



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE DEPUTY GOVERNOR
SUPERVISION AND EXAMINATION SECTOR

MEMORANDUM NO. M-2016- 004

To : ALL BANKS

Subject: Reminder on Sound Risk Management Practices when Dealing with Foreign Exchange Dealers, Money Changers and Remittance Agents

Pursuant to Part 8¹ of the Manual of Regulations for Banks (MORB), banks dealing with foreign exchange dealers, money changers and remittance agents (FXDs, MCs and RAs) should take extra caution and vigilance and shall perform enhanced due diligence, upon onboarding and during transaction monitoring, consistent with regulations and the bank's procedures as provided under its Money Laundering and Terrorist Financing Prevention Program (MLPP). The bank's MLPP should contain appropriate risk management practices to ensure that money laundering (ML) and terrorist financing (TF) risks arising from dealings with FXDs, MCs and RAs are effectively identified, assessed, monitored, mitigated and controlled. To this end, banks should ensure the soundness and adequacy of their risk management policies and practices in dealing with FXDs, MCs and RAs, which include, among others, the following:

1. Banks shall only deal with FXDs, MCs and RAs registered with the BSP for the appropriate authority to engage in a specified business;
2. When dealing with RAs as remittance partners or tie up or if the accounts are being used to facilitate their business, the banks have the ultimate responsibility for conducting appropriate due diligence necessary to the relationship to ensure that it will not be used as channel for ML/TF activities. Bank's tie-up relationship with such customers shall not be used to circumvent existing regulations;
3. Conduct risk assessment of the FXD, MC and RA customers, considering relevant factors such as business operations, types of customers, product/service availed, distribution channel, jurisdictions they are exposed to and expected account activity. By the nature of their business, they may inherently pose higher ML/TF risk which should be appropriately identified, monitored and mitigated;
4. Perform enhanced due diligence, which includes, among others, the following:
 - a. Obtain proof of registration with the BSP and periodically update registration status;

¹ BSP Circular No. 706 dated 5 January 2011 was incorporated as Part 8 of the MORB

- b. Evaluate and understand the business operations and customer profile of the FXDs, MCs and RAs, review of agents, if any, and obtain the purpose of the bank account and anticipated account activity;
- c. Review the anti-money laundering and combating the financing of terrorism (AML/CFT) program and measures adopted by the FXDs, MCs and RAs to assess whether they have appropriate processes to identify, measure, manage and control ML/TF risks, and to comply with AML/CFT requirements, including the reporting obligation for covered and suspicious transactions;
- d. Require submission of proof of registration with the AMLC to comply with the reporting requirements;
- e. Obtain additional information and conduct validation procedures as provided under Subsection X806.1.b of the MORB; and
- f. Obtain senior management approval for establishing business relationship in accordance with the bank's risk management policy.

Unsatisfactory result of the due diligence process shall be a ground for denying the business relationship.

5. Perform continuing account and transaction monitoring, which includes but is not limited to the following:
 - a. Proactively monitor FXDs, MCs and RAs' transactions, based on appropriate parameters or alerts scenarios that capture their financial profile and behavioral account activities. Similarly, there should be transaction monitoring system for personal accounts of the owners or proprietors;
 - b. Implement robust system to identify unusual movements of funds or transactions of the FXDs, MCs and RAs for further investigation and determination if filing of suspicious transaction report is warranted;
 - c. Periodically update the counterparty risk assessment based on risk and materiality, to ensure that their risk profile remains current and relevant; and
 - d. Establish policies and guidelines, with defined criteria or grounds, such as material non-compliance with AML/CFT obligations, particularly covered and suspicious transaction reporting, for termination of business relationship as a result of ongoing monitoring.

Banks are reminded that violation of the rules provided in Part 8 of the MORB shall be subject to applicable sanctions and penalties provided under Section X811 of the MORB.

For guidance and strict compliance.


NESTOR A. ESPENILLA, JR.
Deputy Governor

05 April 2016