



Guidelines on Anti-Money Laundering and Countering Financing of Terrorism

Prudential Supervision Department
Document BS5

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1. Introduction

- (1) This document sets out guidelines issued under section 78(3) of the Reserve Bank of New Zealand Act 1989 ('the Act').
- (2) Section 78 of the Act relates to a bank's ability to carry on business in a prudent manner. Sections 78(1)(c) to (g) list the matters to which the Reserve Bank of New Zealand must confine its consideration in:
 - (a) having regard, under section 73(2)(c) of the Act, to the ability of an applicant for registration as a registered bank to carry on its business in a prudent manner; or
 - (b) determining under section 77(2)(f) or section 113(1)(e) of the Act that a registered bank has not carried on its business in a prudent manner.
- (3) Section 78(1)(g) provides for matters to be prescribed in regulation.
- (4) The Reserve Bank of New Zealand (Registration and Supervision of Banks) Regulations 2008 came into effect on 30 October 2008. These regulations set out additional matters that the Reserve Bank may consider, under section 78(1) of the Reserve Bank of New Zealand Act 1989, in determining whether a registered bank has carried on its business in a prudent manner or an applicant for bank registration will be able to carry on its proposed business in a prudent manner. The additional matters are the policies, systems, and procedures, or proposed policies, systems and procedures, to detect and deter money laundering and terrorist financing.
- (5) Section 78(3) of the Act permits the Governor of the Reserve Bank to issue guidelines for the purpose of interpreting any of the matters referred to in sections 78(1)(c) to (g).
- (6) The document sets out guidelines on policies, systems and procedures, to detect and deter money laundering and terrorist financing. These guidelines apply to all New Zealand registered banks.

2. Background

- (1) Money laundering and financing of terrorism continue to be serious international problems that are receiving increasing attention as nations attempt to deal with issues such as organised crime and terrorism. Financial institutions, in particular, are at risk of being used by criminal organisations to launder money and by terrorist groups to facilitate the financing of their activities.

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- (2) Effective policies and procedures are essential to reducing the risk that facilitating money laundering and terrorist financing activities pose to banks' reputations and operations. Both management and boards of directors are responsible for the development of specific policies and procedures for deterring and detecting money laundering and terrorist financing as well as for ensuring the bank's adherence to those policies and procedures, which should include:
 - (a) measures to identify the risk areas and the levels of such risk within the bank;
 - (b) measures to control these risks; and
 - (c) an assessment programme to determine the effectiveness of these measures.
- (3) Front-line staff play an essential role in implementing these measures and, therefore, must receive appropriate training to understand problems associated with money laundering, the bank's anti-money laundering policies, and the proper application of procedures.

3. The Basel Committee on Banking Supervision

- (1) The Basel Committee on Banking Supervision (the Basel Committee) has issued several papers relevant to anti-money laundering and countering the financing of terrorism. These papers include:
 - (a) *Statement of Principles on Prevention of Criminal Use of the Banking System for the Purpose of Money Laundering* (issued December 1988).
 - (b) *Customer due diligence for banks* (issued October 2001). This paper sets out minimum standards of best practice in this area. The customer due diligence standards identified in this paper represent a sound basis for ensuring that banks have adequate "know your customer" controls and procedures in place. A further paper called *General Guide to Account Opening and Customer Identification* (February 2003) functions as an attachment to the 2001 paper. It focuses on some of the mechanisms that banks can use in developing an effective customer identification programme.
 - (c) *Consolidated Know Your Customer (KYC) Risk Management* (issued October 2004). This paper examines the critical elements for effective management of KYC risk throughout a banking group. The paper addresses the need for banks to adopt a global approach and apply the elements necessary for a sound KYC programme to both the parent bank or head office and all its branches and subsidiaries.
- (2) The Reserve Bank expects each bank to be familiar with the standards and mechanisms outlined in each of the papers noted above, and to implement these

standards taking into account pending legislative developments and in a manner appropriate to the size, complexity and nature of the bank's business activities.

- (3) Copies of Basel Committee documents may be obtained from the Basel Committee website (www.bis.org/bcbs/publ.htm).

4. New Zealand legislation

- (1) Banks should ensure that they comply with the Financial Transactions Reporting Act 1996 and the Terrorism Suppression Act 2002.

5. New Zealand guidelines

- (1) Banks are expected to adopt relevant standards and best practice on the deterrence and detection of money laundering that apply to the banking industry, including:
 - (a) *Best Practice Guidelines for Financial Institutions* published by the New Zealand Police Financial Intelligence Unit to assist New Zealand financial institutions in meeting their obligations under the Financial Transactions Reporting Act 1996. ; and
 - (b) For banks that are members of the New Zealand Bankers' Association, the *Money Laundering Procedures and Guidance Notes for Banks* published by the Association.

6. The Financial Action Task Force

- (1) Banks should be aware of New Zealand's support for international anti-money laundering and countering financing of terrorism initiatives. New Zealand is a member of organisations such as the United Nations and the Financial Action Task Force (FATF) both of which have played a leading role in the global efforts to combat money laundering and the financing of terrorism.
- (2) FATF issued, in October 2001, 8 special recommendations on measures to be adopted by countries to combat the financing of terrorism in support of the relevant United Nations Conventions and Security Council resolutions. A ninth special recommendation was added in October 2004. In June 2003, FATF issued a revised set of its 40 Recommendations on measures to combat the misuse of financial systems through money laundering. The revised 40 recommendations and the 9 special recommendations can be found on the FATF website at www.fatf-gafi.org.

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- (3) Banks should regularly monitor information provided on the FATF website regarding concerns about jurisdictions that have been identified as having deficiencies in their anti-money laundering regimes. Through its international cooperation initiatives, FATF endeavours to work with weak jurisdictions to strengthen their AML/CFT frameworks. However, FATF may also decide, in some cases where serious deficiencies remain, that member countries should impose additional countermeasures. Recommended countermeasures could include financial institutions conducting enhanced scrutiny of transactions and business relationships with entities in such jurisdictions, or limiting such transactions or business relationships.