



Gateway Bulletin GB-2014-07 Action Recommended

Gateway Advisory: FATF Standards on Customer Due Diligence

November 4, 2014

Overview

The purpose of this bulletin is to describe the FATF Recommendation on Customer Due Diligence (CDD) which are intended to prevent anonymous activity that can lead to money laundering or the financing of terrorist activities. FATF standards on customer due diligence represent the minimum international standards for establishing a new customer relationship. We are issuing this Gateway Advisory to address confusion as to whether customer onboarding standards apply to gateways operating outside the US.

Gateways that offer bank-like services, or operate as a money transmitter or exchange are encouraged to take the standards on CDD seriously and amend their customer onboarding process to reflect their country's guidance. The country in which you operate may have regulations on CDD that are stricter than the FATF standards. Gateway operators should consult with local counsel to determine how these rules apply to your business. "Under AML/CFT legislation, CDD policy objectives are to ensure that financial institutions can effectively identify, verify and monitor their customers and the financial transactions in which they engage, in accordance to the risks of money laundering and terrorism financing that they pose."

Background

The Financial Action Task Force (FATF) is an intergovernmental organization which identifies risks and develops policies to combat money laundering and terrorism financing. The [FATF Recommendations](#) set an international standard, which countries implement through measures adapted to their particular circumstances.

For example, the United State's Financial Crimes Enforcement Network (FinCEN) has issued Guidance on [customer due diligence requirements](#) under the Bank Secrecy Act. The [Customer Identification Program](#) (CIP) includes guidelines on the identity information a financial institution should collect and verify on new customers under Section 326 of the USA PATRIOT. Gateways operating in the United States are required to follow the US Guidelines. Gateway operators should consult with local counsel to determine how these rules apply to your business.

Gateways Should Identify and Verify Customer Information

When a gateway establishes a new customer relationship, it is required to collect certain customer information. The customer due diligence measures that FATF recommends, include: “**Identifying the customer and verifying that customer’s identity using reliable, independent source documents, data or information.**”

FATF prohibits financial institutions from keeping anonymous accounts or accounts in obviously fictitious names. The [FATF recommendation](#) does not specify the exact range of customer information banks must collect. However, in [FATF’s recommendations to MSBs](#), it specifies that the information that must be collected for customer onboarding¹ includes:

- customer name and
- customer’s address, or
- national identity number, or
- customer’s identification number, or
- date and place of birth.

Since most gateways that operate on the Ripple Protocol operate as MSBs, this is the minimum that you must consider as a gateway operator. For transactions over 1,000 USD, gateways must verify this information.

The FATF standards set out above do provide some flexibility in the type of information collected. It allows gateways to service customers with non-formal identities to promote financial inclusion, where permitted by local regulation.

Record-keeping

FATF recommends that financial institutions should keep records on the personally identified information collected during the customer onboarding process (e.g., passports, identity cards, driver’s licenses and similar documents), for at least five years after the customer relationship is ended. FATF does not require that banks retain the photocopy of the ID used to verify the identity of the individual, but merely that the information on that document be stored and kept for 5 years.

Additional Resources

[The FATF Recommendations](#), International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation, FATF Recommendations, February 2012

[FATF Guidance](#): Anti-money laundering and terrorist financing measures and Financial Inclusion, June 2011

[FATF Report](#), Risk-Based Approach Guidance for Money Service Businesses, July 2009

¹ This customer onboarding is separate from requirements on sending wire transfers or complying with the Travel Rule.