

## **In the Name of God**

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Communicated to All Directors General of State Banks (including Post Bank), Private Banks, Tose'e and Sina Non- Banking Credit Institutes

In compliance with the Article 1 of the **“By-Law for the Documentation of Funds Flow in the Country,”** subject of the Resolution H39395T/211815 dated Esfand 26, 1386 (March 16, 2008), passed by the Honorable Cabinet and in order to facilitate the consolidated risk management of the customer identification, the attached **"Know your Customer Guideline for Credit Institutions"** is advised.

In an effective risk management, credit institutions are obliged to engage in a variety of activities through a range of processes, some of which are complicated and each on its own possesses particular significance. In the process of risk management, the customer due diligence is considered as a material issue.

Identifying the customer is the starting point of the banking activity and is an entry point for risks. Inadequacy in doing so could expose credit institutions to plights such as money laundry, or financing illegal activities, and impose upon them risks such as operational, legal and reputational.

Given the above-mentioned points, it is strongly recommended that the board of directors of banks and credit institutions should establish specified policies and procedures for customer due diligence. The envisioned comprehensive process of the **“Consolidated Risk Management of Customer Due Diligence”** has to be based on a plan in which risk management, guidelines for accepting customers, methods of identifying customers and processes of monitoring accounts are uniformed for all branches and related entities of the credit institutions.

A further important point in this process is that, it should be done in an on-going basis and enjoyed the necessary dynamic. Identifying customer and updating their information should proceed on a continuous basis, as long as they are in contact with the financial institution.

In addition to communicating this regulation to all your relevant units, ensure its execution in good faith.

**Governor**

**Tahmasb Mazaheri**



**The Central Bank of the Islamic Republic of Iran**

**"Know Your Customer"**

**Guideline for Credit**

**Institutions**

**Banks and Credit Institutions Supervision Directorate**

**Banking Studies and Regulations Department**

**Working Group of Devising Prudential Regulations**

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## **Introduction**

In order to prepare the necessary arrangements for the implementation of Section 8 of Article 14 of the "Monetary and Banking Act"\*, approved on Tir 18, 1351 (July 9, 1972) and its later amendments and also Section A of Article 7 of "Anti Money-Laundering Law"', approved on Bahman 2, 1386 (January 22, 2008) by The Islamic Consultative Assembly and to manage different types of banking risks especially operational and reputational risks the "Know Your Customer Guideline for Credit Institutions " devised the following:

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\* Formulating regulations governing the opening of current, saving and other accounts.

\*\* Verification of the identity of the client, and where relevant the identity and position of the client's agent or proxy, as well as the principal, in case there is evidence that an offence has been committed.

## **Definitions**

**Article 1-** The extent of definitions of this Article is restricted to this Guideline.

- 1-1- Central Bank:** The Central Bank of the Islamic Republic of Iran;
- 1-2- Credit Institutions:** Banks, non-bank credit institutions and other credit and monetary institutions such as Qard-al Hasaneh funds, credit co-operatives, exchange brokers and leasing companies;
- 1-3- Senior management:** Members of the executive board/ managing director and the executive managers and senior officers in credit institutions that directly work under the surveillance of each member of the executive board or managing director, and have the responsibility of carrying out strategies and policies as directed by the managing or executive board as the case may be;
- 1-4- Operational Risk:** Probability of loss arising from inadequate or failed internal processes and methods, people and systems or from external events such as operational stoppages, customers' criminal acts, services, personnel functions, and security of the workplace;
- 1-5- Reputational Risk:** Probability of loss arising due to impairment of reputation resulting from undesired financial situation, worsening credit rating or loss of public confidence;
- 1-6- Customer Identification:** Identifying and confirming a customer's identity with the use of valid, independent and reliable data and information;
- 1-7- Customer:**
  - Natural person or legal entity who maintains an account with the credit institution or an account is opened for his/her benefit or on his/her behalf.
  - Natural person or legal entity who has a working relationship with the credit institution (by way of outsourcing, insurance, etc.);
  - Natural person or legal entity who is the credit institution' counterparty (and/or beneficiary or beneficiaries) in connection with other banking services and can subject the credit institution to different risks such as reputational and operational risks;
- 1-8- Occasional customer:** The customer who refers to the credit institution for a particular banking service and the process needs no file openings. The relationship between the occasional customer and the credit institution has no continuity attribute. Applicants for collecting payments of cheques, remittances and bills are examples of occasional customers;

**1-9- Usual customer:** The customer, whose relationship with the credit institution has the important attribute of continuity and because of the special type and nature of the needed services, keeping identification information files and other necessary data is essential;

**1-10- Examples of banking services are as follows:**

- Opening all types of accounts;
- Extending financial facilities;
- Operations of documentary credits;
- Remittances of all types of funds;
- Buying or selling foreign exchanges in cash, transfers, traveler cheques and similar transactions;
- Issuance of all types of bank guarantees and their endorsements;
- Receiving, factoring or discounting commercial and banking documents (such as cheques, bills of exchange and promissory notes) and their endorsements;
- Issuing all types of cheques;
- Electronic banking and electronic payment cards' services;
- Renting of safe deposit boxes;
- Buying and selling certificates of deposit (general and specific) and securities.

**Article 2-** The credit institution should put in place transparent policies and procedures in order to achieve the targets set by this Guideline; and revise them annually. These policies and procedures should comprise the following matters:

- ❖ Customer acceptance policy;
- ❖ Customer identification procedures;
- ❖ On-going monitoring of accounts;
- ❖ Risk management.

## **Customer Acceptance Policy**

**Article 3-** The credit institution should be required to have in place clear and transparent standards. These should include the followings:

**3-1-** Opening any kind of account is subject to customer identification and should require authentic documentation.

**3-2- Before opening an account, the credit institution needs to apply the necessary controls to ensure that the applicant's particulars are not the same as the particulars for unauthorized applicants.**

**Article 4-** The credit institution should classify its types of customers (natural person or legal entity) with regard to the level of risk that is likely to be directed towards the institution due to factors such as social, business or financial situation, type and nature of business activities, customers' background, country of origin, linked accounts or other effective factors (at the institute's discretion).

**Article 5-** The classification mentioned under Article 4 above should be done so that the data received may be put in the proper category. Therefore, receiving the minimum requirements from low risk customers would be sufficient but higher risk customers require more extensive information.

**Article 6-** The credit institution is duty bound to retain its customers' records and there is a need for adoption of necessary strategies for preventing disclosure of the data.

**Article 7-** In order to keep the identification data records up-to-date, the credit institution should, in the contracts concluded, compel its customers, to provide relevant documents on any changes made in the information presented as swiftly as possible.

**Article 8-** According to the provisions of this Guideline, the credit institution should take the necessary steps to identify its existing customers within one year of the notification of this Guideline and ensure that the data provided is accurate.

**Article 9-** If the credit institution, for reasons such as non cooperation of a customer, is not able to obtain the necessary identification data or if the customer produces fake documents, the credit institution, after explaining the matter, can refrain from opening an account and if an account is opened, it can refrain from giving any services to him/her. It is essential to include the contents of this Article in the contract concluded in a suitable fashion.

**Article 10-** The credit institution should inform the particulars of any customer who provides fake documents to the Banking Information Department of the Central Bank in accordance with the enclosed form and as is declared by the Central Bank.

## **Customer Identification Procedures**

**Article 11-** The credit institution is required to develop appropriate policies for identifying its customers.

**Note:** Customer identification policies should be devised in such a way as to allow the possibility of supervisory, disciplinary and judicial proceedings by authorities.

**Article 12-** For ascertaining the identity of new customers, the credit institution needs to obtain adequate information based on the level of services that are requested.

**Article 13-** The process of customer identification should be in line with the nature and importance of the banking services requested (opening any type of account, receiving other banking services or carrying out transactions exceeding specified amounts) and the following steps should be taken in this regard.

**13-1- Obtaining the necessary information:**

The credit institution needs to obtain the following information for identifying new customers (natural or legal) with regard to the defined level for the customer.

❖ **For Iranian natural persons:**

Name and surname, national code, identification card number, identification card serial number, place of issue, date of birth, father's name, full address and postal code, telephone number, occupation, type of account and the function expected of the account, and the signature.

**Note 1-** For mentally incapable, it is necessary to obtain the data about the parent or guardian of the said person.

**Note 2-** If obtaining some of the necessary information is possible through online system of the National Organization for Civil Registration, there is no need for applying them again.

❖ **For foreign natural persons:**

Name and surname, full particulars (according to their passport contents), number and details of residence permit especially the termination of residence (expiry date), full address and postal code in Iran, telephone number, occupation, and signature. In case residence has been extended, the new date should be obtained.

❖ **For Iranian legal entities:**

For Iranian legal entities, it is essential to obtain the necessary data according to the type and importance of the services and also the category of the customer as follows:

Name of the legal entity; date and number of registration; identification code (if applicable); field of activity; details and position of the person or persons who have the right to draw money from the legal entity's accounts; details and address of the members of the board of directors, executive board/ executive manager, independent auditor or auditors, legal inspector/ inspectors and shareholders (partners) who have more than 20 percent of the shares (capital) of the legal entity (details and address of the founders or board of trustees and similar organizations for other companies and institutions); main place of activity; address and postal code of the main office along with the telephone and fax numbers; name of the authorized signatories and their signature cards; information about how to formalize the financial documents and related correspondence; duration and limits of the power of the board of directors and managing director and/or similar organizations of the institute in the case of accounts; tax code (when extending financial facilities).

➤ According to the Article 587 of Law of Commerce, "all government and municipal establishments or concerns acquire juridical personality, as soon as they are formed, without any need for registration". So there is not necessary to get the date and number of registration of these organizations but it is essential to retain records of the replacing data.

❖ **For foreign legal entities:**

For subsidiary companies, representative offices, branches or any other organizational units relevant to the foreign legal entities in Iran, it is essential to take particulars of the main company abroad (as mentioned for the legal entities) and the particulars of the members of the board of directors, senior managers and other similar organizations of each of them abroad (as mentioned for the natural persons) in addition to the particulars of the natural persons and legal entities of the mentioned units in Iran.

**Note 1-** In order to open a bank account for customers who are classified in the high risk category, it is essential to ask the person's purpose of opening the account (for all customers mentioned in section 13-1).

**Note 2-** If the Registrar of Companies has assigned a specified "identification code" to legal entities, particulars of applicants in accordance with that code should be verified and registered.

**13-2- Obtaining valid documents:**

The credit institution should verify the identification data of the legal entities by taking at least the original copy of a valid identification document (commensurate with the customer risk profile and the type of the needed banking service). The know your customer identification process for legal entities should be done by verifying the original copy of all the registered documents mentioned in this Article.

Valid identification documents are as follows:

❖ For natural Iranian persons:

- Valid national card;
- Identification card;
- Valid driving license;
- Valid passport.

**Note:** For mentally incapable, it is necessary to obtain an official document to confirm the position of their parent or guardian in addition to the above documents.

❖ For foreign natural persons:

- Valid passport;
- Permanent residence permit (only for opening current account).

❖ For legal entities:

- The original or certified copy of the certificate of registration, memorandum of incorporation;
- Declaration of registration or articles of association (depending on the company's situation);
- A copy of the Official Gazette verifying the company's registration;
- The resolution of the board of directors to open an account (in the name of the company) and nomination of the authorized signatories;

- Letter of commitment of the mentioned legal entities to announce any changes – immediately after the occurrence thereof – made in the memorandum of incorporation, articles of association or the resolutions of the board of directors to open an account and nomination of the authorized signatories ;
- A copy of the application form (from applicants of facilities);
- Official translation of the registration documents and evidences, for foreign legal entities. The certificate of registration of the foreign legal entities should be verified by the consulate of their home country in Iran or by the Iranian consulate in their home country. (In case of the absence of a consulate in the two countries, confirming this certificate by any relevant consulate or embassy at the discretion of the I.R.I. Foreign Ministry is acceptable.) This certificate should also be verified by the Chamber of Commerce in their home country (for business legal entities) or any other inspecting authority in that country (for non-business legal entities).

**Article 14-** For those occasional customers who are applying to receive banking services (such as receiving cheque funds or money remittances) with large amounts of money (in accordance with anti money-laundering rules) it is essential to require the national identification code of the customer, through online services of National Organization for Civil Registration, and to retain its confirmation in the records.

**Note:** If it was impossible to be online with National Organization for Civil Registration and also for foreign persons (natural or legal), it is necessary to confirm the customers identity in accordance with the conditions mentioned in Article 13.

**Article 15-** In order to make the natural persons' identity data documented, it is necessary to obtain a copy of the national identification card/certificate from Iranian natural persons and a copy of valid passport or permanent residence permit (both documents for opening a current account) from foreign natural persons.

**Note:** In case of Iranian natural persons, the credit institute can merely keep a copy of the national identification card in the customers' file after revision and completion of the comprehensive system of data collection on customers in the Central Bank in order to identify customers by their national code.

**Article 16-** In order to make the legal entity's identification data documented, it is necessary to obtain a copy of the companies' certificate of registration, articles of association, declaration in the Official Gazette of registration, and the resolution of the board of directors to open an account (in the name of the company) and nomination of authorized signatories for Iranian legal entities, and a copy of the official translation of the registration documents and evidences for foreign legal entities. The certificate of registration of the foreign legal entity should be verified by the consulate of the legal entity's home country in Iran or by the Iranian consulate in his/her home country. (In case of the absence of a consulate in the two countries, copy of the confirmation of this certificate by any relevant consulate or embassy at the discretion of the I.R.I. Foreign Ministry and by the Chamber of Commerce in their home country (for business legal entities) or any other inspecting authority in that country (for non-business legal entities) should be obtained).

**Note 1-** All documentation mentioned in the above articles 15 and 16 of this Guideline, should be recorded in the customer's files after being witnessed by the authorized signatory in the credit institution, complying with the original copy of the documents, and his/her confirming and writing the phrase "Copy conforms to the original".

**Note 2-** The documentation of the customer's address (if needed), should be done on the basis of provable and reliable methods and taking authentic documents such as the ownership deed of the residence or work premises, rental contract, public utilities' bills like telephone, electricity or water.

**Note 3-** When an attorney, guardian or parent applies to receive banking services on behalf of another person or persons, it is essential that the credit institution takes steps to verify the identity of those person/persons and to document his/her data in accordance with this Guideline.

**Article 17-** For those types of banking services which, in the framework of particular laws and regulations, require obtaining more information and documents, the credit institution should consider the related laws and regulations in addition to observing the criteria mentioned in this guideline for identifying the customers.

## **On-going Monitoring of Accounts**

**Article 18-** The credit institution should establish a comprehensive system of management information and take measures so that the customers' information is gathered and processed in this system and is made available to the relevant units.

**Article 19-** In order to effectively control the risks of having inadequate KYC procedures in place, it is necessary to monitor the customers' accounts in accordance with their classification.

**Article 20-** The credit institution should monitor all complex, unusual, high turnover accounts of those customers who seem to be suspicious.

**Article 21-** In order to have a unified method of action in all branches, it is necessary that the board of directors of the credit institution establish limits for particular class or category of accounts, in accordance with anti money-laundering procedures, by exceeding which the institute needs to monitor the suspicious account.

**Article 22-** It is necessary to be alerted about important factors such as background of the customer's account, country of origin and source of the funds, type of transactions and other effective risk factors when unusual and suspicious patterns of activity in accounts is being detected (for example transferring large amounts of cash that are not consistent with the normal and expected transactions of the customer or his/her unusual account turnovers).

**Article 23-** The credit institution should set up a system to monitor and control higher risk accounts periodically.

**Article 24-** The internal control system of the credit institution should be robust enough to be able to report suspicious and unusual transactions (such as depositing or drawing large amounts of cash that exceed the limits) to the appropriate authorities.

## **Risk Management**

**Article 25-** Board of directors, senior management and/or similar organizational positions in the credit institution should be assured of the presence of effective KYC programmes and their operation by having in place appropriate procedures. These programmes need to allow the possibility of proper management oversight on systems and controls, segregation

of duties and training of the staff. The ultimate responsibility of the related decisions is entrusted to the board of directors or other similar organs of the credit institution.

**Article 26-** The responsibility of carrying out the board of directors' policies and procedures of an adequate KYC programme is entrusted to the senior management of the credit institution. The credit institution should assign one of its senior staff to reply to and communicate with related institutions and organizations.

**Article 27-** The compliance function in the credit institution (or any other unit selected by the board of directors), should conform KYC policies and procedures (adopted by the board of directors or any other similar organs of the credit institution) with related laws and regulations and reflect the results to the audit committee in order to report to the board of directors (subject of Annex 1 of the Central Bank Circular No. 1172 dated Khordad 31, 1386 (June 21, 2007) by name of " Guidelines for an Effective System of Internal Control in Credit Institutions").

**Article 28-** The responsibility for evaluating the received reports from compliance function unit/units (e.g. internal audit or compliance function) – in regard to carrying out of the approved policies and procedures of KYC and producing the necessary recommendations to the board of directors – is entrusted to the audit committee.

**Article 29-** Internal auditors should inspect implementation of KYC policies and procedures in all branches and units of the credit institution, and report any deviations with proposals to amend to the audit committee.

**Article 30-**The credit institution must have ongoing employee-training programmes on KYC. These training programmes should be designed so that the staff achieves a good understanding about the necessity, importance, and the way of implementation of KYC policies and procedures.

**Note 1-** The credit institution should annually revise all information and documents of the customers' accounts and include any changes in their files.

**Note 2-** The provisions of this Guideline do not apply to banking services with small sums - in anti-money laundering regulations framework. These services will be done in accordance with their related regulations.

## **Saving Customer Records and Their Transactions**

**Article 31-** The Board of directors of the credit institution should ensure that adequate measures are being taken for proper retaining and processing of data and robust systems are established in the institution so that the related authorities could achieve the desired data as soon and as easily as possible. (Section 5 of Circular no. 1172 dated Khordad 31, 1386 (June 21, 2007) of the Central Bank by name of "Guidelines for an Effective System of Internal Control in Credit Institutions")

**Article 32-** The credit institution should keep all related information and documents of customer identification for at least ten years after the account is closed.

**Article 33-** The credit institution should maintain, for at least ten years, all necessary records on financial transactions. It is essential to include information about type of transaction, amount and type of currency, date of transaction, particulars of the parties to the transaction, the account numbers related to the transaction and particulars of the account owner/owners.

**Article 34-** In case of using modern methods and technologies for retaining the above-mentioned documents, it is necessary that the board of directors of the credit institution ensures that the documents are lawful, and provide the possibility of future supervisory, disciplinary and judicial proceedings with due diligence.

## **Extent of Application of Guideline**

**Article 35-** this Guideline is indispensable for all branches of foreign banks and credit institutions in Iran, the credit institutions in the free trade- industrial zones, and also the Iranian banking units abroad whose KYC regulations are more lax.

This Guideline is approved in 35 articles and 13 Notes in the session held on Mordad 23, 1387 (August 13, 2008) by Credit Commission.