

Regulatory Requirements for Corporate Client's Customer Due Diligence

A licensed corporation (“**LC**”) should identify and verify the customer’s identity in accordance with paragraph 5.1 of the Code of Conduct Licensed by or Registered with the Securities and Futures Commission (“**SFC**”) (the “**Code of Conduct**”) and the requirements as set out in the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For LCs) (the “**AML Guideline**”).

Under the AML Guideline, the process for identification and verification of the client’s identity is called “customer due diligence” (also known as “**CDD**”). The AML Guideline sets out more detailed requirements for client identity verification than the Code of Conduct. This explanatory note shall focus the discussion on the AML Guideline.

In relation to the identification and verification of the identity of a corporate client, the CDD has essentially four limbs as follows:-

1. CDD of Corporate Client

The first limb is to obtain the following information in relation to that corporate client (paragraph 4.2.5 of the AML Guideline):-

- (a) Full name;
- (b) Date of incorporation;
- (c) Place of incorporation;
- (d) Company Registration and Business Registration numbers; and
- (e) Principal place of business.



2. CDD of Ultimate Beneficial Owner

The second limb is to identify and verify the identity of the ultimate beneficial owner as per the requirements under paragraph 4.3 of the AML Guideline.

In this regard, an LC should undertake CDD as to the ultimate beneficial owner (e.g. an individual holding 25% of the voting rights of the corporate client (see paragraph 4.3.5 of the AML Guideline for details)). In particular, the AML Guideline provides that where a natural person is identified as a beneficial owner, the LC should endeavour to obtain the same identification information as at paragraph 4.2.2 of the AML Guideline (i.e. CDD requirements for a natural person under the AML Guideline).

3. CDD of Connected Party

The third limb is the connected party's CDD. Under paragraph 4.2.13 of the AML Guideline, an LC should identify the connected parties of a corporate client by obtaining their names.



In relation to a corporate client, a connected party means a director of the client. It is further provided that if a connected party also satisfies the definition of a customer, a beneficial owner of the customer or a person purporting to act on behalf of the customer (“PPTA”) as prescribed under the AML Guideline, the LC has to identify and verify the identity of that person by reference to the relevant requirements set out in the AML Guideline (e.g. CDD as per requirements for a natural person under the AML Guideline).

4. CDD of PPTA

The final limb is CDD in relation to a PPTA. In accordance with paragraph 4.4.2 of the AML Guideline, where a person is considered as a PPTA, an LC must identify the person and take reasonable measures to verify the person's identity by reference to documents, data or information provided by a reliable and independent source (e.g. a governmental body).

Whether a person is considered as a PPTA should be based on the nature of that person's roles and the activities which the person is authorized to conduct (see paragraph 4.4.1 of the AML Guideline).

In paragraphs 66 to 67 of the Key Proposed Amendments and Consultation Questions of the Consultation Paper on Proposed Amendments to (1) the AML Guideline and (2) the Prevention of Money Laundering and Terrorist Financing Guideline issued by the Securities and Futures Commission for Associated Entities issued by the SFC in September 2020, the SFC clarified that streamline approach remains acceptable for a business relationship which poses low money laundering or terrorist financing risks. LCs may still adopt a risk-based approach to determine the extent of reasonable measures to be taken in verifying the identity of a PPTA.

Where a business relationship with a legal person customer with many PPTAs is assessed to present low money laundering or terrorist financing risks, an LC could verify the identities of the PPTAs with reference to a list of PPTAs whose identities and authority to act have been confirmed by a department or person which is independent to the persons whose identities are being verified (e.g. compliance, audit or human resources).

Should you have any question, please contact our Mr Lawrence Yeung on (852) 2854 3070 or by email at lawrence.yeung@ycylawyers.com.hk.

This explanatory note is not, and should not be regarded as, legal advice. Should you have any enquiries, please seek specific advice from legal advisers.

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