c. The employee training programs are required to be developed under the guidance of the AML/CFT Compliance Officer in collaboration with the top Management. The basic elements of the employee training program are expected to include:
  - i. AML regulations and offences
  - ii. The nature of money laundering
  - iii. Money laundering 'red flags' and suspicious transactions, including trade-based money laundering typologies
  - iv. Reporting requirements
  - v. Clients due diligence
  - vi. Risk-based approach to AML/CFT
  - vii. Record keeping and retention policy.
- d. *Capital Market Operators shall* submit their Annual AML/CFT Employee training program to the SEC and NFIU not later than the 31st of December every financial year against the next year.

#### 14. **MONITORING OF EMPLOYEE CONDUCT**

*Capital Market Operators shall* monitor their employees' accounts for potential signs of money laundering. They are also required to subject employees' accounts to the same AML/CFT procedures as applicable to other clients' accounts. This is required to be performed under the supervision of the AML/CFT Compliance Officer. The latter's own account is to be reviewed by the Internal Auditor or a person of adequate/similar seniority. Compliance reports including findings are to be rendered to the *SEC* /NFIU.

#### 15. **PROTECTION OF STAFF WHO REPORT VIOLATIONS**

- a. *Capital Market Operators shall* direct their employees in writing to always co-operate fully with the Regulators and law enforcement agents and to promptly report suspicious transactions to them. They are also required to make it possible for employees to report any violations of the institution's AML/CFT compliance program to the AML/CFT Compliance Officer. Where the violations involve the

Compliance Officer, employees are required to report such to a designated higher authority such as the Internal Auditor.

- b. *Capital Market Operators shall* inform their employees in writing to make such reports confidential and that they will be protected from victimization for making them.

#### 16. **ADDITIONAL AREAS OF AML/CFT RISKS**

- a. *Capital Market Operators shall* review, identify and record other areas of potential money laundering risks not covered by this Compliance Manual and report same quarterly to the NFIU.
- b. *Capital Market Operators* shall review their AML/CFT frameworks from time to time with a view to determining their adequacy and identifying other areas of potential risks not covered by the AML/CFT Compliance Manual.

#### 17. **ADDITIONAL PROCEDURES AND MITIGANTS**

Having reviewed the AML/CFT framework and identified new areas of potential money laundering vulnerabilities and risks, *Capital Market Operators shall* design additional procedures and mitigants as contingency plan in their AML/CFT Operational Manuals. These will provide how such potential risks will be appropriately managed if they crystallize. Details of the contingency plan are to be rendered to **SEC** and NFIU as at 31st December every financial year.

#### 18. **TESTING FOR THE ADEQUACY OF THE AML/CFT COMPLIANCE**

*Every Capital Market Operator shall* make a policy commitment and to subject its AML/CFT Compliance Program to independent-testing or require its internal audit function to determine its adequacy, completeness and effectiveness. Report of compliance is required to be rendered to **SEC** and **NFIU** as 31st December every financial year. Any identified weaknesses or inadequacies shall be promptly addressed by the *Capital Market Operator*.

#### 19. **FORMAL BOARD APPROVAL OF THE AML/CFT COMPLIANCE**

The ultimate responsibility for AML/CFT compliance is placed on the Board/Top Management of every *Capital Market Operator* in Nigeria. It is,

therefore, required that the Board ensures that a comprehensive operational AML/CFT Compliance Manual is formulated by Management and presented to the Board for consideration and formal approval. The Manual shall be forwarded to *SEC* and NFIU within six months of its release. Quarterly reports on the AML/CFT-compliance status of the *Capital Market Operator* are to be presented to the Board for its information and necessary action.

## 20. **TERRORIST FINANCING OFFENCES**

- a. Terrorist financing offences extend to any person who willfully provides or collects funds by any means, directly or indirectly, with the unlawful intention that they shall be used or in the knowledge that they are to be used in full or in part to carry out a terrorist act.
- b. Terrorist financing offences are extended to any funds whether from a legitimate or illegitimate source. Terrorist financing offences therefore do not necessarily require that the funds are actually used to carry out or attempt a terrorist-act or be linked to a specific terrorist-act. Attempt to finance terrorist/terrorism and to engage in any of the types of conduct as set out above is also an offence.
- c. Terrorist financing offences are predicate offences for money laundering and therefore apply, regardless of whether the person alleged to have committed the offence is in the same country or a different country from the one in which the terrorist/terrorist organization is located or the terrorist act occurred or will occur.

## 21. **CULTURE OF COMPLIANCE**

*Every Capital Market Operator* shall have a comprehensive AML/CFT compliance program to guide its compliance efforts and to ensure the diligent implementation of its Manual.

## PART C

### 22. GUIDANCE ON KYC (Know your customer)

*Capital Market Operators* shall not establish a business relationship until all relevant parties to the relationship have been identified and the nature of the business they intend to conduct ascertained. Once an on-going business relationship is established, any inconsistent activity can then be examined to determine whether or not there is an element of money laundering for suspicion.

#### A. Duty to Obtain Identification Evidence

- i. *Capital Market Operators shall* be satisfied that a prospective client is who he/she claim to be.
- ii. If the client is acting on behalf of another (the funds are supplied by someone else or the investment is to be held in the name of someone else's name) then the *Capital Market Operator shall* verify the identity of both the clients and the agent/trustee unless the *client* is itself a Nigerian regulated *Capital Market Operator*.
- iii. *Capital Market Operators shall* obtain evidence in respect of their *clients*, unless it is otherwise stated in *this manual*.
- iv. Capital Market Operators shall identify all relevant parties to the relationship from the outset by obtaining satisfactory identification evidence as provided in this manual.

#### B. Nature and Level of the Business

- i. *Capital Market Operators* shall obtain sufficient information on the nature of the business that their *client* intends to undertake, including the expected or predictable pattern of transactions.

The information collected at the outset for this purpose shall include:

- a. purpose and reason for opening the account or establishing the relationship;
- b. nature of the activity that is to be undertaken;
- c. expected origin of the funds to be used during the relationship; and

- d. details of occupation/employment/business activities and sources of wealth or income.
- ii. **Capital Market Operators** shall take reasonable steps to keep the information up to date as the opportunities arise, such as when an existing client opens a new account. Information obtained during any meeting, discussion or other communication with the clients shall be recorded and kept in the *client's* file to ensure, as far as practicable, that current clients' information is readily accessible to the Money Laundering Compliance Officers (MLCO) or relevant regulatory bodies.
- ii. **Apply Commercial Judgment**
  - a. **Capital Market Operators shall** take a risk-based approach to the 'Know Your Customer' requirement and decide the number of times to verify the clients' records during the relationship, the identification evidence required and when additional checks are necessary.
  - b. For personal account relationships, all joint-account holders need to be verified. In respect of private company or partnership, focus shall be on the principal owners/controllers and their identities shall also be verified.
  - c. The identification evidence collected at the outset shall be viewed against the inherent risks in the business or service.

## 23. ESTABLISHING IDENTITY

### A. Identification Evidence

- i. The *client's* identification process shall not start and end at the point of establishing the relationship but continue as far as the business relationship subsists. The process of confirming and updating identity and address, and the extent of obtaining additional KYC information collected will however differ from one type of **Capital Market Operator** to another.
- ii. The general principles for establishing the identity of both legal and natural persons and obtaining satisfactory identification evidence set out in this Manual are by no means exhaustive.

## **B. What is Identity?**

- i. Identity generally means a set of attributes such as names used, date of birth and the residential address at which the clients can be located. These are features which can uniquely identify a natural or legal person.
- ii. In the case of a natural person, the date of birth is required to be obtained as an important identifier in support of the name. It is, however, not mandatory to verify the date of birth provided by the clients.
- iii. Where an international passport/national identity card is taken as evidence of identity, the number, date and place/country of issue (as well as expiring date in the case of international passport) are required to be recorded.

## **C. When Must Identity be Verified?**

- i. Identity shall be verified whenever a business relationship is to be established, on account opening or during one-off transaction or when series of linked transactions take place. "Transaction" in this Manual is defined to include the giving of advice. The "advice" here does not apply to when information is provided about the availability of products or services nor applies to when a first interview/discussion prior to establishing a relationship takes place.
- ii. Once identification procedures have been satisfactorily completed and the business relationship established, as long as contact or activity is maintained and records concerning that clients are complete and kept, no further evidence of identity is needed when another transaction or activity is subsequently undertaken.

## **D. Whose Identity Must Be Verified?**

- i. *Clients* - sufficient evidence of the identity must be obtained to ascertain that the *client* is the very person he/she claims to be.
- ii. a person acting on behalf of another - The obligation is to obtain sufficient evidence of identities of the two persons involved.
- iii. There is no obligation to look beyond the *client* where:
  - a. the latter is acting on its own account (rather than for a specific client or group of *clients*);

- b. a client is a bank, broker, fund manager or other regulated *Capital Market Operator*, financial institutions; and
  - c. all the businesses are to be undertaken in the name of a regulated **Capital Market Operator** or financial institution.
- iv. In other circumstances, unless the *client* is a regulated *Capital Market Operator* or financial institution acting as agent on behalf of one or more underlying *client* within Nigeria, and has given written assurance that it has obtained the recorded-evidence of identity to the required standards, identification evidence shall be verified for:
  - a. the named account holder/person in whose name an investment is registered;
  - b. any principal beneficial owner of funds being invested who is not the account holder or named investor;
  - c. the principal controller(s) of an account or business relationship (i.e. those who regularly provide instructions); and
  - d. any intermediate parties (e.g. where an account is managed or owned by an intermediary).
- v. ***Capital Market Operators shall*** take appropriate steps to identify directors and all the signatories to an account.
- vi. Joint applicants/account holders - identification evidence shall be obtained for all the account holders.
- vii. For higher risk business undertaken for private companies (i.e. those not listed on the stock exchange) sufficient evidence of identity and address shall be verified in respect of:
  - a. the principal underlying beneficial owner(s) of the company with 5% interest and above; and
  - b. Those with principal control over the company's assets (e.g. principal controllers/directors).
- viii. ***Capital Market Operators shall*** be alert to circumstances that might indicate any significant changes in the nature of the business or its ownership and make enquiries accordingly and to observe the additional provisions for Higher Risk Categories of Clients under AML/CFT Directive in this Manual.
- ix. Trusts – ***Capital Market Operators shall*** obtain and verify the identity of those providing funds for the Trust. They include the

settlor and those who are authorized to invest, transfer funds or make decisions on behalf of the Trust such as the principal trustees and controllers who have power to remove the Trustees.

- x. Savings Schemes and Investments in Third Parties' Names When an investor sets up a savings accounts or a regular savings scheme whereby the funds are supplied by one person for investment in the name of another (such as a spouse or a child), the person who funds the subscription or makes deposits into the savings scheme shall be regarded as the applicant for business for whom identification evidence must be obtained in addition to the legal owner.
- xi. Personal Pension Schemes
  - a. Identification evidence must be obtained at the outset for all investors, except personal pensions connected to a policy of insurance taken out by virtue of a contract of employment or pension scheme.
  - b. Personal pension advisers are charged with the responsibility of obtaining the identification evidence on behalf of the pension fund provider. Confirmation that identification evidence has been taken shall be given on the transfer of a pension to another provider.

## **E. Timing of Identification Requirements**

- i. An acceptable time-span for obtaining satisfactory evidence of identity will be determined by the nature of the business, the geographical location of the parties and whether it is possible to obtain the evidence before commitments are entered into or money changes hands. However, any occasion when business is conducted before satisfactory evidence of identity has been obtained must be exceptional and can only be those circumstances justified with regard to the risk.
- ii. To this end, *Capital Market Operators shall*:
  - (a) obtain identification evidence as soon as reasonably practicable after it has contact with a client with a view to agreeing with the *client* to carry out an initial transaction; or reaching an understanding (whether binding or not) with the client that it may carry out future transactions; and

- (b) Where the *client* does not supply the required information as stipulated in (a) above, the *Capital Market Operator shall* discontinue any activity it is conducting for the *client*; and bring to an end any understanding reached with the client.
- iii. *Capital Market Operators shall* observe the provision in the Timing of Verification under the AML/CFT Directive of this Manual.
- iv. *A Capital Market Operator* may however start processing the transaction or application immediately, provided that it:
  - a. promptly takes appropriate steps to obtain identification evidence;
  - b. Does not transfer or pay any money out to a third party until the identification requirements have been satisfied.
- v. The failure or refusal by an applicant to provide satisfactory identification evidence within a reasonable time-frame without adequate explanation may lead to a suspicion that the depositor or investor is engaged in money laundering. The *Capital Market Operator shall* therefore make Suspicious *transaction* Reports to NFIU based on the information in its possession before the funds involved are returned to the potential client or where they came from.
- vi. *Capital Market Operators shall* put in place written and consistent policies of closing an account or unwinding a transaction where satisfactory evidence of identity cannot be obtained.
- vii. *Capital Market Operators shall* respond promptly to inquiries made by other persons relating to the identity of their clients.

## **F. Cancellation & Cooling-Off Rights**

Where an investor exercises cancellation rights or cooling-off rights, the sum invested must be repaid subject to some deductions, where applicable. Since cancellation/cooling-off rights could offer a readily available route for laundering money, *Capital Market Operators shall* be alert to any abnormal exercise of these rights by an investor or in respect of business introduced through an intermediary. In the event where abnormal exercise of these rights becomes apparent, the matter *shall* be treated as suspicious and reported to NFIU.

## G. Redemptions/Surrenders

- i. When an investor finally realizes his investment (wholly or partially), if the amount payable is US\$1,000 or above or its equivalent thereof; or N250,000 for an individual or N500,000 for a body corporate, or such other monetary amounts as may, from time to time, be stipulated by any applicable money laundering legislation or regulation, the identity of the investor must be verified and recorded if it had not been done previously.
- ii. In the case of redemption or surrender of an investment (wholly or partially), a *Capital Market Operator shall* take reasonable measures to establish the identity of the investor where payment is made to:
  - a. the legal owner of the investment by means of a cheque crossed "account payee"; or
  - b. a bank account held (solely or jointly) in the name of the legal owner of the investment by any electronic means effective for transfer funds.

## 24. IDENTIFICATION PROCEDURES

### A. General Principles

- i. A *Capital Market Operator shall* ensure that it is dealing with a real person or organization (natural, corporate or legal) by obtaining sufficient identification evidence. When reliance is being placed on a third party to identify or confirm the identity of an applicant, the overall responsibility for obtaining satisfactory identification evidence rests with the account holding *Capital Market Operator*.
- ii. The requirement in all cases is to obtain satisfactory evidence that a person of that name lives at the address given and that the applicant is that person or that the company has identifiable owners and that its representatives can be located at the address provided.
- iii. Because no single form of identification can be fully guaranteed as genuine or representing correct identity, the identification processes shall *be* cumulative.
- iv. The procedures adopted to verify the identity of private individuals and whether or not identification was done face to face or remotely and are *required to be stated in the client's file*. The reasonable steps

taken to avoid single, multiple fictitious applications or substitution (impersonation) fraud shall be stated by the *Capital Market Operator* in the *client's* file.

- v. An introduction from a respected *client*, a person personally known to a Director or Manager or a member of staff often provides comfort but must not replace the need for identification evidence requirements to be complied with as set out in this Manual.

Details of the person who initiated and authorized the introduction shall be kept in the *client's* mandate file along with other records. It is therefore mandatory that Directors/Senior Managers shall insist on following the prescribed identification procedures for every applicant.

## **B. New Business for Existing Clients**

- i. When an existing *client* closes one account and opens another or enters into a new agreement to purchase products or services, there is no need to verify the identity or address of such a clients unless the name or the address provided does not tally with the information in the *Capital Market Operator's* file. However, procedures *shall* be put in place to guard against impersonation and fraud. The opportunity of opening the new account shall also be taken to ask the *client* to confirm the relevant details and to provide any missing KYC information. This is particularly important:
  - a. if there was an existing business relationship with the *client* and identification evidence had not previously been obtained; or
  - b. if there had been no recent contact or correspondence with the *client* within the past three months; or
  - c. when a previously dormant account is re -activated.
- ii. In the circumstances above, details of the previous account(s) and any identification evidence previously obtained or any introduction records shall be linked to the new account-records and retained for the prescribed period in accordance with the provision of this Manual.

## **C. Certification of Identification Documents**

- i. In order to guard against the dangers of postal-interception and fraud, prospective *client* shall not be asked to send by post originals of their valuable personal identity documents such as international passport, identity card, driving license, etc.

- ii. Where there is no face to face contact with the *client* and documentary evidence is required, copies certified by a notary public/court of competent jurisdiction, senior public servant or their equivalent in the private sector shall be obtained. The person undertaking the certification must be known and capable of being contacted if necessary.
- iii. In the case of foreign nationals, the copy of international passport, national identity card or documentary evidence of his/her address is required to be certified by:
  - i. the embassy, consulate or high commission of the country of issue;
  - ii. a senior official within the account opening institution;
  - iii. Notary public/court of competent jurisdiction
  - iv. Certified copies of identification evidence are to be stamped, dated and signed "original sighted by me" by a senior officer of the *Capital Market Operator. Capital Market Operators shall* always ensure that a good production of the photographic evidence of identity is obtained. Where this is not possible, a copy of evidence certified as providing a good likeness of the applicant could only be acceptable in the interim.

#### **D. Recording Identification Evidence**

- i. Records of the supporting evidence and methods used to verify identity are required to be retained for a minimum period of five years after the account is closed or the business relationship ended.
- ii. Where the supporting evidence could not be copied at the time it was presented, the reference numbers and other relevant details of the identification evidence are required to be recorded to enable the documents to be obtained later. Confirmation is required to be provided that the original documents were seen by certifying either on the photocopies or on the record that the details were taken down as evidence.
- iii. Where checks are made electronically, a record of the actual information obtained or of where it can be re-obtained must be retained as part of the identification evidence. Such records will make the reproduction of the actual information that would have been obtained before, less cumbersome.

**E. Concession in respect of Payment Made by Post.**

- i. Concession may be granted for product or services (where the money laundering risk is considered to be low) in respect of long-term life insurance business or purchase of personal investment products. If payment is to be made from an account held in the clients' name (or jointly with one or more other persons) at a regulated *Capital Market Operator*, no further evidence of identity is necessary.
- ii. Waiver of additional verification requirements for postal or electronic transactions does not apply to the following:
  - a. products or accounts where funds can be transferred to other types of products or accounts which provide cheque or money transfer facilities;
  - b. situations where funds can be repaid or transferred to a person other than the original *clients*;
  - c. investments where the characteristics of the product or account may change subsequently to enable payments to be made to third parties.
- iii. Postal concession is not an exemption from the requirement to obtain satisfactory evidence of a client's identity. Payment debited from an account in the client's name shall be capable of constituting the required identification evidence in its own right.
- iv. Records are required to be maintained indicating how a transaction arose, including details of the *Capital Market Operator's* branch and account number from which the cheque or payment is drawn.
- v. The concession can apply both where an application is made directly to the *Capital Market Operator* and where a payment is passed through a regulated intermediary.
- vi. **Investment Funds:**

In circumstances where the balance in an investment funds account is transferred from one Funds Manager to another and the value at that time is above US\$1,000 or N250,000 for an individual and N1 million for a body corporate and identification evidence has neither been taken nor confirmation obtained from the original Fund Manager, then such evidence shall be obtained at the time of the transfer.

## 25. ESTABLISHING IDENTITY

Establishing identity under this Manual is divided into three broad categories:

- a. Private individual clients;
- b. Quasi corporate clients;
- c. Pure corporate clients.

### A. Private Individual Clients

#### General Information:

- i. The following information are to be established and independently validated for all private individuals whose identities need to be verified:
  - a. The true full name(s) used; and
  - b. the permanent home address, including landmarks and postcode, where available.
- ii. The information obtained shall provide satisfaction that a person of that name exists at the address given and that the applicant is that person. Where an applicant has recently moved from a house, the previous address shall be validated.
- iii. It is important to obtain the date of birth as it is required by the law enforcement agencies. However, the information need not be verified. It is also important for the residence/nationality of a client to be ascertained to assist risk assessment procedures.
- iv. A risk-based approach *shall* be adopted when obtaining satisfactory evidence of identity. The extent and number of checks can vary depending on the perceived risk of the service or business sought and whether the application is made in person or through a remote medium such as telephone, post or the internet. The source of funds, how the payment was made, from where, and by whom must always be recorded, to provide an audit trail. However, for higher risk products, accounts or clients, additional steps shall be taken to ascertain the source of wealth/funds.
- v. For lower-risk transactions or simple investment products, there is an overriding requirement for the *Capital Market Operator* to satisfy itself as to the identity and address of the client.

## 1. Private Individuals Resident in Nigeria

The confirmation of name and address is to be established by reference to a number of sources. The checks shall be undertaken by cross-validation that the applicant exists at the stated address either through the sighting of actual documentary evidence or by undertaking electronic checks of suitable databases, or by a combination of the two. The overriding requirement to ensure that the identification evidence is satisfactory rests with the *Capital Market Operator*.

### a. Documenting Evidence of Identity

i. In order to guard against forged or counterfeit-documents, care shall be taken to ensure that documents offered are originals.

Copies that are dated and signed 'original seen' by a senior public servant or equivalent in a reputable private organization could be accepted in the interim, pending presentation of the original documents. Hereunder are examples of suitable documentary evidence for Nigerian resident private individuals:

#### (a) Personal Identity Documents

- i. Current International Passport
- ii. Residence Permit issued by the Immigration Authorities
- iii. Current Driving Licence issued by the Federal Road Safety Commission (FRSC)
- iv. Inland Revenue Tax Clearance Certificate
- v. Birth Certificate/Sworn Declaration of Age
- vi. National Identity card

#### (b) Documentary Evidence of Address

- i. Record of home visit in respect of non-Nigerians
- ii. Confirmation from the electoral register that a person of that name lives at that address
- iii. Recent utility bill (e.g. PHCN, NITEL, etc.)
- iv. Current driving licence issued by FRSC

- v. Bank statement or passbook containing current address
- vi. Solicitor's letter confirming recent house purchase or search report from the Land Registry
- vii. Tenancy Agreement
- ix. Search reports on prospective client's place of employment and residence signed by a senior officer of the *Capital Market Operator*.

2. Checking of a local or national telephone directory can be used as additional corroborative evidence *but* not as a primary check.

**b. Physical Checks on Private Individuals Resident in Nigeria**

- i. It shall be mandatory for a *Capital Market Operator* to establish the true identities and addresses of its clients and for effective checks to be carried out to *guard* against substitution of identities by client.
- ii. Additional confirmation of the clients' identity and the fact that the application was made by the person identified shall be obtained through one or more of the following procedures:
  - a. a direct mailing of account opening documentation to a named individual at an independently verified address;
  - b. an initial deposit cheque drawn on a personal account in the clients name by another Capital Market Operator in Nigeria;
  - c. telephone contact with the client prior to opening the account on an independently verified home or business number or a "welcome call" to the clients before transactions are permitted, utilizing a minimum of two pieces of personal identity information that had been previously provided during the setting up of the account;

- d. internet sign-on following verification procedures where the clients uses security codes, tokens, and/or other passwords which had been set up during account opening and provided by mail (or secure delivery) to the named individual at an independently verified address;
- e. card or account activation procedures.

iii. **Capital Market Operators shall** ensure that additional information concerning the nature and level of the business to be conducted and the origin of the funds to be used within the relationship are also obtained from the clients.

**c. Electronic Checks**

i. As an alternative or supplementary to documentary evidence of identity and address, the clients identity, address and other available information may be checked electronically by accessing other data-bases or sources. Each source may be used separately as an alternative to one or more documentary checks.

ii. **Capital Market Operators shall** use a combination of electronic and documentary checks to confirm different sources of the same information provided by the clients.

iii. In respect of electronic checks, confidence as to the reliability of information supplied will be established by the cumulative nature of checking across a range of sources, preferably covering a period of time or through qualitative checks that assess the validity of the information supplied. The number or quality of checks to be undertaken will vary depending on the diversity as well as the breath and depth of information available from each source. Verification that the client is the data-subject also needs to be conducted within the checking process.

iv. Some examples of suitable electronic sources of information are **as follows:**

a. An electronic search of the Electoral Register (is not to be used as a sole identity and address check);

and

b. Access to internal or external account database;

c. An electronic search of public records, where available.

v. ***Capital Market Operator shall put in place internal procedures for the identification of socially but financially disadvantage persons.***

vi. Where a ***Capital Market Operator*** has reasonable grounds to conclude that an individual client is not able to produce the detailed evidence of his identity and cannot reasonably be expected to do so, the ***Operator*** may accept as identification evidence a letter or statement from a person in a position of responsibility such as solicitors, doctors, ministers of religion and teachers who know the client, confirming that the client is who he says he is, and his permanent address.

vii. When a ***Capital Market Operator*** has decided to treat a client as "financially excluded", it is required to record the reasons for doing so along with the account opening documents and returns rendered to the ***SEC*** and NFIU quarterly.

viii. where a letter/statement is accepted from a professional person, it shall include a telephone number where the person can be contacted for verification. The ***Capital Market Operator shall*** verify from an independent source the information provided by the professional person.

ix. In order to guard against "financial exclusion" and to minimize the use of the exception procedure, ***Capital Market Operators shall*** include in their internal procedures the "alternative documentary evidence of personal identity and address" that can be accepted.

- x. *Capital Market Operators shall* put in place additional monitoring for accounts opened under the financial exclusion exception procedures to ensure that such accounts are not misused.

## 2. A. Private Individuals not resident in Nigeria

- i. For those prospective clients who are not resident in Nigeria but who make face -to- face contact, international passports or national identity cards *shall* generally be available as evidence of the name of the clients.

Reference numbers, date and country of issue shall be obtained and the information recorded in the clients's file as part of the identification evidence.

- ii. *Capital Market Operators shall* obtain separate evidence of the applicant's permanent residential address from the best available evidence, preferably from an official source. A "P.O. Box number" alone is not accepted as evidence of address. The applicant's residential address *shall* be such that it can be physically located.

- iii. Relevant evidence *shall* be obtained by the *Capital Market Operator* directly from the clients or through a reputable credit or *Capital Market Operator* in the applicant's home country or country of residence. However, particular care shall be taken when relying on identification evidence provided from other countries. *Capital Market Operators shall* ensure that the client's true identity and current permanent address are actually confirmed. In such cases, copies of relevant identity documents shall be sought and retained.

- iv. Where a foreign national has recently arrived in Nigeria, reference might be made to his/her employer, university, evidence of traveling documents, etc. to verify the applicant's identity and residential address.

## B. Private Individuals not Resident in Nigeria: Supply of Information

- i. For a private individual not resident in Nigeria, who wishes to supply documentary information by post, telephone or electronic means, a risk-based approach shall be taken. The *Capital Market Operator shall* obtain one separate item of evidence of

identity in respect of the name of the clients and one separate item for the address.

- ii. Documentary evidence of name and address can be obtained:
  - a. by way of original documentary evidence supplied by the clients;
  - b. by way of a certified copy of the client's passport or national identity card and a separate certified document verifying address e.g. a driving licence, utility bill, etc; or
  - c. through a branch, subsidiary, head office of a correspondent bank.
- iii. Where the client does not already have a business relationship with the foreign *Capital Market Operator* that is supplying the information, certified copies of relevant underlying documentary evidence must be sought, obtained and retained by the institutions.
- iv. Where necessary, an additional comfort must be obtained by confirming the clients' true name, address and date of birth from a reputable institution in the clients' home country.

### **3. Information to establish identity**

#### **a. Natural Persons**

For natural persons the following information *shall* be obtained, where applicable:

- i. Legal name and any other names used (such as maiden name);
- ii. Correct permanent address (full address shall be obtained and a Post Office box number is not sufficient);
- iii. Telephone number, fax number, and e-mail address;
- iv. Date and place of birth;
- v. Nationality;
- vi. Occupation, public position held and name of employer;
- vii. An official personal identification number or other unique identifier contained in an unexpired official document such as

passport, identification card, residence permit, social security records or driving licence that bears a photograph of the clients;

viii. Signature.

A **Capital Market Operator shall** verify this information by at least one of the following methods:

- (a) Confirming the date of birth from an official document (e.g. birth certificate, passport, identity card, social security records);
- (b) Confirming the permanent address (e.g. utility bill, tax assessment, bank statement, a letter from a public authority);
- (c) Contacting the clients by telephone, by letter or e-mail to confirm the information supplied after an account has been opened (e.g. a disconnected phone, returned mail, or incorrect e-mail address **shall** warrant further investigation);
- (d) Confirming the validity of the official documentation provided through certification by an authorized person (e.g. embassy official, notary public).
- (e) Such other documents of an equivalent nature may be produced as satisfactory evidence of clients' identity.
- (f) **The Capital Market Operators** shall apply effective client identification procedures for non-face-to-face client as for those available **physically**.

From the information provided, **Capital Market Operators** shall be able to make an initial assessment of a client's risk profile. Particular attention needs to be focused on those clients identified as having a higher risk profile. Additional inquiries made or information obtained in respect of those clients **shall** include the following:

- (i) Evidence of an individual's permanent address sought through a credit reference agency search, or through independent verification by home visits;
- (ii) Personal reference (i.e. by an existing **client** of the same institution);
- (iii) prior client bank reference and contact with the bank regarding the **client**;
- (iv) Source of wealth;

- (v) Verification of employment, public position held (where appropriate).

The *client* acceptance policy shall not be so restrictive to amount to a denial of access by the general public to Securities transactions, especially for people who are financially or socially disadvantaged.

## b. Institutions

The term institution includes any entity that is not a natural person. In considering the clients identification guidance for the different types of institutions, particular attention shall be given to the different levels of risk involved.

### i. Corporate Entities

For corporate entities (i.e. corporations and partnerships), the following information *shall* be obtained:

- (a) Name of institution;
- (b) Principal place of institution's business operations;
- (c) Mailing address of institution;
- (d) Contact telephone and fax numbers;
- (e) Some form of official identification number, if available (e.g. Tax identification number);
- (f) The original or certified copy of the Certificate of Incorporation and Memorandum and Articles of Association;
- (g) The resolution of the Board of Directors to open an account and identification of those who have authority to operate the account;
- (h) Nature and purpose of business and its legitimacy.

### ii. A *Capital Market Operator shall* verify this information by at least one of the following methods:

- a. For established corporate entities -reviewing a copy of the latest report and accounts (audited, if available);
- b. Conducting an enquiry by a business information service or an undertaking from a reputable and known firm of

lawyers or accountants confirming the documents submitted;

- c. Undertaking a company search and/or other commercial enquiries to see that the institution has not been, or is not in the process of being dissolved, struck off, wound up or terminated;
- d. Utilizing an independent information verification process, such as accessing public and private databases;
- e. Obtaining prior bank references;
- f. Visiting the corporate entity,; and
- g. Contacting the corporate entity by telephone, mail or e-

mail.

The *Capital Market Operators shall* also take reasonable steps to verify the identity and reputation of any agent that opens an account on behalf of corporate clients, if that agent is not an officer of the corporate *client*.

### iii. **Corporations/Partnerships**

- a. For corporations/partnerships, the principal guidance is to look behind the *Operator* to identify those who have control over the business and the company's/partnership's assets, including those who have ultimate control.
- b. For corporations, particular attention shall be paid to shareholders, signatories, or others who inject a significant proportion of capital or financial support or otherwise exercise control. Where the owner is another *Capital Market Operator* or trust, the objective is to undertake reasonable measures to look behind that company or entity and to verify the identity of the principals.
- c. What constitutes control for this purpose will depend on the nature of a company, and may rest in those who are mandated to manage the funds, accounts or investments without requiring further authorisation, and who would be in a position to override internal procedures and control mechanisms.

- d. For partnerships, each partner **shall** be identified and it is also important to identify immediate family members that have ownership control.
- e. Where a company is listed on a recognised **securities** exchange or is a subsidiary of such a company then the company itself may be considered to be the principal to be identified. However, consideration **shall** be given to whether there is effective control of a listed company by an individual, small group of individuals or another corporate entity or trust. If this is the case then those controllers **shall** also be considered to be principals and identified accordingly.

**c. Other Types of Operators**

- i. The following information **shall** be obtained in addition to that required to verify the identity of the principals in respect of Retirement Benefit Programmes, Mutuals/Friendly Societies, Cooperatives and Provident Societies, Charities, Clubs and Associations, Trusts and Foundations and Professional Intermediaries:

- (a) Name of account;
- (b) Mailing address;
- (c) Contact telephone and fax numbers;
- (d) Some form of official identification number, such as tax identification number;
- (e) Description of the purpose/activities of the account holder as stated in a formal constitution; and
- (f) Copy of documentation confirming the legal existence of the account holder such as register of charities.

- ii. A **Capital Market Operator shall** verify this information by at least one of the following:

- (a) Obtaining an independent undertaking from a **legal practitioner** or **chartered** Accountant confirming the documents submitted;
- (b) Obtaining prior bank references; and
- (c) Accessing public and private databases or official sources.

iii **Retirement Benefit Programmes**

Where an occupational pension programme, employee benefit trust or share option plan is an applicant for an account the trustee and any other person who has control over the relationship such as the administrator, programme manager, and account signatories *shall* be considered as principals and the *capital Market Operator shall* take steps to verify their identities.

iv **Mutual/Friendly, Cooperative and Provident Societies**

Where these entities are client the principals to be identified *shall* be considered to be those persons exercising control or significant influence over the organisation's assets. This often includes Board members, executives and account signatories.

v **Charities, Clubs and Associations**

In the case of accounts to be opened for charities, clubs, and societies, the *Capital Market Operators shall* take reasonable steps to identify and verify at least two signatories along with the *operator* itself. The principals who shall be identified *shall* be considered to be those persons exercising control or significant influence over the organization's assets.

This includes members of the governing body or committee, the President, Board members, the Treasurer, and all signatories.

In all cases, independent verification shall be obtained that the persons involved are true representatives of the *operators*.

vi. **Trusts and Foundations**

When opening an account for a Trust, the *capital Market Operator shall* take reasonable steps to verify the trustees, the settlor (including any persons settling assets into the trust) any protector, beneficiary and signatories. Beneficiaries shall be identified when they are defined. In the case of a foundation, steps *shall* be taken to verify the founder, the managers/directors and the beneficiaries.

vii. **Professional Intermediaries**

When a professional intermediary opens a *client* account on behalf of a single client, that client must be identified. Professional intermediaries will often open "pooled" accounts on behalf of a number of entities. Where funds held by the intermediary are not co-mingled but where there are "sub-accounts" which can be attributable to each beneficial owner, all beneficial owners of the account held by the intermediary *shall* be identified. Where the funds are co-mingled, the *capital Market Operator shall* look through to the beneficial-owners. However, there may be circumstances that *Capital Market Operator* may not look beyond the intermediary (e.g. when the intermediary is subject to the same due diligence standards in respect of its client base as the *capital Market Operator*).

viii. Where such circumstances apply and an account is opened for an open or closed ended investment company (unit trust or limited partnership) also subject to the same due diligence standards in respect of its client base as the *capital Market Operator*, the following shall be considered as principals and the *capital Market Operator shall* take steps to identify them:

- (a) The fund itself;
- (b) Its directors or any controlling board (where it is a company)
- (c) Its Trustee (where it is a Unit Trust)
- (d) Its managing (general) partner (where it is a limited partnership)
- (e) Account signatories;
- (f) Any other person who has control over the relationship such as fund administrator or manager.

*shall* (ix) Where other investment vehicles are involved, the same steps be taken as in above (where it is appropriate to do so). In addition, all reasonable steps *shall* be taken to verify the identity of the beneficial owners of the funds and of those who have control over the funds.

*Capital* (x) Intermediaries shall be treated as individual clients of the *Market Operator* and the standing of the

intermediary *shall* be  
appropriate information

separately verified by obtaining the  
itemized above.

#### 4. **Non Face-to-Face Identification**

i. In view of possible false identities and impersonations that *may* arise with non face-to-face clients, additional measures/checks *shall* be undertaken to supplement the documentary or electronic evidence.

These additional measures/*checks* will apply whether the applicant is resident in Nigeria or elsewhere and *shall* be particularly robust where the applicant is requiring a margin facility or other product/service that offers money transmission or third party payments.

ii. Procedures to identify and authenticate the *client shall be put in place* to ensure that there is sufficient evidence either documentary or electronic to confirm his address and personal identity and to undertake at least one additional check to guard against impersonation *and* fraud.

iii. The extent of the identification evidence required will depend on the nature and characteristics of the product or service and the assessed risk.

a. If reliance is being placed on intermediaries to undertake the processing of applications on the *client* behalf, checks *shall* be undertaken to ensure that the intermediary are regulated for money laundering prevention and that the relevant identification procedures are applied. In all cases, evidence as to how identity has been verified *shall* be obtained and retained with the account opening records.

b. *Capital Market Operators shall* conduct regular monitoring of internet-based business/clients. If a significant proportion of the business is operated electronically, computerized monitoring systems /solutions that are designed to recognize unusual transactions and related patterns of transactions shall be put in place to recognize suspicious transactions. AML/CFT compliance officers are

required to review these solutions, record exemptions and report same quarterly to the *SEC* and NFIU.

**5. Establishing Identity for Refugees and Asylum Seekers**

- i. A refugee and asylum seeker may require a basic account without being able to provide evidence of identity. In such circumstances, authentic references from Ministry of Internal Affairs or an appropriate government agency shall be used in conjunction with other readily available evidence.
- ii. Additional monitoring procedures shall however be undertaken to ensure that the use of the account is consistent with the client circumstances and returns rendered quarterly to NFIU.

**6. Establishing Identity for Students and Minors**

- i. When opening accounts for students or other young persons, the normal identification procedures set out in this Manual *shall be* followed as far as possible. Where such procedures would not be relevant or do not provide satisfactory identification evidence, verification could be obtained:
  - a. via the home address of the parent(s); or
  - b. by obtaining confirmation of the applicant's address from his/her institution of learning; or
  - c. by seeking evidence of a tenancy agreement or student accommodation contract.
- ii. Often, an account for a minor will be opened by a family member or guardian. In cases where the adult opening the account does not already have an account with the *Capital Market Operator*, the identification evidence for that adult, or of any other person who will operate the account shall be obtained in addition to obtaining the birth certificate or passport of the child. It shall be noted that this type of account could be open to abuse and therefore strict monitoring shall be undertaken, and reports made and rendered quarterly to NFIU.
- iii. For accounts opened through a school-related scheme, the school shall be asked to provide the date of birth and permanent address of the pupil and to complete the standard account opening documentation on behalf of the pupil.

## **B. Quasi Corporate Clients**

### **1. Establishing Identity - Trust, Nominees and Fiduciaries**

- a. Trusts, nominee companies and fiduciaries are popular vehicles for criminals wishing to avoid the identification procedures and mask the origin of the criminal money they wish to launder. The particular characteristics of Trust that attract the genuine clients, the anonymity and complexity of structures that they can provide are also highly attractive to money launderers.
- b. Identification and "Know Your Business" procedures *shall* be set and managed according to the perceived risk, in trust, nominees and fiduciaries accounts.
- c. The principal objective for money laundering prevention via trusts, nominees and fiduciaries is to verify the identity of the provider of funds such as the settlor, those who have control over the funds (the trustees and any controller who have the power to remove the trustees). For discretionary or offshore Trust, the nature and purpose of the Trust and the original source of funding must be ascertained.
- d. Whilst reliance can often be placed on other *Capital Market Operators* that are to undertake the checks or confirm identity, the responsibility to ensure that this is undertaken rests with the *Capital Market Operator*. The underlying evidence of identity must be made available to law enforcement agencies in the event of an investigation.
- e. Identification requirements must be obtained and not waived for any trustee who does not have authority to operate an account and cannot give relevant instructions concerning the use or transfer of funds.

### **2. Offshore Trusts**

- a. Offshore Trusts present a higher money laundering risk and therefore additional measures are needed for Special Purpose Vehicles (SPVs) or International Business Companies connected to Trusts, particularly when Trusts are set up in offshore locations with strict bank secrecy or confidentiality rules. Those

created in jurisdictions without equivalent money laundering procedures in place *shall* warrant additional enquiries.

- b. Unless the *client* for business is itself a regulated **Capital Market Operator**, measures *shall* be taken to identify the Trust company or the corporate service provider in line with the requirements for professional intermediaries or companies generally.
- c. Certified copies of the documentary evidence of identity for the underlying principals such as settlors, controllers, etc. on whose behalf the *client* for business is acting, *shall* also be obtained.
- d. For overseas Trusts, nominee and fiduciary accounts, where the *client* is itself a **Capital Market Operator** that is regulated for money laundering purposes:
  - i. reliance can be placed on an introduction or intermediary certificate letter stating that evidence of identity exists for all underlying principals and confirming that there are no anonymous principals;
  - ii. the trustees/nominees shall be asked to state from the outset the capacity in which they are operating or making the application;
  - iii. documentary evidence of the appointment of the current Trustees shall also be obtained.
- e. Where the underlying evidence is not retained within Nigeria, enquiries shall be made to determine, as far as practicable, that there are no overriding bank secrecy or confidentiality constraints that will restrict access to the documentary evidence of identity, shall it be needed in Nigeria.
- f. Any application to open an account or undertake a transaction on behalf of another without the *client* identifying their Trust or Nominee capacity shall be regarded as suspicious and shall lead to further enquiries and rendition of reports to **SEC** and NFIU.
- g. Where a Capital Market Operator in Nigeria is itself the *client* to an offshore Trust on behalf of *its clients*, if the corporate Trustees are not regulated, then the Nigerian **Capital Market Operator shall** undertake the due diligence on the Trust itself.

- h. If the funds have been drawn upon an account that is not under the control of the Trustees, the identity of two of the authorized signatories and their authority to operate the account shall also be verified. When the identities of beneficiaries have not previously been verified, verification shall be undertaken when payments are made to them.

### 3. **Conventional Family and Absolute Nigerian Trusts**

- a. In the case of conventional Nigerian Trusts, identification evidence shall be obtained for:
  - i. those who have control over the funds (the principal trustees who may include the settlor);
  - ii. the providers of the funds (the settlors, except where they are deceased);
  - iii. Where the settlor is deceased, written confirmation shall be obtained for the source of funds (grant of probate or copy of the Will or other document creating the Trust).
- b. Where a corporate Trustee such as a bank acts jointly with a co-Trustee, any non-regulated co-Trustees *shall* be verified even if the corporate Trustee is covered by an exemption. The relevant guidance contained in this Manual for verifying the identity of persons, institutions or companies shall be followed.
- c. Although a *Capital Market Operator* may not review any existing Trust, confirmation of the settlor and the appointment of any additional Trustees *shall* be obtained.
- d. Copies of any underlying documentary evidence *shall* be certified as true copies. In addition, a check shall be carried out to ensure that any bank account on which the Trustees have drawn funds is in their names. Taking a risk based approach, consideration *shall* be given as to whether the identity of any additional authorized signatories to the account *shall* also be verified.
- e. It is a normal practice for payment of any trust property to be made to all the Trustees. As a matter of practice, some life assurance companies make payments directly to beneficiaries on receiving a request from the Trustees. In such circumstances, the payment *shall* be made to the named beneficiary by way of

a crossed cheque marked "*account payee only*" or a bank transfer direct to an account in the name of the beneficiary.

4. **Receipt and Payment of Funds**

- a. Where money is received on behalf of a Trust, reasonable steps *shall* be taken to ensure that:
  - i. the source of the funds is properly identified; and
  - ii. the nature of the transaction or instruction is understood.
- b. It is also important to ensure that payments are properly authorized in writing by the Trustees.

c. **Identification of New Trustees**

Where a Trustee who has been verified is replaced, the identity of the new Trustee shall be verified before he/she is allowed to exercise control over the funds.

d. **Life Policies Placed in Trust**

Where a life policy is placed in Trust, the client for the policy is also a Trustee and where the Trustees have no beneficial interest in the funds, it shall only be necessary to verify the identity of the person applying for the policy. The remainder of the Trustees would however need to be identified in a situation where policy proceeds were being paid to a third party not identified in the trust deed.

e. **Powers of Attorney and Third Party Mandates**

- (a) The authority to deal with assets under a Power of Attorney and Third Party Mandates constitutes a business relationship. Consequently, at the start of the relationship, identification evidence *shall* be obtained from the holders of powers of attorney and third party mandates in addition to the *clients* or subsequently on a later appointment of a new attorney, if advised, particularly within one year of the start of the business relationship. New attorney for corporate or Trust business shall always be verified. The most important requirement is for

*Capital Market Operator* to ascertain the reason for the grant of the power of attorney.

- (b) Records of all transactions undertaken in accordance with the Power of Attorney *shall* be maintained as part of the client's record.

**v. Executorship accounts**

- a. When an account is opened for the purpose of winding up the estate of a deceased person, the identity of the executor /administrator of the estate *shall* be verified.
- b. However, identification evidence would not normally be required for the executors/administrators when payment is being made from an established bank or mortgage institution's account in the deceased's name, solely for the purpose of winding up the estate in accordance with the Grant of Probate or Letters of Administration. Similarly, where a life policy pays out on death, there shall be no need to obtain identification evidence for the legal representatives.
- c. Payments to the underlying named beneficiaries on the instructions of the executor or administrator may also be made without additional verification requirements. However, if a beneficiary wishes to transact business in his/her own name, then identification evidence shall be required.
- d. In the event that suspicion *is* aroused concerning the nature or origin of assets comprising an estate that is being wound up,  
report is required to be rendered to NFIU.

**vi. Unincorporated Business/Partnerships**

- a. Where the *client* is an un-incorporated business or a partnership whose principal partners/controllers do not already have a business relationship with the *Capital Market Operators*, identification evidence shall be obtained for the principal beneficial owners/controllers. This would also entail identifying one or more signatories in whom significant control has been vested by the principal beneficial owners/controllers.
- b. Evidence of the trading address of the business or partnership *shall* be obtained.

- c. The nature of the business or partnership *shall* be ascertained (but not necessarily verified from a partnership deed) to ensure that it has a legitimate purpose. Where a formal partnership arrangement exists, a mandate from the partnership authorizing the opening of an account or undertaking the transaction and conferring authority on those who will undertake transactions *shall* be obtained

## c. Pure Corporate Clients

### 1. General Principles

- a. Complex organizations and their structures, other corporate and legal entities are the most likely vehicles for money laundering. Those that are privately owned are being fronted by legitimate trading companies. Care shall be taken to verify the legal existence of the client company from official documents or sources and to ensure that persons purporting to act on its behalf are fully authorized.

Enquiries shall be made to confirm that the legal person is not merely a "brass-plate company" where the controlling principals cannot be identified.

- b. The identity of a corporate company comprises:
  - i. registration number;
  - ii. registered corporate name and any trading names used;
  - iii. registered address and any separate principal trading addresses;
  - iv. *particulars of* directors;
  - v. owners and shareholders; and
  - vi. the nature of the company's business.
- c. The extent of identification measures required to validate this information or the documentary evidence to be obtained depends on the nature of the business or service that the company requires from the *capital Market Operator*. A risk-based approach shall be taken. In all cases, information as to the nature of the normal business activities that the company

expects to undertake with the *capital Market Operator shall* be obtained. Before a business relationship is established, measures shall be taken by way of company search at the Corporate Affairs Commission (CAC) and other commercial enquiries undertaken to check that the clients-company's legal existence has not been or is not in the process of being dissolved, struck off, wound up or terminated.

## 2. **Non Face-to-Face Business**

- i. As with the requirements for private individuals, because of the additional risks with non face-to-face business, additional procedures *shall* be undertaken to ensure that the *client* business, company or society exists at the address provided and it is for a legitimate purpose.
- ii. Where the characteristics of the product or service permit, care *shall* be taken to ensure that relevant evidence is obtained to confirm that any individual representing the company has the necessary authority to do so.
- iii. Where the principal owners, controllers or signatories need to be identified within the relationship, the relevant requirements for the identification of personal clients *shall* be followed.

## 3. **Low Risk Corporate Business**

### a. **Public Quoted Companies**

- i. Corporate *clients* that are listed on the *securities* exchange are considered to be publicly owned and generally accountable. Consequently, there is no need to verify the identity of the individual shareholders.
- ii. it is not necessary to identify the directors of a quoted company.
- iii. *Capital Market Operators* shall ensure that the individual officer or employee (past or present) is not using the name of the company or its relationship with the *capital Market Operator* for a criminal purpose. The Board Resolution or other authority for any representative to act on behalf of the company in its dealings with the *capital Market Operator shall* be obtained to confirm that the individual has the authority to act. Phone calls can be made to

the Chief Executive Officer of such a company to intimate him of the application to open the account *with the Capital Market Operator*.

- iv. No further steps *shall* be taken to verify identity over and above the usual commercial checks where the applicant company is:
  - a. Listed on a securities exchange; or
  - b. there is independent evidence to show that it is a wholly owned subsidiary or a subsidiary under the control of such a company.
- v. Due diligence shall be conducted where the account or service required falls within the category of higher risk business.

**b. Private /Public unquoted Companies**

i. Where the *client* is *a private/public unquoted company* and none of the principal directors or shareholders already have an account with the *Capital Market Operator*, the following documents shall be obtained from an official or recognized independent source to verify the business itself:

- a. a copy of the certificate of incorporation/registration, evidence of the company's registered address and the list of shareholders and directors;
- b. a search at the Corporate Affairs Commission (CAC) or an enquiry via a business information service to obtain the information in (a) above; and
- c. an undertaking from a firm of lawyers or accountants confirming the documents submitted to the Capital Market Operator.

ii. Attention shall be paid to the place of origin of the documents and the background against which they were produced. If comparable documents cannot be obtained, then verification of principal beneficial owners/controllers shall be undertaken.

4. **Higher Risk Business Relating to Private/Public unquoted Companies**

- i. For private **/public unquoted Companies** undertaking higher risk business (in addition to verifying the legal existence of the business) the principal requirement is to look behind the corporate entity to identify those who have ultimate control over the business and the company's assets. What constitutes significant shareholding or control for this purpose will depend on the nature of the company. Identification evidence is required to be obtained for those shareholders with interests of 5% or more.
- ii. The principal control rests with those who are mandated to manage the funds, accounts or investments without requiring authorization and who would be in a position to override internal procedures and control mechanisms.
- iii. Identification evidence *shall* be obtained for the principal-beneficial owner(s) of the company and any other person with principal control over the company's assets. Where the principal owner is another corporate entity or Trust, the objective is to undertake measures that look behind that company or vehicle and verify the identity of the beneficial- owner(s) or settlors. When *a Capital Market Operator* becomes aware that the principal-beneficial owners/controllers have changed, they *shall* ensure that the identities of the new ones are verified.
- iv. *Capital Market Operators shall* identify directors who are not principal controllers and signatories to an account for risk based approach purpose.
- v. where there is suspicion as a result of change in the nature of the business transacted or investment account, further checks *shall* be made to ascertain the reason for the changes .
- vi. Particular care shall be taken to ensure that full identification and "Know Your Clients" requirements are met if the company is an International Business Company (IBC) registered in an offshore jurisdiction.

5. **Foreign *Capital Market Operator***

- i. For foreign *Capital Market Operators*, the confirmation of existence and regulated status shall be checked by one of the following means:
  - a. checking with the home country's *Securities Market Regulator* or relevant supervisory body;
  - b. checking with another office, subsidiary *or* branch in the same country;
  - c. checking with the Nigerian regulated correspondent *Capital Market Operator* of the overseas *Operator*;
  - d. obtaining evidence of its license or authorization to conduct *Securities* business from the *Operator* itself.
- ii. In addition to the identity of the Principal Employer, the source of funding shall be verified and recorded to ensure that a complete audit trail exists if the employer is dissolved or wound up.
- iii. For the Trustees of Occupational Pension Schemes, satisfactory identification evidence can be based on the inspection of formal documents concerning the Trust which confirm the names of the current Trustees and their addresses for correspondence. In addition to the documents, confirming the trust identification can be based on extracts from Public Registrars or references from Professional Advisers or Investment Managers.
- iv. Any payment of benefits by or on behalf of the Trustees of an Occupational Pension Scheme shall require verification of identity of the recipient.
- v. Where individual members of an Occupation Pension Scheme are to be given personal investment advice, their identities shall be verified.
- vi. where the Trustees and Principal Employer have been satisfactorily identified (and the information is still current) it may be appropriate for the Employer to

provide confirmation of the identity of individual employees.

## 6. Other Institutions

### A. Charities in Nigeria

- i. Adherence to the identification procedures required for money laundering prevention purpose would remove the opportunities for opening unauthorised accounts with false identities on behalf of charities. Confirmation of the authority to act in the name of the charity is mandatory.
- ii. The practice of opening unauthorised accounts of this type under sole control is strongly discouraged. Accounts for charities in Nigeria are required to be operated by a minimum of two signatories duly verified and documentation evidence obtained.

### B. Registered Charities

- i. When dealing with an application from a registered charity, the *capital Market Operator shall* obtain and confirm the name and address of the charity concerned.
- ii. To guard against the laundering of fraudulently obtained funds (where the person making the application or undertaking the transaction is not the official correspondent or the recorded alternate) a *capital Market Operator* is required to send a letter to the official correspondence, informing him of the schemes application before it. The official correspondence shall be requested to respond as a matter of urgency especially where there is any reason to suggest that the application has been made without authority.
- iii. Applications on behalf of unregistered charities *shall* be dealt with in accordance with procedures for clubs and societies set out in *these Rules*.

### C. Clubs and Societies

- i. In the case of applications made on behalf of clubs or societies, a *capital Market Operator shall* take reasonable steps to satisfy itself as to the legitimate purpose of the organisation by sighting its constitution. The identity of at least two of the principal contact persons or signatories shall be verified initially in line with the requirements for private individuals. The signing authorities *shall* be structured to ensure that at least two of the signatories that authorize any transaction has been verified. When signatories change, *Capital Market Operators shall* ensure that the identities of at least two of the current signatories are verified.
- ii. Where the purpose of the club or society is to purchase the shares of regulated investment company or where all the members would be regarded as individual clients, all the members in such cases are required to be identified in line with the requirements for personal clients.
- iii. *Capital Market Operators* are required to look at each situation on a case –by case basis.

#### **D. Occupational Pension Schemes**

In all transactions undertaken on behalf of an Occupational Pension Scheme where the transaction is not in relation to a long term policy of insurance, the identities of both the Principal Employer and the Trust are required to be verified.

#### **E. Religious Organizations (ROs)**

A religious organisation is expected by law to be registered by the Corporate Affairs Commission (CAC) and shall therefore have a registered number. Its identity can be verified by reference to the CAC, appropriate headquarters or regional area of the denomination. As a Registered organisation, the identity of a least two signatories to its account *shall* be verified.

#### **F. Three-Tiers of Government/Parastatals**

Where the client for business is any of the above, the *capital Market Operator shall* verify the legal standing of the applicant, including its principal ownership and the address. A certified copy of the Resolution or other documents authorizing the opening of the account or to undertake the transaction *shall* be obtained in addition to evidence that the official representing the body has the relevant authority to act.

Telephone contacts *shall* also be made with the Chief Executive Officer of the organisation/parastatals concerned, intimating him of the application to open the account with the *capital Market Operator*.

#### **G. Foreign Consulates**

The authenticity of clients that request to undertake transactions with Capital Market Operators in the name of Nigerian-resident foreign consulates and any documents of authorization presented in support of the application *shall* be checked with the Ministry of Foreign Affairs or the relevant authorities in the Consulate's home country.

### **26. INTERMEDIARIES OR OTHER THIRD PARTIES TO VERIFY IDENTITY OR TO INTRODUCE BUSINESS**

#### **A. Who to rely upon and the circumstances**

Whilst the responsibility to obtain satisfactory identification evidence rests with the *capital Market Operator* that is entering into the relationship with a client, it is reasonable, in a number of circumstances, for reliance to be placed on another *capital Market Operator to:*

- i. undertake the identification procedure when introducing a clients and to obtain any additional KYC information from the client; or
- ii. confirm the identification details if the clients is not resident in Nigeria; or
- iii. confirm that the verification of identity has been carried out (if an agent is acting for underlying principals ).

#### **B. Introductions from Authorised Financial Intermediaries**

- i. Where an intermediary introduces a client and then withdraws from the ensuing relationship altogether, then the underlying clients has become the applicant for the business. He *shall* be identified in line with the requirements for personal, corporate or business clients as appropriate.
- ii. An introduction letter *shall* be issued by the introducing *capital Market Operator* or person in respect of each applicant for business. To ensure that product-providers meet their

obligations, that satisfactory identification evidence has been obtained and will be retained for the necessary statutory period, each introduction letter *shall* either be accompanied by certified copies of the identification evidence that has been obtained in line with the usual practice of certification of identification documents or by sufficient details/reference numbers, etc that will permit the actual evidence obtained to be re-obtained at a later stage.

C. **Written Applications**

For a written application (unless other arrangements have been agreed that the service provider will verify the identity itself) *an* intermediary *shall* provide along with each application, the clients's introduction letter together with certified copies of the evidence of identity which shall be placed in the clients' file.

D. **Non-Written Application**

Unit Trust Managers and other product providers receiving non-written applications from financial intermediaries (where a deal is placed over the telephone or by other electronic means) have an obligation to verify the identity of clients and ensure that the intermediary provides specific confirmation that identity has been verified. A record *shall* be made of the answers given by the intermediary and retained for a minimum period of five years.

E. **Introductions from Foreign Intermediaries**

Where introduced business is received from a regulated financial intermediary who is outside Nigeria, the reliance that can be placed on that intermediary to undertake the verification of identity-check *shall* be assessed by the *Compliance officer* or some other competent persons within the *Capital Market Operator* on a case by case basis based on the knowledge of the intermediary.

F. **Corporate Group Introductions**

- i. Where a client is introduced by one part of a financial sector group to another, it is not necessary for identity to be re-verified or for the records to be duplicated provided that:
  - a. the identity of the clients has been verified by the introducing parent company, branch, subsidiary or associate in line with the money laundering requirements

- to equivalent standards and taking account of any specific requirements such as separate address verification;
- b. no exemptions or concessions have been applied in the original verification procedures that would not be available to the new relationship;
  - c. a group introduction letter is obtained and placed with the clients' account opening records; and
  - d. in respect of group introducers from outside Nigeria, arrangements shall be put in place to ensure that identity is verified in accordance with requirements and that the underlying records of identity in respect of introduced clients are retained for the necessary period.
- ii. Where *a Capital Market Operator* have day-to-day access to all the Group's "Know Your *Client*" information and records, there is no need to identify an introduced clients or obtain a group introduction letter if the identity of that *clients* has been verified previously. However, if the identity of the clients has not previously been verified, then any missing identification evidence will need to be obtained and a risk-based approach taken on the extent of KYC information that is available on whether or not additional information shall be obtained.
  - iii. *Capital Market Operators shall* ensure that there is no secrecy or data protection legislation that would restrict free access to the records on request or by law enforcement agencies under court order or relevant mutual assistance procedures. If it is found that such restrictions apply, copies of the underlying records of identity *shall*, wherever possible, be sought and retained.
  - iv. Where identification records are held outside Nigeria, it *shall be* the responsibility of the *Capital Market Operators* to ensure that the records available do, in fact, meet the requirements in this Manual.

#### **G. Business Conducted by Agents**

- i. Where an applicant is dealing in its own name as agent for its own *client*, a *Capital Market Operator shall*, in addition to verifying the agent, establish the identity of the underlying client.

- ii. A **capital Market Operator** may regard evidence as sufficient if it has established that the client:
  - a. is bound by and has observed this Manual or the provisions of the Money Laundering (Prohibition) Act, **as amended**; and
  - b. is acting on behalf of another person and has given a written assurance that he has obtained and recorded evidence of the identity of the person on whose behalf he is acting.
- iii. Consequently, where another **capital Market Operator** deals with its own client (regardless of whether or not the underlying **client** is disclosed to the **capital Market Operator**) then:
  - a. where the agent is a **capital Market Operator**, there is no requirement to establish the identity of the underlying clients or to obtain any form of written confirmation from the agent concerning the due diligence undertaken on its underlying clients; or
  - b. where a regulated agent from outside Nigeria deals through a clients omnibus account or for a named **clients** through a designated account, the agent shall provide a written assurance that the identity of all the underlying **clients** has been verified in accordance with their local requirements.
  - c. Where such an assurance cannot be obtained, then the business shall not be undertaken.
  - d. In circumstances where an agent is either unregulated or is not covered by the relevant money laundering legislation, then each case **shall** be treated on its own merits. The knowledge of the agent will inform the type of the due diligence standards to apply.

#### H. Correspondent Relationship

- i. Transactions conducted through correspondent relationships need to be managed, taking a risk-based approach. "Know Your Correspondent" procedures are required to be established to ascertain whether or not the correspondent **Capital Market**

*Operator* or the counter-party is itself regulated for money laundering prevention. If regulated, the correspondent, *Capital Market Operator* is required to verify the identity of its *clients* in accordance with FATF-standards. Where this is not the case, additional due diligence will be required to ascertain and assess the correspondent *Capital Market Operator internal* policy on money laundering prevention and know your clients procedures.

- ii. The volume and nature of transactions flowing through correspondent accounts with *Capital Market Operator* from high risk jurisdictions or those with inadequacies or material deficiencies shall be monitored against expected levels, destinations and any material variances shall be checked.
- iii. *Capital Market Operators shall* maintain records of having ensured that sufficient due diligence has been undertaken by the remitting bank on the underlying client and the origin of the funds in respect of the funds passed through their accounts.
  - a. *Capital Market Operators shall* guard against establishing correspondent relationships with high risk foreign banks (e.g. shell banks with no physical presence in any country) or with correspondent banks that permit their accounts to be used by such banks.

#### **I. Acquisition of One *Capital Market Operator*/Business By Another**

- i. When one *Capital Market Operator* acquires the business and accounts of another *capital Market Operator*, it is not necessary for the identity of all the existing clients to be re-identified, provided that all the underlying clients' records are acquired with the business. It is, however, important to carry out due diligence enquiries to confirm that the acquired *operator* had conformed with the requirements in this Manual.
- ii. Verification of identity shall be undertaken as soon as it is practicable for all the transferred clients who were not verified by the transferor in line with the requirements for existing *clients* that open new accounts, where:

- a. the money laundering procedures previously undertaken have not been in accordance with the requirements of this Manual;
- b. the procedures cannot be checked; or
- c. the clients-records are not available to the acquiring *Capital Market Operator*.

## 27. RECEIVING CAPITAL MARKET OPERATORS AND AGENTS

### A. Vulnerability of Receiving Bankers and Agents to Money Laundering

Receiving *Capital Market Operators* may be used by money launderers in respect of offers for sale where new issues are over-subscribed and their allocation is scaled down. In addition, the money launderer is not concerned if there is a cost involved in laundering criminal money. New issues that trade at a discount will, therefore, still prove acceptable to the money launderer. Criminal funds can be laundered by way of the true beneficial-owner of the funds providing the payment for an application in another person's name, specifically to avoid the verification process and to break the audit trail with the underlying crime from which the funds are derived.

### B. Who shall be identified?

- i. *Receiving Capital Market Operators* shall obtain satisfactory identification evidence of new applicants, including such applicants in a rights issue where the value of a single transaction or a series of linked transactions is US\$1,000 or its equivalent for foreign transfers or N250,000 for individuals and N500,000 for corporate body or more.
- ii. If funds to be invested are being supplied by or on behalf of a third party, it is important that the identification evidence for both the applicant and the provider of the funds are obtained to ensure that the audit trail for the funds is preserved.

### C. Applications Received via Brokers

- i. Where the application is submitted (payment made) by a broker or an intermediary acting as agent, no steps need be taken to

verify the identity of the underlying applicants. However, the following standard procedures apply:

- a. The lodging agent's stamp shall be affixed on the application form or allotment letter; and
  - b. Application/acceptance forms and cover letters submitted by lodging agents shall be identified and recorded in the *capital Market Operator's* records.
- ii. The terms and conditions of the issue *shall* state that any requirements to obtain identification evidence are the responsibility of the broker lodging the application and not the receiving *capital Market Operator*.
  - iii. Where the original application has been submitted by a regulated broker, no additional identification evidence will be necessary for subsequent calls in respect of shares issued and partly paid.

**D. Applications Received from Foreign Brokers**

If the broker or other introducer is a regulated person or institution (including an overseas branch or subsidiary) from a country with equivalent legislation and financial sector procedures, and the broker or introducer is subject to anti-money laundering rules or regulations, then a written assurance can be taken from the broker that he/she has obtained and recorded evidence of identity of any principal and underlying beneficial owner that is introduced.

**E. Multiple Family Applications**

- i. Where multiple family applications are received supported by one cheque and the aggregate subscription price is US\$1,000 or its equivalent for foreign transfers; and N250,000 or more for an individual person, then identification evidence will not be required for:
  - a. a spouse or any other person whose surname and address are the same as those of the applicant who has signed the cheque;
  - b. a joint account holder; or
  - c. an application in the name of a child where the relevant company's Articles of Association prohibit the registration

in the names of minors and the shares are to be registered with the name of the family member of full age on whose account the cheque is drawn and who has signed the application form.

- ii. However, identification evidence of the signatory of the financial instrument will be required for any multiple family application for more than US\$1,000 or its equivalent for foreign transfers; or more than N250, 000 for an individual; or more than N500, 000 for a body corporate where such is supported by a cheque signed by someone whose name differs from that of the applicant. Other monetary amounts or more may, from time to time, be stipulated by any applicable money laundering legislation/guidelines.
- iii. Where an application is supported by a *financial institution's* branch cheque or brokers' draft, the applicant shall state the name and account number from which the funds were drawn:
  - a. on the front of the cheque; or
  - b. on the back of the cheque together with a branch stamp;or
  - c.. providing other supporting documents.

#### F. **Linked Transactions**

- i. If it appears to a person handling applications that a number of single applications under US\$1,000 and N500, 000 in different names are linked (e.g. payments from the same *capital Market Operator* account) apart from the multiple family applications above, identification evidence *shall* be obtained in respect of parties involved in each single transaction.
- ii. Installment payment issues *shall* be treated as linked transactions where it is known that total payments will amount to US\$1,000 or its equivalent for foreign transfers or N250,000 for an individual; or N500,0000 for body corporate or such other monetary amounts as may, from time to time, be stipulated by any applicable money laundering legislation or guidelines. Either at the outset or when a particular point has been reached, identification evidence *shall* be obtained.

- iii. Applications that are believed to be linked and money laundering is suspected *shall* be processed on a separate batch for investigation after allotment and registration has been completed. Returns with the documentary evidence are to be rendered to the NFIU accordingly. Copies of the supporting cheques, application forms and any repayment-cheques shall be retained to provide an audit trail until the receiving *Capital Market Operator* is informed by NFIU or the investigating officer that the records are of no further interest.

## 28. EXEMPTION FROM IDENTIFICATION PROCEDURES

Where a client's identity was not properly obtained as contained in this Manual and Requirements for Account Opening Procedure, *Capital Market Operators shall* re-establish the client's identity in line with the contents of this Manual, except where it concerns:

### i. **Nigerian *Capital Market Operators***

Identification evidence is not required where the client for business is a Nigerian *capital Market Operator* or person covered and regulated by the requirements of this Manual.

### ii. **One-off Cash Transaction (Remittances, Wire Transfers, etc)**

Cash remittances and wire transfers (either inward or outward) or other monetary instruments that are undertaken against payment in cash for clients who do not have an account or other established relationship with the *capital Market Operator* (i.e. walk –in clients) present a high risk for money laundering purposes. It is therefore required that adequate procedures are established to record the transaction and relevant identification evidence taken, where necessary. Where such transactions form a regular part of the *Capital Market Operator's* business, the limits for requiring identification evidence of US \$1,000 or its equivalent for foreign transfers; N250,000 for individual and N500,000 for a corporate body must, however, be observed.

### iii. **Re-investment of Income**

The proceeds of a one-off transaction can be paid to a client or be further re-invested where records of his identification requirements were obtained and kept. In the absence of this his/her identification requirements *shall* be obtained before the proceeds are paid to him or

be re-invested on his behalf in accordance with the relevant provision of this Manual.

29. **SANCTIONS FOR NON-COMPLIANCE WITH KYC**

Failure to comply with the provisions contained in this Manual will attract appropriate sanction in accordance with Money Laundering Act/Combating Financing Terrorism laws and as detailed in the Anti Money Laundering Act/Combating Financing Terrorism section of this Manual.