Client Due Diligence (CDD)
A majority of CIMA members in practice have small local businesses so the risk of being exposed to ML/TF may be considered low. The services provided are generally lower risk and clients are often well known to the member in practice. The 2007 Money Laundering Regulations still oblige accountants to apply client due diligence regardless of whether the practice is small or if the client is a long-standing and well known one, as these factors will only indicate lower risk surrounding the application of CDD.

Identification and verification
The Regulations require you to identify and verify who the client is, any beneficial owners and to get a good understanding of the clients business and the anticipated business relationship.

Therefore your relationship with your new clients must start with consideration of anti-money laundering / counter-terrorist financing (AML/CTF) obligations and must be continuing for existing clients. We recommend that you use a client on-boarding template for new clients and also when updating existing client information or starting new services for all clients.

The process should firstly involve gathering information from the client:
- **Individuals** – Name, Date of Birth, Residential Address
- **Corporate bodies** – Full name, registered and trading addresses, date of incorporation, registration details, names/address/DOBs of directors and main shareholders, % shares held by each, annual accounts/annual return, details of trading or current operations, tax registration details etc.
- **Trusts** – Trust deed including name, date of establishment, names/address/DOBs of the settors, trustees and main beneficiaries, deed of appointment, full details on the beneficial ownership, tax details or arrangements etc.
- **Charities** – Full name, date of establishment, charities registration number, key personnel, tax details

Verification
You must then focus on verification of the information you have gathered or been provided. This should be done using independent documents, data from public resources or databases which are reliable, i.e. up-to-date information. Beware that some electronic checking systems may not have the latest information on record.

Information provided by the client should not be used to verify what they have provided you – it should be independent evidence. Meeting in person to receive photographic identity and address evidence may be considered as strong evidence of verification of identity.

In regards to addresses, a utility bill or a bank statement should suffice in cases of normal or lower risk. You may use further independent public resources such as the electoral role, credit checks, phone-lists, and companies’ house, to verify what the client has provided to you.

With corporate bodies, the client representative may provide you with a copy of the company’s certificate of incorporation, partnership agreement, lists of directors/shareholders and articles of association or financial returns.

Most manual verification checks would start with Companies’ house (for corporate or legal bodies) where you would be able to download copies of the relevant documents and cross-reference with the information provided. For low risk small businesses this level of CDD may suffice. A risk-sensitive approach must, of course, be considered and adapted where appropriate. The use of an electronic check may be required if you have doubts and require a more in-depth higher risk check.

Alternatively, if you have further doubts or there are further risks associated with the entity then you may request additional documentary evidence including additional years of evidence of earnings or bank statements, annual returns or similar.

Beneficial Ownership
You must establish if there are any beneficial owners (BO) behind a company, LLP, trust or other legal body. The BO is any person owning or controlling, directly or indirectly, more than 25% of the shares or voting rights. In most instances, you should get the client to make a straightforward written declaration regarding any beneficial owners and to provide their identification details where applicable. Otherwise search companies house or online to establish key individuals. Most clients if they are genuine will be happy to provide this information as part of the on-boarding process. **The ultimate beneficial owner should be a natural person.**

If another company or trust is listed as holding 25% or more of the shares, you will need to apply CDD to them and locate that body’s list of directors or main shareholders. You will need to drill down until you have identified the person(s) who are ultimately owning and controlling the client entity who is requesting your services.
In respect of private individuals the client himself is the beneficial owner, unless there are circumstances that indicate otherwise.

If you do not meet the client or representative face to face then enhanced due diligence applies, obliging you to request additional information from the client and to scrutinise the relationship further.

Electronic identification services
Regulation 7 outlines when CDD measures (including identification and verification) are to be applied. You may use such electronic resources to verify the original documentation which your client has provided to you upfront but there is no regulatory obligation to have electronic resources for conducting AML or CDD checks. You may use the electronic resources in cases of lower risk without photographic identification. However if a client is not physically present for identification then enhanced due diligence must be applied (Reg. 14) requiring further evidence and confirmation of identity.

You are not obliged to receive copies of photographic documentation in all cases. (See Section 5 of CCAB Guidance). However CIMA does not recommend that you completely substitute paper based checks for such electronic checks. You should only rely on electronic checks in cases of low risk but we would recommend that you acquire additional paper verification checks through meeting with the client and taking copies of identification documents.

Note: CDD obligations under the regulations are your responsibility and ultimate responsibility lies with you and not such 3rd party electronic service providers.

In low risk situations you may identify clients such as politically exposed persons (PEP) through asking the client to sign a straightforward written declaration that they are not a PEP then holding a meeting to get copies of their ID documents. If you expect to provide services to PEPs more regularly then a subscription to an electronic service may be suitable for your needs so as to conduct international database searches.

An online identification/verification may be useful in establishing that an actual individual exists but how do you know that is the actual person you are dealing with?

You must not simply rely on the results of an online search of a software or database if you have not met them. Face-to-face meetings and a copy of an identity document with a photo, utility bill or a check on companies’ house for the list of directors/shareholders and a copy of the certificate of incorporation, are usually the most risk averse ways to identify who you are dealing with.

Most of the datasets used by electronic checking providers can be accessed through other sources, either for free or without the need to subscribe to bundles. The use of electronic checks will not assist in obtaining information on the purpose and intended nature of the business relationship and ongoing monitoring, which are key elements of CDD.

CDD must be done on a risk-based approach, whereas electronic checking may apply the same approach to all individuals or companies. Further investigation may be required by yourself depending on the level of risk you judge to exist.

Beware of electronic checking providers who suggest that their service checks will leave you CDD compliant for many years with just one search. CDD is a current, continuous and ongoing process, where actions are decided on a risk-based approach.

Note that Members are required to process their clients’ data in accordance with the Data Protection Act 1998. You must be registered with the Information Commissioner’s office before you can begin making online searches, which requires an annual fee to be paid independent of the service provider’s fee.

Ongoing monitoring of the business relationship
CDD also involves ongoing monitoring of the business relationship so members should bear in mind that their obligations are not simply limited to the new client acceptance stage. New CDD measures must be applied if there are doubts about the client or suspicions of ML/TF.

Business relationship or occasional transaction?
A ‘business relationship’ has the key characteristic of being an ongoing arrangement of providing a service for a fee. In contrast an ‘occasional transaction’ is not an ongoing arrangement and involves single or a series transactions amounting to £10,000 or more.

Fresh CDD process checks apply to occasional transactions/services. So a client you have dealt with in the past will be subject to new identity checks and understanding of the new proposed business relationship. This will help to identify personnel or other significant changes in the intervening period of services.

Intended nature of relationship
At the outset of the relationship you should have a good idea of what to expect when providing services for the client and why they have requested your services. The Terms of Engagement should be defined and clear, you should have gathered information to give you a good understanding of the source of any income or assets.

In order to gain a level of understanding of the anticipated nature of the relationship best practice will include looking at where assets/money originate from, the purpose of transactions, volume and size of transactions proposed or undertaken before as evidenced in the statements of accounts or other documentation provided to you. If you feel that you still have doubts then you should request additional information such as additional years of bank
In respect to enhanced due diligence, Reg. 14 is of more significance for members. It provides that when the customer has not been physically present for identification purposes, or if a client is politically exposed, then a relevant person must take specific and adequate measures to compensate for that higher risk. However, the application of the risk based approach will ensure that other higher risk clients or services are identified and managed accordingly.

Regulation 14 outlines control measures to take in enhanced due diligence cases including: additional identification data, confirmation or documents from regulated institutions supporting the client demonstrating they previously met the CDD requirements elsewhere.

The individual accountancy practice should decide what additional measures or documentary requirements it wishes to see to manage the perceived risk, such as additional years of bank statements, tax returns etc. You could request a reference from another professional adviser or a regulated institution who has dealt with the client before.

Ongoing monitoring should allow for a client who becomes a PEP to be identified and enhanced measures to be then applied. Overall, client acceptance and on-boarding checks should be used to identify the degree of risk and the resulting actions to be implemented.

**When to re-apply CDD?**

CDD measures are to be applied in the circumstances defined in Regulation 7 of the Money Laundering Regulations 2007. You are not required to renew your identity checks on any defined timeline - it is risk-sensitive.

Where you have existing clients, the Joint Money Laundering Steering Group state the following: ‘Where the identity of an existing customer has already been verified to a previously applicable standard then, in the absence of circumstances indicating the contrary, the risk is likely to be low. A range of trigger events, such as an existing customer applying to open a new account or establish a new relationship, might prompt a firm to seek appropriate evidence.’

Therefore, requesting new identity checks every year can be frustrating for the client and an inadequate use of your resources. However waiting 5 years to request new copies of identity documents is a higher risk because a lot of information and changes in personnel can change in that time. Your professional judgement and a risk-sensitive basis should enable you to decipher when to refresh client identification checks.

**Long-standing well known clients**

While long-standing or well-known clients pose little risk, there is no blanket exemption from client due diligence processes for them, nor is there a simplified due diligence approach. You should speak with any such clients and emphasise that the 2007 Money Laundering regulatory requirements under Regulation 19 (2) include the obligation to record copies of client identification documents, irrespective of the longevity of the relationship. Under the Money Laundering regulations you are obliged to have copies of identification documents recorded and failing to do so carries a penalty of up to 2 years, to a fine or to both.

**Keep records**

Ensure that you record all client identity checks which you have done, either electronically or through paper files, for a period of 5 years. You must have all identity information when making a suspicious activity report or if CIMA attend your office for a supervision visit. You should be able to justify the level of risk you have measured a client to pose by reference to paperwork.

Client needs will change as time goes by and they may require additional services. If this arises you must consider whether the change will increase risk for your practice or if the new services are known to be at risk of abuse by launderers.

The higher you assess the risk to be the more information which you should gather at the outset. This should help you to decide whether to take on the client, whether the level of risk is reasonable to the practice and also to quickly spot a red flag indicator or a sudden and unexplained direction or activity during the relationship. In short, the more you know about the client the easier it is to see unusual activity.

**Simplified and Enhanced Due Diligence**

Simplified due diligence is outlined under Reg. 13 of the 2007 Regulations. That regulation provides that SDD is applied in respect to bodies who are themselves regulated such as banks, companies listed on a stock exchange or public authorities. If you do not deal with these type of clients regularly you will need to have CDD processes in place, implemented on a risk-sensitive basis as already outlined above.

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