

**Operational Instruction of  
Anti-Money Laundering  
Regulation in  
Bank Saderat Iran**

## CHAPTER ONE

### PRELIMINARY CONSIDERATION

#### **1- The necessity of Fighting against Money Laundering in Financial Institute.**

Concealing the origin of funds generated by illegal means through Banks or Financial Institute is a significant success for a criminal, hence Banks and financial sectors have a crucial role in fighting against this matter. When a country specially its Bank or Financial institute is condemned of eluding international accepted Anti-Money Laundering regulations, it would confront heavy and uncompensated consequences in case of reputation risk and so on which will classify it among untrusted financial centers.

Practically, Respecting Anti-Money Laundering regulations is difficult and sometimes in conflict with Bank's legal duty which consist of the security aspect of ones account and Bank's trustworthiness toward their customers; however, Banking system would benefit from executing such severity in financial transactions.

Historically, traditional Banking system is always more in danger of entrance money laundering operation. Yet, implementing Anti-Money Laundering regulation has made criminals utilizing other channels and process, therefore they try to disguise the origin of money obtained

through illegal activities by mixing with legal funds in order to make the trace difficult.

Money Laundering mostly is done through financial and money brokers in their own name or others by following procedures:

- Depositing any kind of property obtained through illegal activity (including cash or Bank document) in Bank or financial institute.
- Transferring the funds of a criminal activity through a bank or financial institute to another Bank or financial institute.
- Payment or utilizing money obtained from an illegal activity by a Bank or financial institute.
- Endowment or present any kind of property comes from illegal activity to others (through Bank Services)
- Converting the money of illegal activity to foreign exchange currency, security or other financial transactions.

## **2- What is Money Laundering?**

It is a process by which the dirty money, comes from a criminal action, convert and look like to a legal and legitimate money and the criminal source would be hard to find. Criminals try to vanish the illegal source of money by Banking system, so the major purpose of Anti-Money Laundering regulation is to stop money launderers abusing Banking system and financial sectors. All the branches and their subsidiaries should note that their Banking operation may hold different risks. For example, current account is more susceptible of money laundering as its

nature consists of crediting frequently by third parties or by different kinds of money orders. Meanwhile Money launderers may take the advantage of legal entities. So, precise identification of an established company is considered as an elementary factor. Also some geographic region in the country such as free commercial zone, frontier's province and the countries which does not execute Anti-Money regulation is known as a high risk one.

### **3- Money Laundering process**

Money Laundering process has tree steps:

#### **3-1- Placement**

The first stage is inserting the dirty money into an official financial network for the purpose of conversion or changing the origin or the ownership of the property. These monies usually place into financial system by dividing large amounts into limited ones. By this way, deposited amount (less than the ceiling value specified for report) transfers to abroad and reclaim immediately. This is the most common method used by criminals (if there is no ceiling value in cash transaction for report).

Other method of money washing cycle is using close family or other's name that is in connection with the criminals. Establishing fake companies or companies which basically based for the aim of money laundering in a region with easy regulation is another way.

Other procedure is used mostly by minority nations. Immigrants collect their little money in a Joint Account, so that account frequently is

credited in little amounts by different people without any special relationship. It is important to mention that using such method by immigrants is legal but sometimes criminals abuse it.

### **3-2- Layering**

In the course of layering there is the first attempt at concealment or disguise of the illegal source by creating complex layers of financial transactions (transferring) designed to disguise the audit trail and provide anonymity.

Layering may consist of transferring deposits held with a bank or financial institute to other Bank or institute, changing cash deposits to other kind of monetary document like securities, stocks or travelers' check.

### **3-3- Integration**

At this stage, the money is integrated or covered by a legitimate look in order to obscure its origin. After a successful layering process it is the time for criminals to re-enter the money into the official and legal economy cycle.

Popular Methods to money launderer at this stage of the game are: transferring the illegitimate property to the people or companies who are in connection with criminals in different ways, establishment of some covering or fake companies and etc.

## CHAPTER TWO

### KNOW YOUR CUSTOMER PRINCIPLES

Presenting any kind of Banking Service or transaction without complete identification of the customer is forbidden. Establishing enough information about customers is an elementary factor of Anti-Money Laundering process and is a weapon for fighting against washing properties gained by a crime in Banks and financial institute. So following points should be considered in executing a business contact with customers.

There are two groups of customers in a branch; permanent and temporary customer. Permanent customer is continuously in connection with the branch, while temporary customer is not, like one who refers a bank to ask for F/X money order against cash and after finishing such operation the relationship would end. Another division is based on the type of operation; one ends after an execution and one occur frequently such as the operation of Current Accounts.

#### **A- Identification of Individual Customer/Real person**

Identifying your customer is a principal part of an operation in a branch. In determining the policy to accept a customer, it is required to take complete and necessary data regarding business field or occupation of the

customer in order to use when confronting a suspicious and complex operation which is in conflict of usual standards of customer's occupation.

In case of such a matter, more research must be done and suspicious point must be reported to competent authorities.

Before opening any kind of account for a customer, following information (if necessary, proven by supporting documents) is inquired:

- ✓ The intention of the customer for opening an account and initiating a relationship with Bank ( of course the purpose of utilization of some financial transactions including credit card or debit card, is clear)
- ✓ The nature of the required operation and prospected financial cycle
- ✓ The source of utilized money (source of most monies are clarified for ex. Monthly salary or premium of a customer credited to his/her account by an employer)
- ✓ Details and information about customer's occupation, employers and etc.
  - All above information must be updated each five years by the branch and its subsidiaries and the last and changed data must be controlled and kept in customer's file.
  - When a suspicious point is seen in presented document of the customer, potential customer, representative or proxy of the customer and he/she avoids submitting the required supporting document or information, Branch and its subsidiaries must inquire the case with the Bank Anti-Money

Laundering Committee in order to be capable of presenting Bank Services to the customer

### **A-1- Individual Iranian Person**

1-1- Supporting documents for Individual customer's Identification consist of:

- Identity Card
- National Card
- Valid Driving Licence Certificate
- Valid Passport

The identity of the customer must be obtained by one of the above mentioned documents and a copy must be kept in the customer's file. It is important to note that the content of copy must be complied with the original document and such a matter must be confirmed by below statement:

"True copy of the original". It also must be signed by one of the authorized signatory.

**1-2- Identification of Individual Customer must consist of following information:**

- ✓ Complete name, ID number, Issuance place, Birth date
- ✓ Occupation

- ✓ Complete address along with supporting document or other proving and reliable methods (including ownership or rental document, telephone voucher,...)

### **1-3-When the Identification must be applied?**

- Opening any kind of account
- Executing random operation or two or more related transactions in which the value is more than determined amount in Anti-Money Laundering regulation

#### **Attention:**

- Applying once "Know Your Customer Principals" for once and record it in a file, subject to the regulations is enough for further customer's operation
- Applying customer's identification along with his/her signature is essential in issuance of Guaranteed Check , selling Travelers' check and Check's redemption.
- It is evident that transaction whose value is less than what is determined or exempted from the regulations shall be treated according to pertained rules by the branch and its subsidiaries.

### **1-4- Identification of Individual Customer in opening an account must be obtained by at least one of following procedures:**

1-4-1- Obtain a valid testimony signed by at least one of the well-known or trusty customer of the bank. In this regard, a testimony

issued by one of the banks, financial & credit institute authorized by Bank Markazi Iran, governmental organization or entity, professional centers including Justice Attorney center, Justice expert center and etc) is acceptable.

1-4-2- Obtain continuous records of customer's financial operation data if any in other banks

1-4-3- Obtain information mentioned in trading licence or employment certificate of the customer.

## **A-2- Foreign Individual Customer**

Identification of foreign individual customer applies by following data and documents:

- A copy of passport complies with the original
- Permanent residential address based on its supporting document.
- A testimony by two reliable and well-known customers, or by one governmental institute or foreign consulate, Banks or foreign valid financial institute
- An obligation or statement regarding not having financial contravention in other countries.
- The presence of foreign individual customer and completion of current account card by himself in front of the bank's clerk is essential in opening a current account. But in opening other accounts, submitting an official mandate confirmed by embassies or Iranian consulate is acceptable.

### **A-3-Nominated Party Acting on Behalf of a Third Party**

It is important to note that the customer is one who refers to the bank himself. If a person request a financial operation on behalf of a party, it is essential to implement Know Your Customer Principal either for the person who acts as the representative or proxy of your customer also for the main customer

- Identification of representative or proxy of the customer is the same as the individual customer
- It is not required to identify a representative of a customer when he is a well- known customer of the branch and has an account in that branch.
- If there is a doubt in the title of the applicant, whether he is the principal customer or the proxy, according to the documents and affiants, and the applicant avoids providing expected document and information, presenting Banking service is allowed just After confirmation of the director, his assignee or Anti- Money Laundering Committee of the bank.

### **B- Identification of Legal Entity/Company**

The structure of a company (especially private companies) is so susceptible of being abused by money launderers. Hence the branch and its subsidiaries must precisely know their legal entity customer by following procedures:

- Obtain needful information regarding the structure and legal form of the company.
- Obtain enough information about the nature and entity of legal entity's activity
- Obtain enough information regarding the main shareholders, company's controllers, resource suppliers and etc.
- Take the latest changes of memorandum of the company

**Necessary Documents of a Company Customer in Opening an Account:**

- The original deed of establishment of the company, institute, organization & ...
- Memorandum of the company
- Other valid and supporting document depends on branch decision.

**Needful Information in Identifying a Company Customer:**

- ✓ The business of customer's activity
- ✓ Financial statement
- ✓ Name and residence of the company

- ✓ Information about establishers, manager, directorate members, main shareholders (more than 20pct), independent auditor, legal inspector and etc.
  - ▲ The accuracy of the company's address must be confirmed by a proper way or even by direct reference to the advised address by the branch or its subsidiaries.
  - ▲ It is not allowed to open an account in the name of a shop, institution or company which is not registered officially and their incorporated entity is not confirmed. In this case, the account must be opened in the name of the owner or owners and the requested title can be mentioned after the owner's name in parentheses.

## **4- Iranian Company**

### **4-1- commercial company**

Opening an account for an Iranian commercial company requires following documents:

4-1-1- A copy "complied to the original" of memorandum

4-1-2- A copy of the first registration announcement and last formal announcement of the company published in an official newspaper consist of following information:

- ✓ complete name and family name and identity of the members of Board of directors, executive managers,

independent auditor(s) and legal inspector(s) of the company

- ✓ The identities of authorized signatory specifying who are authorized to debit the account of company.
- ✓ The period and extent of the authority for the members of directorate and executive managers.

4-1-3- First and last name and identity of the main shareholders (more than 20 PCT)

4-1-4- The right of opening an account and Banking operation must be clarified in memorandum of the company.

4-1-5- Managers and openers of the account must undertake in writing to submit urgently the last document and data of the company to the branch including any changes in memorandum or decision of the directorate regarding opening account, execution Banking operation, titles, authority, and the duty length of managers, signatories and main shareholders (more than 20PCT)

#### **4-2- non-commercial institute and organization**

Opening an account for an Iranian non-commercial company requires following document:

4-2-1- A copy of the first registration announcement and last formal announcement of the company published in an official newspaper consist of:

- ✓ First and last name and identity of board of directors/executive committee/general secretary and etc.

- ✓ The identity of authorized signatory specifying who are authorized to debit the account of non-commercial institute.
- ✓ The length and extent of the authority for board of directors/executive committee /general Secretary , ...

4-2-2- Openers of the account must undertake in writing to submit urgently the latest document and data of the company to the branch including any changes in memorandum or decision of the directorate/ executive committee/ general secretary/... regarding opening account , execution banking operation, titles, authority and the duty length of managers and signatories.

### **5-Foreign Company/Incorporation**

Opening an account in the name of a foreign company including commercial, non-commercial, charities, and ... requires following document and information:

5-1- Company's registration certificate in the residence of its business (confirmed by chamber of commerce and consulate of company's place of business).

5-2- Board of directors, executive committee and signatories length and extent of authority

5-3- Identification of the parties mentioned in item 5-2(a copy of valid passport)

5-4- The opening right of an account must be preplanned in the memorandum of the company

5-5- The latest valid financial statement of the company

5-6- A testimony issued by a Bank or a reliable financial or nonfinancial institute in the country of the company or by a consulate of the foreign company (in case of submitting a testimony by a customer, the Branch must be assured of its accuracy)

- ❖ Submitted documents by a foreign customer must be along with its official translation.

## **6- e-Transaction**

Rapid promotion of offering banking services (including TeleBanking, e-Banking & etc) has provided new vision in customer's identification in Banks. Such new services which conclude attendance of the customer for opening an account or using services, caused some complexity in customer's identification and also facilitate money laundering via Banks and Financial Institute. Hence it is essential to investigate about customers identification in e-Transactions based on below aims:

- Ensure of the accuracy of customer's identification.
- Ensure of not using wrong or delusive name, residential and occupational address

In order to reduce such customer's identification risk, Banks must consider below procedures:

- Customer's physical presence for opening an account in Bank is necessary (according item 1 to 5 of this chapter)
- Contact residential or occupational telephone number of the customer independently
- Get information from the employer
- Obtain salary fiche or Bank statement

## **7- Correspondent Banking**

The concept of "correspondent Banking" refers to the services pertained to current account, or other accounts used as financial source management by correspondent Banking client. Such customers (Including Banks, non bank credit institute, agiotage , investment fund or company, retirement fund, Gharzol- Hassaneh fund, lizing and other similar companies ) are institutes which settle money interchanges of their customer via above mentioned accounts.

Branch acting as correspondent must follow below procedures before opening an account:

- 1- Evaluate supervisions of Anti-Money Laundering process execute by applicant's institute. (operate proper policy in acceptance and identification of the customer)
- 2- Obtain enough information from applicant's institute as following:
  - 2-1- Purpose of opening an account

2-2- Structure , management methods, region and type of activity, reputation and reliability of the applicant's institute.

2-3- Supervision methods on applicant's institute

2-4- Obtain third parties identification (including individual customer and company) using correspondent services.

3- Obtain superior manager's confirmation before commencement any correspondent relationship.

Branch must note not to start or continue correspondent relationship with shell Banks<sup>1</sup>.

## **8- Random Transaction**

Random transaction refers to the operation or service which its value is more than the ceiling amount (it is currently IRR100,000,000) and also the customer is unknown or there is no file or record regarding his/her identification, therefore Branch must do needful action for customer's identification in order to present service or any operation.

If the customer is identified by other Banks and accessing to those records and information along with that Bank's confirmation is possible, the Branch is able to present the requested services to the customer based on above mentioned data. Some type of Random transaction:

8-1- Dealing Foreign Exchange in a day including cash, money order, travelers' check , ... more than the ceiling amount mentioned in

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(1):Shell Bank: Financial institute which is not registered by a fix address in a juridical region , not have one or more full time clerk, not registered their transaction operations in a specified address, have no operational authority or not be under any supervisory organization.

Anti-Money Laundering regulation is forbidden for those who has no identification record or needful document.

8-2-Collecting document, draft, and checks more than the ceiling amount i/e IRR100,000,000) submitted by customer having no legal account must be done after obtaining necessary document and muniment.

8-3- Cash receiving and payment (more than the ceiling amount) by temporary customer must be execute after complete identification and documentation.

8-4- Payment order (more than the ceiling amount) to in or out of the country or if the applicant or beneficiary has no account in bank, paying the fund of payment order(more than the ceiling amount) must be execute after submitting customer's identification document.

8-5- Renting safe deposit box without having an account with bank is not possible for the customer. Therefore he/she is required to open an account and be identified property by the bank.(customer's identification in renting a safe deposit box does not depend on the determined amount in Anti-Money Laundering regulation and it is mandatory .

8-6- Issuing any type of guarantee (including tender, performance, advance payment, and retention money guarantee) for account holders or customer's without record is possible.

8-7- Issuing letter of credit must be after Buyer and Seller's identification and according to its relevant regulations.

8-8- Buying and selling Bonds must be after customer's identification.

**Attention:** Presenting Banking Service which its value is less than the ceiling amount in Anti-Money Laundering regulation in financial institute must be according to the terms and instructions.

## CHAPTER THREE

### SUSPICIOUS BANKING OPERATION AND REPORTING METHODS

Branch must note that respecting terms of "Know Your Customer Principals" is the base of detecting suspicious and unusual transaction. When the branch execute a business contact with the customer, it must access enough information regarding his/her occupation and type of activity being able of determining suspicious transaction , not matching customer's business and professional pattern or legal and legitimate operation. Following points must be considered:

1- Director of the Branch must control continuously all daily Banking transaction and operation of the customers enabling Bank to distinguish suspicious operation. If a clerk reports such a matter, the issue must be investigated and in case of confirmation, the process must be reported urgently, directly and privately along with completed pertained forms to the manager of Anti-Money Laundering Supervision Committee.

2- In absence of the director, above mentioned responsibility rely on his/her substitute.

3-Non of the directors or Bank clerks ore authorized to provide customer or a third party his/her suspicious case.

4- If a permanent or temporary customer ask a suspicious Banking Service after submitting his/her identification document, Bank must

execute customer's request, however, the essential report as described in item 1 must submit to the responsible committee.

5- Presenting Banking Services to a customer unable to supply needful identification document as explained in this instruction is forbidden.

### **Some Type of Suspicious Banking Operation**

- 1- Absence of presenting the necessary information asked by Bank or failure in accuracy or validity of document.
- 2- Sudden activation of a dormant and inactive account without a logical legitimization.
- 3- Request of execution a complex or illegal Banking operation or what that has not a legal or economical legitimization.
- 4- Request of Money Transfer (more than the specified ceiling amount) From/To an account in another Bank or out of the country through Payment Order, checks and Electronic Transfer. (especially when the request does not comply with the occupational nature of the customer or no beneficiary name is introduced)
- 5- Conflict between the value and number of deposit placement or totally in Account statement cycle with the occupational nature and the submitted information of the customer.
- 6- Exchanging cash amount (more than the ceiling) to another currency.

- 7- Crediting large amount from various Bank account or by different people to an special account during a short period and without any legitimation in a way that the total crediting amount exceeds the ceiling amount.
- 8- Unexpected refund of an undue loan or letter of credit (if the value is more than the ceiling amount) in a short time which is in conflict with the submitted information of the loanee.
- 9- Default an over due loan or letter of credit with the purpose of possessing an illegal pledge by the Bank
- 10-Unusual increase in the balance of an account or hold an inactive account (more than the ceiling amount specified in Anti-Money Laundering regulation) without any logical reason.
- 11-Frequent operation or transaction which the value is less than the specified amount in Anti-Money Laundering regulation in order not to apply the regulation.
- 12- Issuing numerous extra amount checks without adaption to the occupational nature of the customer and making an artificial account statement.
- 13-Unreasonable change of the beneficiaries' name in an L/C
- 14-Request of not presenting an inspection certificate as a required document of letter of credit with due attention to the type of goods and other conditions of the L/C.
- 15-Unreasonable request of not presenting a certificate of origin issued by local Chamber of Commerce

16-No proportion between the cost of goods mentioned in Profoma Invoice of the Beneficiary and the global cost, similar cases or previous records

17-Emphasis on an unusual shipping means in the condition of L/C with due attention to the type, origin and destination of the goods.(ex: shipping of goods by a charter party bill of lading )

18-Emphasis on using abbreviated and unknown name of the applicant or beneficiary of the L/C.

**Regarding article 21 of Anti-Money Laundering regulation, the Report of Suspicious Operation must include following information in the frame of pertained forms mentioning essential details addressed to the competent authority.**

- 1- Type of operation
- 2- Data, time and the sum of transaction
- 3- Identification and address of the applicant
- 4- Identification of the beneficiary
- 5- Account numbers utilized for the transaction or banking operation
- 6- Indications and evidences caused suspicion

## CHAPTER FOUR

### **KEEPING RECORDS (INFORMATION)**

#### **1- Procedures of Keeping Records in Branch/Section**

The method of keeping records should be in a way to facilitate tracing any commercial operation and transaction by competent authorities (Bank's inspectors) or central Bank controlling authorities.

- ✓ All the records must show all cash transactions, payment, debit, trade correspondence and customer's address.
- ✓ If the customer is a company, registration certificate, permission of opening bank account, memorandum, authorized signer and any further changes must be affected in its file.
- ✓ Identification data of the managers, main shareholders (more than 20%) and the representative of the company must be kept as an individual customer.
- ✓ The records of temporary customer's cash transaction which is more than the ceiling amount specified in Anti- Money Laundering regulation or related transactions executed during one working day in a branch must be registered and kept. Above mentioned transaction refers to what is requested once by a customer like; Payment Order in or out of the country.

- ✓ Branch and its subsidiaries obliged to make a separate file for permanent customer consist information like name, family name , address and type of his/her occupation.
- ✓ Branch and its subsidiaries are obliged to keep the files of document and records of opening accounts, Bank operation and customer's identification for five years after closing. (documents can be held in original document, microfilm, electronic archive and etc)

**2- The Records of Transactions must consist of:**

- Amount and code of currency
- Date and type of transaction (ex. Money Order, Travelers' check ,...)
- Name and complete identification data of beneficiary and the representatives.
- Name and identification data of the third parties.
- etc