

Pursuant to Article 21, paragraph 1 of the Law on the National Bank of Serbia ("RS Official Gazette", nos. 72/2003 and 55/2004), and with reference to Article 83, paragraph 6 of the Law on Banks ("RS Official Gazette", no. 107/2005), Article 68, paragraph 3 of the Law on Voluntary Pension Funds and Pension Schemes ("RS Official Gazette", no. 85/2005), Article 143 of the Insurance Law ("RS Official Gazette", no. 55/2004, 61/2005 and 101/2007) and Article 13h of the Law on Financial Leasing ("RS Official Gazette", no. 55/2003 and 61/2005), the Governor of the National Bank of Serbia hereby issues

**D E C I S I O N**  
**ON MINIMAL CONTENT OF THE**  
**"KNOW YOUR CLIENT" PROCEDURE**

1. For the purpose of eliminating the risk that may occur as a result of non-compliance of banks, voluntary pension fund management companies, financial leasing providers, insurance companies, insurance brokerage companies, insurance agency companies, and insurance agents licensed to carry out life insurance operations (hereinafter: obligors) with regulations that govern prevention of money laundering and financing of terrorism, the obligors shall be required to specify, pursuant to this Decision, the content of the "know your client" procedure (hereinafter: the Procedure).

2. For the purposes hereof, certain terms shall have the following meaning:

1) *Client* is a customer in the sense of the law governing prevention of money laundering and financing of terrorism (hereinafter: the Law);

2) *Risk factors* are those circumstances and characteristics of a client, product, service or transaction which point to the existence of risk related to money laundering and financing of terrorism (hereinafter: AML/CTF risk) and are described in more detail in the decision establishing the guidelines for assessment of such risk (hereinafter: the Decision on Guidelines);

3) *Unusual transactions* are:

– Transactions which take an unusual course, including unusual frequency of withdrawing funds from the account and/or depositing funds to the account;

- Complex transactions of substantial value whereby large amounts of money are deposited or withdrawn and which involve a greater number of participants, transfers or other transactions which are economically or legally unjustified including transfers which are not

compliant with the client's registered activity;

4) *Suspicious transactions* are transactions where a reasonable doubt regarding money laundering and financing of terrorism exists, and are identified by indicators specified in the list prepared by the obligor in line with the Law;

5) *Risky client* is a client identified by the obligor as capable of exposing the obligor to the AML/CTF risk within the meaning of the Decision on Guidelines.

6) *Authorized person* is a person nominated by the obligor to perform operations pursuant to the Law.

3. The obligor shall establish the Procedure in compliance with the type and scope of activities it undertakes, its size and internal organization, as well as with the level of AML/CTF risk it is exposed to – depending on the category of clients to which it provides services.

The Procedure shall include all activities undertaken by the obligor to diminish the risk of money laundering and financing of terrorism.

4. The Procedure shall be set in writing and defined by the competent body of the obligor.

The Procedure shall regulate in particular:

- 1) Determination of client acceptability in terms of the degree of AML/CTF risk;
- 2) Classification of clients by risk factors;
- 3) Customer due diligence;
- 4) Management of AML/CTF risks, to which the obligor is exposed;
- 5) Training program for the client-facing staff or staff in charge of execution of transactions.

### **Determining client acceptability**

5. The obligor shall determine client acceptability in terms of the level of AML/CTF risk attached to the client in accordance with the Law and Decision on Guidelines.

To determine client acceptability, the obligor shall in its Procedure

regulate in particular:

- Procedure for determining risk factors with regard to new clients,
- Procedure for determining risk factors during the existing contractual obligations with the client,
- Treatment of risky clients,
- Conditions under which it shall not enter into contractual relations with the client or under which it shall cancel the existing ones.

### **Classification of clients by risk factors**

6. The obligor shall classify clients by the level of AML/CTF risk attached to them pursuant to the Law and the Decision on Guidelines.

The obligor shall establish in the Procedure the manner of classification from paragraph 1 of this Section and provide a detailed description of categories of clients that could pose a risk to the obligor.

7. After determining risk factors, the obligor shall:

- classify its clients in the manner determined by the Procedure;
- specify precisely the type of banking and/or other products and services within the scope of its operations which it cannot offer to certain categories of clients.

### **Customer due diligence**

8. The obligor shall perform customer due diligence activities under the terms and conditions prescribed by the Law and pursuant to the Decision on Guidelines.

The obligor shall establish in the Procedure what customer due diligence activities and measures it shall take in accordance with the client classification at the time of establishing business relations with the client, i.e. when:

- identifying the client;
- engaging in verification of client identity based on documents, data or information obtained from reliable and credible sources;
- identifying and verifying identity of the beneficial owner of the client;
- experiencing doubts about the veracity or credibility of previously obtained data about a client or beneficial owner;

- collecting data regarding the purpose and intent of a business relation;
- relying on a third party to perform certain customer due diligence activities and measures.

9. The obligor shall specify in the Procedure that the client's file regarding the opening of account or establishing of another form of business relation should contain all necessary documentation as set out in the Law regardless of the organizational unit in which the account is opened and/or business relation established.

10. The obligor shall also specify in the Procedure what customer due diligence activities and measures should be taken with regard to clients with which it has not established a business relation, but for whom it performs occasional transactions (payment of bills, exchange transactions, and the similar within the scope of the obligor's activities).

11. In accordance with the client classification, the obligor shall specify in the Procedure the activities and measures it shall implement to monitor client operations and/or execute transactions during the existence of business relations, as well as the conditions for effecting a status change depending on the level of risk exposure related to money laundering and financing of terrorism.

12. If the obligor is a bank:

- it shall specify in its Procedure the activities it shall take when establishing correspondent relations with other banks, in particular the foreign ones, and to refuse establishing these relations with banks which do not comply with the international standards or at least the EU standards, regarding prevention of money laundering and financing of terrorism;

- it shall oversee activities of clients by tracking transactions on all their accounts regardless of the type of the account or bank organizational unit with which such accounts are opened pursuant to client classification.

If the client transaction is executed pursuant to a contract on operations, a bank can obtain a copy of that contract which is certified by the signature of the bank employee, dated on receipt and kept on file for ten years.

13. If an employee of the obligor who is in direct contact with the client suspects that there is a AML/CTF risk attached to the client or its transaction, he/she is obliged to draw up a report for internal use and to

submit it to the authorized person in the manner and within the timeframe envisaged by the Procedure. This report should contain data on the client and the transaction enabling the authorized person to determine whether the client and/or transaction are suspicious.

When an authorized person based on the report from paragraph 1 of this Section or information obtained otherwise determines that a certain transaction is suspicious, he/she shall proceed in accordance with the Law, and if he/she determines that a certain transaction is not suspicious, he/she shall make a note to that effect.

The obligor shall keep on file the reports from paragraph 1 and the note from paragraph 2 herein for the duration of five years from the date they were made.

### **AML/CTF risk management**

14. To manage risks related to money laundering and financing of terrorism the obligor shall implement activities and measures in accordance with the Law, Decision on Guidelines and the decision governing the manner and conditions of identification and monitoring of bank operational compliance risk and risk management.

15. For the purpose of adequate risk management, the obligor shall at least once a year draw up a risk assessment report and prepare a risk analysis related to money laundering and financing of terrorism.

The assessment of the obligor's exposure to risk shall encompass in particular the size of the obligor's network, number of employees directly engaged in activities related to the prevention of money laundering and financing of terrorism relative to the total number of employees, number of client-facing staff, the manner of organization of operations and responsibilities, new employment dynamics, quality of training, etc.

In addition to factors from paragraph 2 hereof, the risk assessment report shall also encompass the type of products and services offered by the obligor with a special focus on the introduction and application of new technologies.

16. The obligor shall set up adequate systems for detection of unusual or suspicious transactions and/or clients.

17. The obligor shall acquaint with the text of the Procedure and/or its amendments all its employees who are directly or indirectly involved in dealing with clients or execution of transactions and shall also enable all its employees to apply the Procedure.

18. Internal control of the application of the Law and the Procedure shall be organized by the obligor in a manner which enables realistic evaluation of the obligor's risk exposure in all its organizational units regardless of how far an organizational unit is located from the seat of the obligor.

19. The obligor shall submit to the relevant body of the obligor a report on its activities in the area of money laundering and terrorism financing prevention at least once a year. The report shall contain in particular the estimate on whether anti-money laundering measures are applicable and effective, which deficiencies in the money laundering and terrorism financing prevention system have been detected during the preceding year and what type of risk they may pose to the obligor, as well as the proposal of measures for eliminating such deficiencies and for enhancing the system.

### **Staff training programme**

20. The obligor shall determine the staff training programme in accordance with the Law.

To ensure that the Procedure is being applied, the obligor shall determine and implement the on-going training programme for the purposes of paragraph 1 hereof, taking into account staff authorizations and responsibilities in the field of prevention of money laundering and terrorism financing.

The content of the training programme from this Section must meet the needs of newly employed staff, client-facing staff or staff in charge of executing transactions, as well as staff in charge of monitoring whether the Procedure is being correctly applied.

21. The obligor shall verify when necessary, but at least once a year, the expertise of its staff in the field of prevention of money laundering and terrorism financing, and shall keep on file the results of such verification for at least one year from the date of its verification, in hard copy or electronic form.

22. The obligor shall adjust the content of the Procedure with this Decision within 60 days from the date it becomes effective.

23. The Decision on the Minimum Contents of the Know Your Client Procedure ("RS Official Gazette" No. 57/2006) shall cease to be valid on the date this Decision enters into force.

24. This Decision shall come into force eight days after its publication in the "RS Official Gazette".

Decision no. 46  
17 June 2009  
Belgrade

Governor  
National Bank of Serbia

Radovan Jelašić, sign.