



*Growing Asia's Markets*



# ASIFMA Hong Kong Common Practices for Client Onboarding and Refresh

April 2020

Developed with support from an ASIFMA member working group led by





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## 1. Overview

Know Your Customer (KYC) regulations require financial institutions to adopt measures which mitigate the risk of money laundering in a manner that is tailored and commensurate with a financial institution's business profile. In developing a risk-based approach, a financial institution will typically consider factors associated with the geographies it operates in, the clients it seeks to provide services to, the types of products and services it offers and the service channels that it engages with clients. Typically, however, a financial institution will not seek to engage with peer banks to discuss the measures that they adopt.

ASIFMA is seeking to demonstrate that there are benefits to be realized when peer banks take a collaborative approach on KYC requirements. Pursuing a collaborative approach may later lead to efficiencies in KYC operations if requirements can be streamlined across different institutions. Specifically, streamlined requirements can improve the likelihood of consistent monitoring measures being adopted by different financial institutions for the same customer. From a client's perspective, the application of greater consistency and common practices for KYC requirements would improve the efficiency of information provision and reduce friction in onboarding and renewal processes. The common practices set out in this document may provide useful guidance for opening new accounts.

## 2. Approach

ASIFMA established a KYC working group including representatives from 15 financial institutions that are active in capital markets, with the objective of documenting common practices for meeting KYC requirements in Hong Kong. The common practices reflect an assessment of actual KYC requirements used by onboarding teams in ASIFMA member banks.

The initiative focused on banks that have both a strong global and regional footprint.<sup>1</sup> Accordingly, participating members often comply with a global or multi-jurisdictional KYC policy which can incorporate KYC requirements from other jurisdictions in addition to Hong Kong requirements. As such, this exercise addresses overall requirements that are followed by banks which operate in Hong Kong as opposed to simply Hong Kong regulatory standards.<sup>2</sup>

The assessment was facilitated by EY, based on the requirements submitted by financial institutions in the form of datapoints and documents.<sup>3</sup> Only datapoints and documents which were required by a minimum of 50% of participating firms' internal requirements were considered for inclusion in the proposed common practices. The results of the assessment were discussed and validated with the Working Group which consisted of all participating banks before being included in the KYC practices.

In conducting this assessment, ASIFMA made assumptions with respect to interpretation of definitions regarding similar but different requirements which financial institutions adopt. For example, one financial institution may require a client's "nationality" and another financial institution may require a client's "citizenship". In this case, the approach treated these differently worded requirements as being synonymous and adopted the most common term.

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<sup>1</sup> From the member banks that participated in the assessment, 5 banks are headquartered in APAC, 2 banks are headquartered in Japan, 4 banks are headquartered in Europe and 4 banks are headquartered in the US.

<sup>2</sup> While this document is not intended to be an assessment of the Hong Kong regulatory requirements, it should be noted that the requirements set out in this document may be subject to update if there is a change to existing regulations.

<sup>3</sup> ASIFMA members are comfortable with the long-standing practice of verifying customer information against appropriate official documentation. In addition, many ASIFMA members note that verification can be done against suitable trusted electronic sources as opposed to documents. While the common practices set out here do not seek to establish what requirements can be satisfied by what electronic sources, the ASIFMA Working Group does note that this would be a useful exercise.



In developing the KYC common practices, the Working Group adopted the following assumptions which would need to be present for the common practices to apply:

- There are no Anti-Money Laundering (AML) red flags associated with the client
- The client is a low risk domestic client
- Clients that are legal entities are “single-layered”<sup>4</sup> legal entities.

KYC processes are typically interdependent on other AML and compliance processes. For clarity, the approach adopted by the Working Group for purposes of this exercise did not consider screening, risk rating methodologies, transaction monitoring, Foreign Account Tax Compliance Act (FATCA), Common Reporting Standard (CRS) or any process that a financial institution may undertake to check the authenticity of customer information (including certification).

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<sup>4</sup> Single-layered legal entities mean that the client may be owned by a single layer of legal entities. All of the entities which own a share in the client are owned by natural persons.

### 3. ASIFMA Hong Kong KYC common practices for client onboarding and refresh

The common practices set out below categorize requirements that apply to the customer at the legal entity level as well as requirements that apply to individuals that hold a specific role associated with that entity. The common practices further categorize requirements that involve obtaining information or a datapoint and requirements that are typically satisfied by obtaining a specific document.

The sections below reflect the common baseline requirements for onboarding new customers in financial institutions. In developing this set of common practices, we have made assumptions based on the most common types of customer attributes. A summary of our assumptions on the key attributes for each customer type is provided at the beginning of each section below.

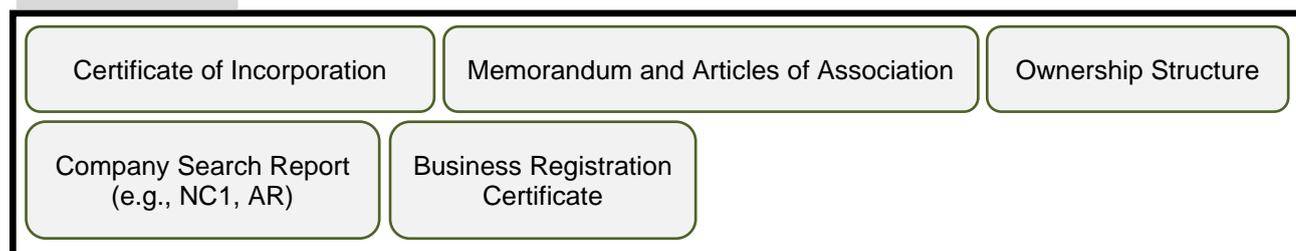
#### 3.1 Privately owned entities

The common practices set out below assume a single-layered low risk domestic entity.

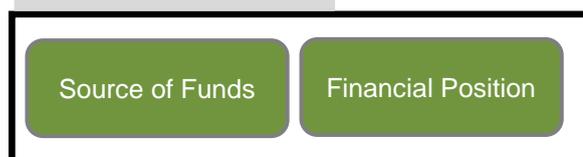
##### Information to be verified by documentation



##### Documents



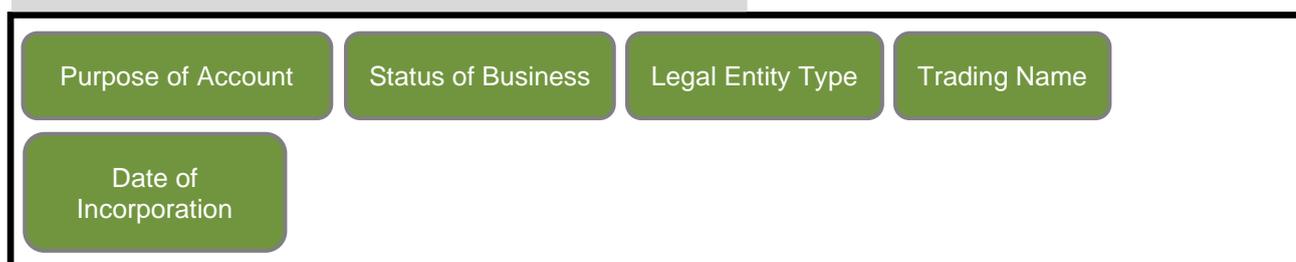
##### Company Financials



##### PPTA, BOs and Other Relevant Individuals



##### Other

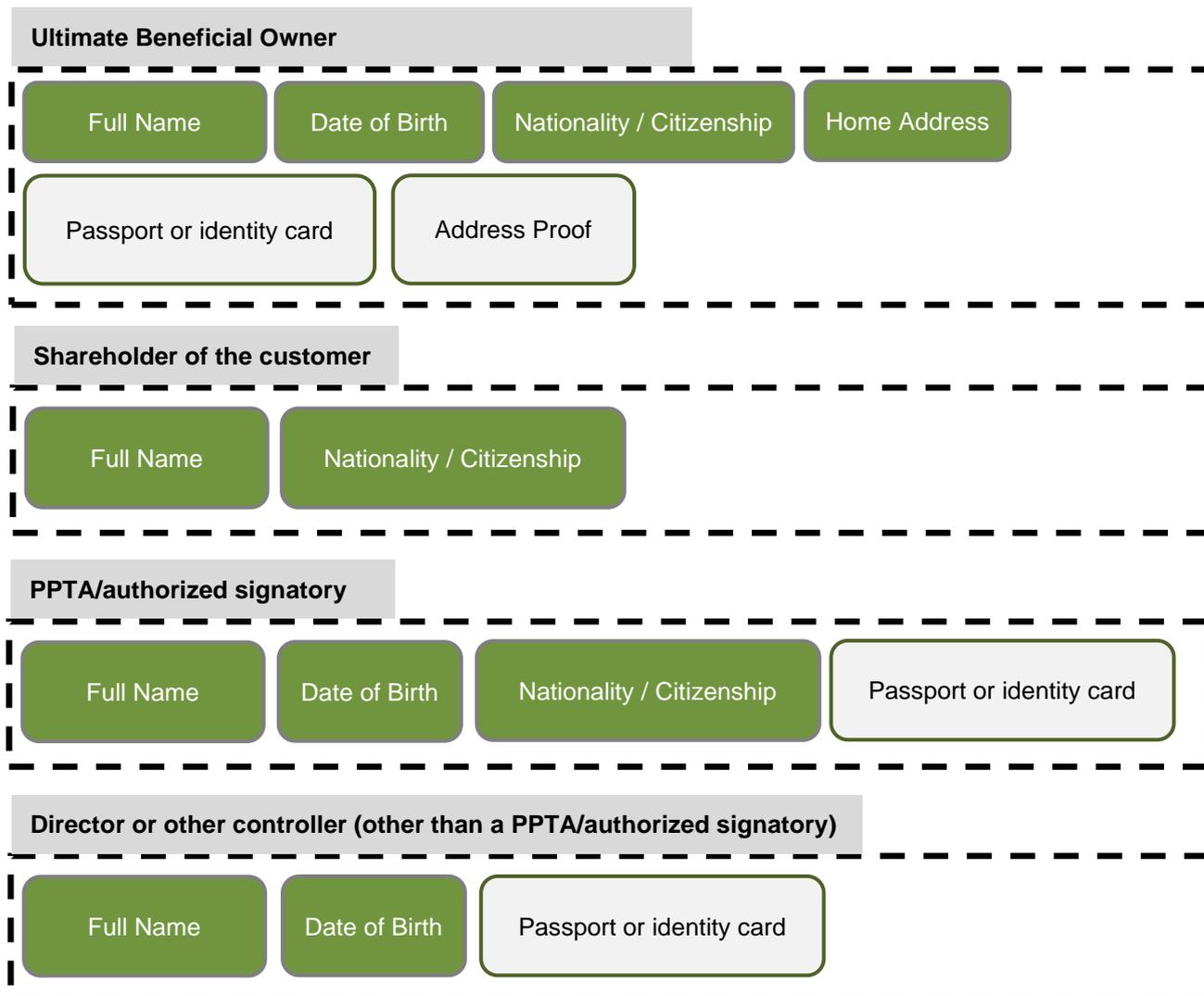


##### Legend:

- Datapoints
- Documents
- Requirements satisfied by legal entity
- Requirements apply to a relevant individual associated with the customer

### 3.1.1 Relevant individuals associated with privately owned entities

The common practices assume that each relevant individual is a low risk, natural person. The requirements set out in this section apply to each relevant individual within a prescribed category, subject to thresholds that financial institutions may adopt and change from time to time.<sup>5</sup>



**Legend:**

- Datapoints
- Documents
- Requirements satisfied by legal entity
- Requirements apply to a relevant individual associated with the customer

<sup>5</sup> For example, the requirements set out for *Ultimate Beneficial Owner* apply to each ultimate beneficial owner associated with the client. However, an exception may be applied for ultimate beneficial owners with a stake that is lower than an appropriately set threshold by a financial institution, which is typically 25% for low risk clients.

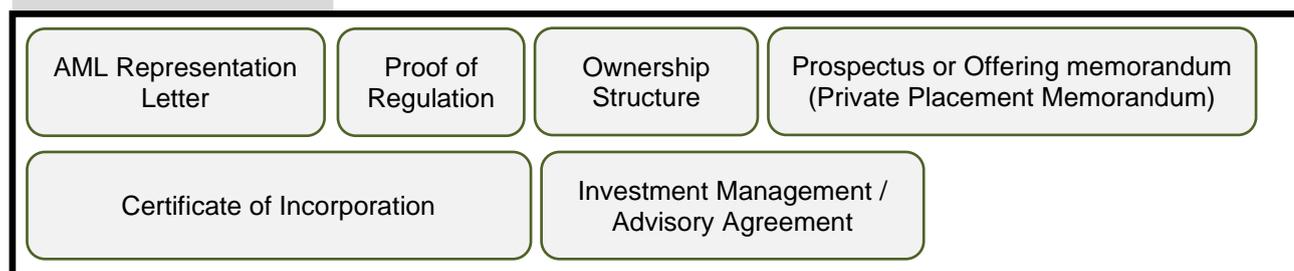
### 3.2 Funds regulated by an approved regulator

The common practices set out below assume that decisions on what constitutes an approved regulator will be taken by each financial institution following a consideration of the risks associated.

#### Information to be verified by documentation



#### Documents



#### Financials



#### PPTA, BOs and Other Relevant Individuals



#### Other



#### Legend:

- Datapoints
- Documents
- Requirements satisfied by legal entity
- Requirements apply to a relevant individual associated with the customer

### 3.2.1 Relevant individuals associated with funds regulated by approved regulators

The common practices assume that each relevant individual is a low risk, natural person. The requirements set out in this section apply to each relevant individual within a prescribed category, subject to thresholds that financial institutions may adopt and change from time to time.<sup>6</sup>

#### Ultimate Beneficial Owner

Full Name

Date of Birth

Nationality / Citizenship

Home Address

Passport or identity card

#### Shareholder of the customer

Full Name

#### PPTA/authorized signatory

Full Name

Date of Birth

Nationality / Citizenship

Home Address

Passport or identity card

#### Legend:

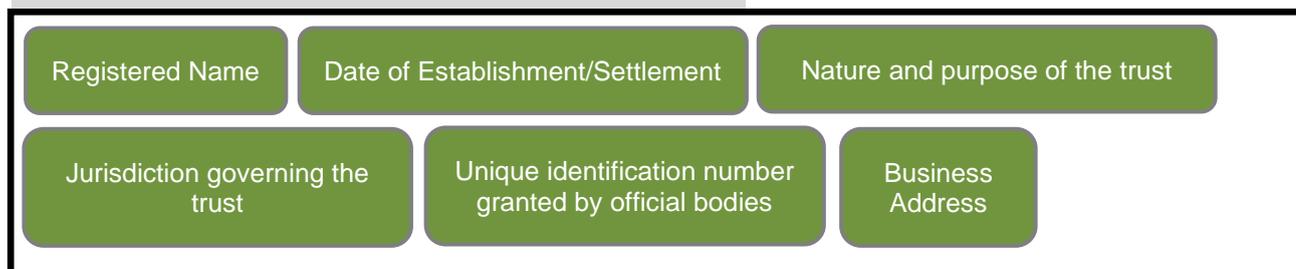
Datapoints
  Documents
  Requirements satisfied by legal entity
  Requirements apply to a relevant individual associated with the customer

<sup>6</sup> For example, the requirements set out for *Ultimate Beneficial Owner* apply to each ultimate beneficial owner associated with the client. However, an exception may be applied for ultimate beneficial owners with a stake that is lower than an appropriately set threshold by a financial institution, which is typically 25% for low risk clients.

### 3.3 Trusts

The common practices set out below assume a low risk trust that is governed by Hong Kong law that is either controlled by natural persons or controlled by a low risk domestic corporate trustee.

#### Information to be verified by documentation



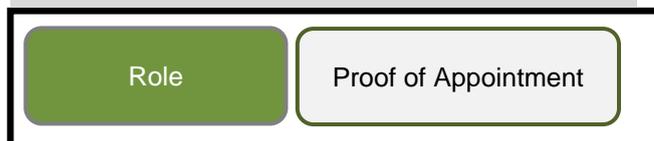
#### Documents



#### Financials



#### PPTA, BOs and Other Relevant Individuals



#### Other

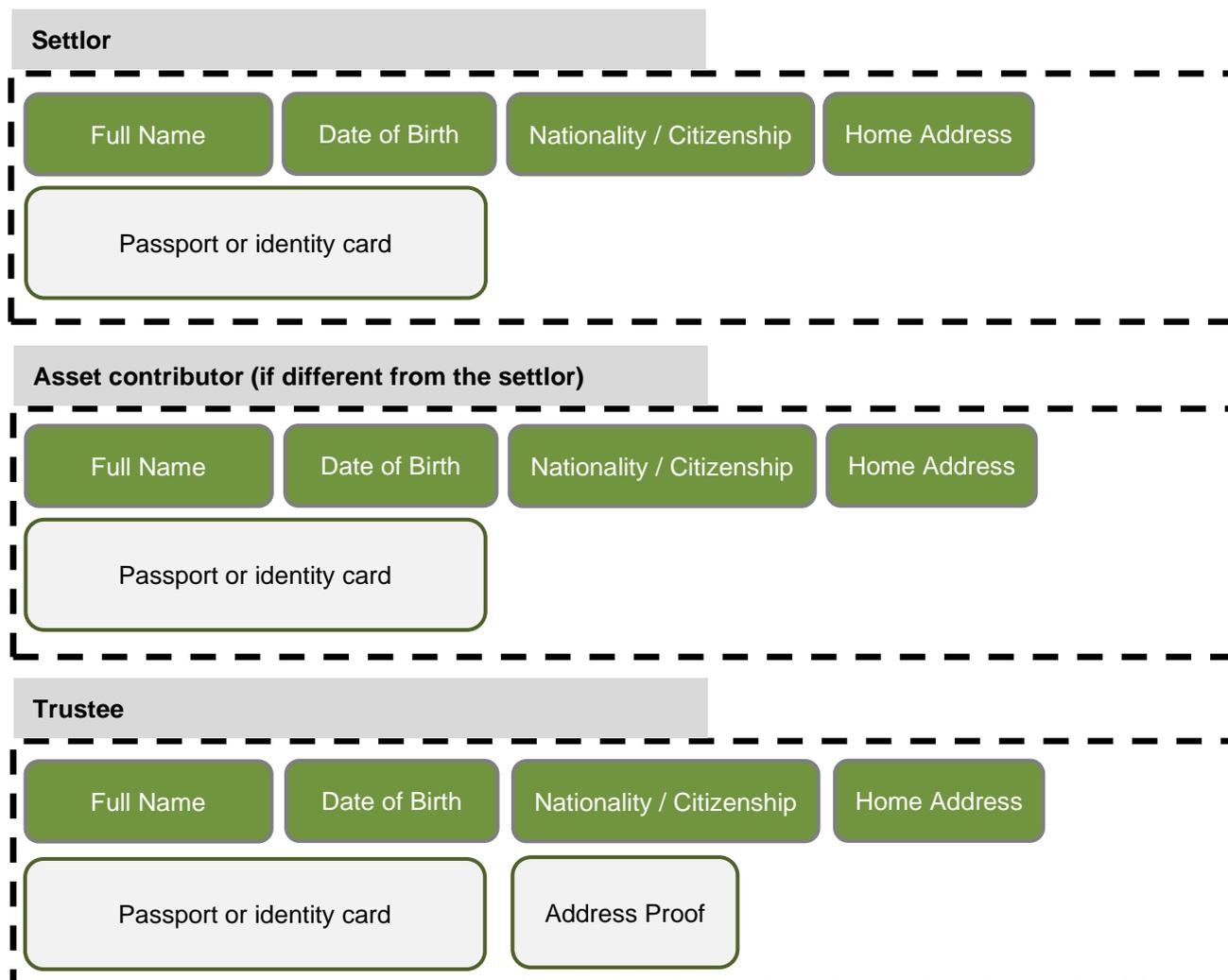


**Legend:**

- Datapoints
- Documents
- Requirements satisfied by legal entity
- Requirements apply to a relevant individual associated with the customer

### 3.3.1 Relevant individuals associated with trusts

The common practices assume that each relevant individual is a low risk, natural person. The requirements set out in this section apply to each relevant individual within a prescribed category, subject to thresholds that financial institutions may adopt and change from time to time.<sup>7</sup>



**Legend:**

- Datapoints
- Documents
- Requirements satisfied by legal entity
- Requirements apply to a relevant individual associated with the customer

<sup>7</sup> For example, the requirements set out for *Ultimate Beneficial Owner of a Low Risk Corporate Trustee* apply to each ultimate beneficial owner associated with the trustee. However, an exception may be applied for ultimate beneficial owners with a stake that is lower than an appropriately set threshold by a financial institution, which is typically 25% for low risk clients.



**Ultimate Beneficial Owner of a Low Risk Corporate Trustee**

Full Name	Date of Birth	Nationality / Citizenship	Home Address
Passport or identity card			

**Controllers / directors of a low risk corporate trustee**

Full Name	Date of Birth
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**Beneficiary**

Full Name	Date of Birth	Nationality / Citizenship	Home Address
Passport or identity card			

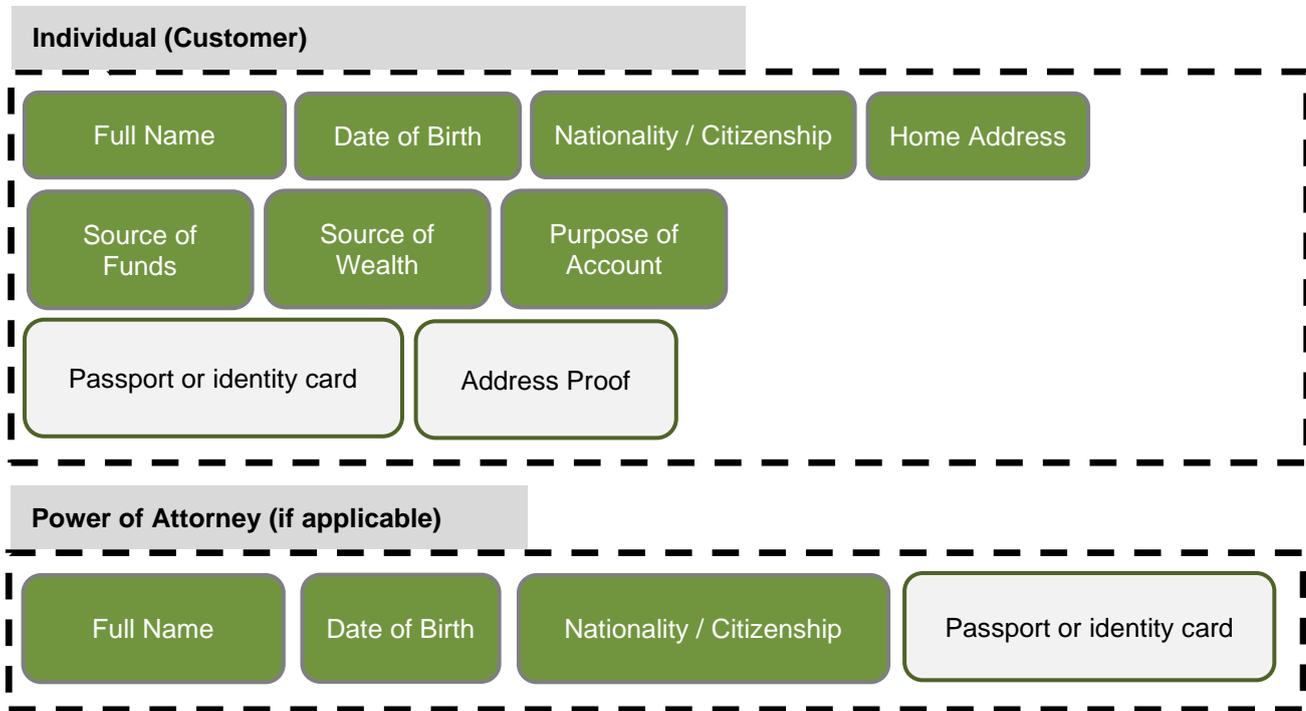
**Legend:**

- Datapoints
- Documents
- Requirements satisfied by legal entity
- Requirements apply to a relevant individual associated with the customer



### 3.4 Individuals

The common KYC baseline requirements for individual clients is set out below.



**Legend:**

- Datapoints
- Documents
- Requirements satisfied by legal entity
- Requirements apply to a relevant individual associated with the customer

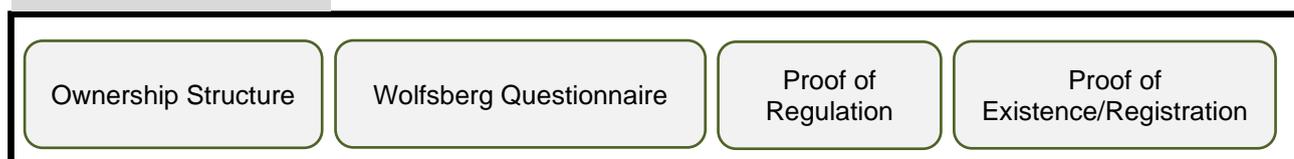
### 3.5 Regulated financial institutions from approved regulators

The common practices set out below assume that decisions on what constitutes an approved regulator will be taken by each financial institution following a consideration of the risks associated.

#### Information to be verified by documentation



#### Documents



#### Financials



#### PPTA, BOs and Other Relevant Individuals



#### Other



**Legend:**

- Datapoints
- Documents
- Requirements satisfied by legal entity
- Requirements apply to a relevant individual associated with the customer

### 3.5.1 Relevant individuals associated with regulated financial institutions

The common practices assume that each relevant individual is a low risk, natural person. The requirements set out in this section apply to each relevant individual within a prescribed category, subject to thresholds that financial institutions may adopt and change from time to time.<sup>8</sup>

#### PPTA/authorized signatory

Full Name

Date of Birth

Nationality / Citizenship

Passport or identity card

#### Controller or director (other than a PPTA/authorized signatory)

Full Name

#### Legend:

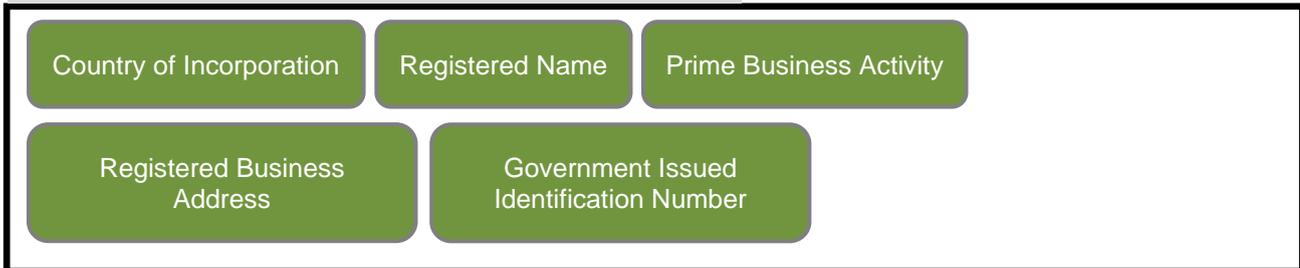
- Datapoints
- Documents
- Requirements satisfied by legal entity
- Requirements apply to a relevant individual associated with the customer

<sup>8</sup> For example, the requirements set out for *Ultimate Beneficial Owner* apply to each ultimate beneficial owner associated with the client. However, an exception may be applied for ultimate beneficial owners with a stake that is lower than an appropriately set threshold by a financial institution, which is typically 25% for low risk clients.

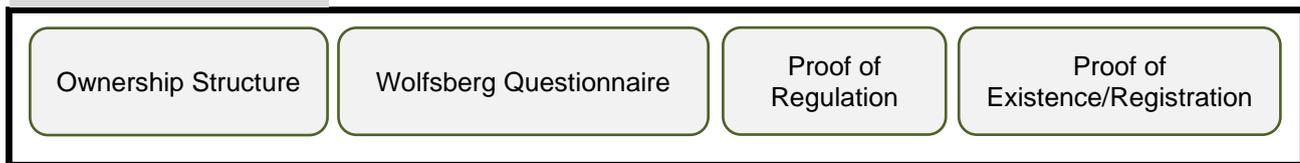
### 3.6 Non-Bank Financial Institutions (NBFIs) regulated by an approved regulator

The common practices set out below assume that decisions on what constitutes an approved regulator will be taken by each financial institution following a consideration of the risks associated.

#### Information to be verified by documentation



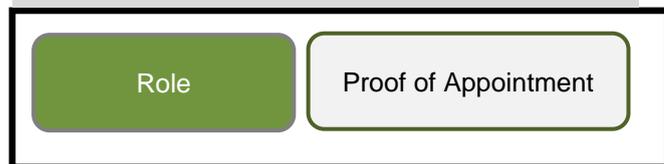
#### Documents



#### Financials



#### PPTA, BOs and Other Relevant Individuals

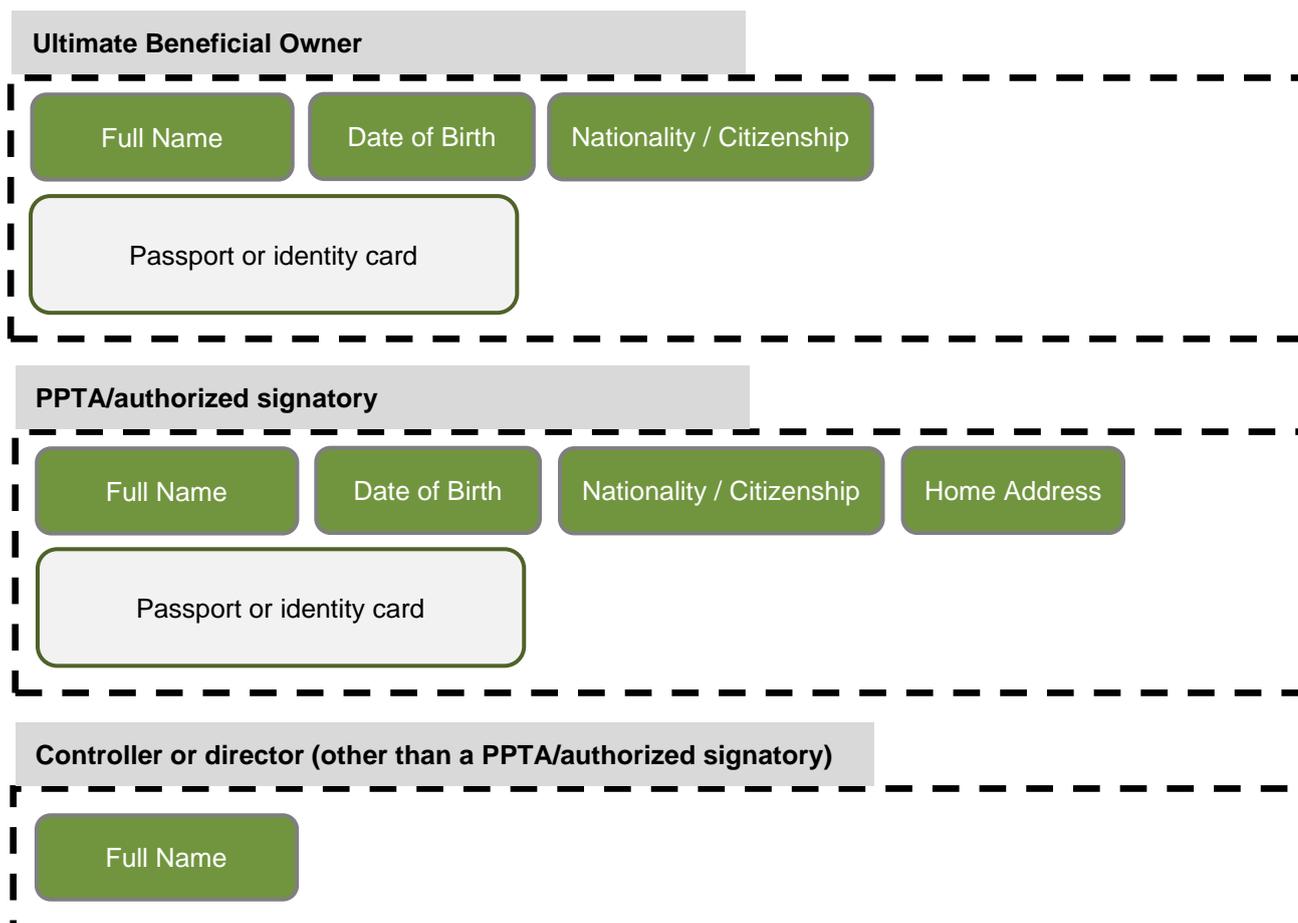


**Legend:**

- Datapoints
- Documents
- Requirements satisfied by legal entity
- Requirements apply to a relevant individual associated with the customer

### 3.6.1 Relevant individuals associated with regulated NBFIs

The common practices assume that each relevant individual is a low risk, natural person. The requirements set out in this section apply to each relevant individual within a prescribed category, subject to thresholds that financial institutions may adopt and change from time to time.<sup>9</sup>



**Legend:**

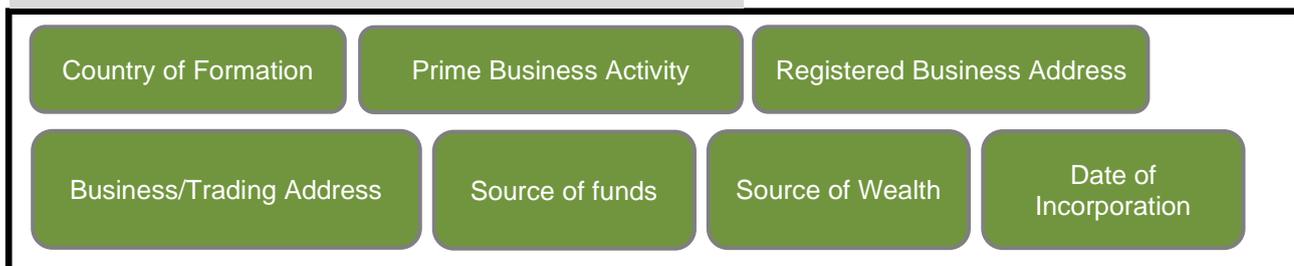
- Datapoints
- Documents
- Requirements satisfied by legal entity
- Requirements apply to a relevant individual associated with the customer

<sup>9</sup> For example, the requirements set out for *Ultimate Beneficial Owner* apply to each ultimate beneficial owner associated with the client. However, an exception may be applied for ultimate beneficial owners with a stake that is lower than an appropriately set threshold by a financial institution, which is typically 25% for low risk clients.

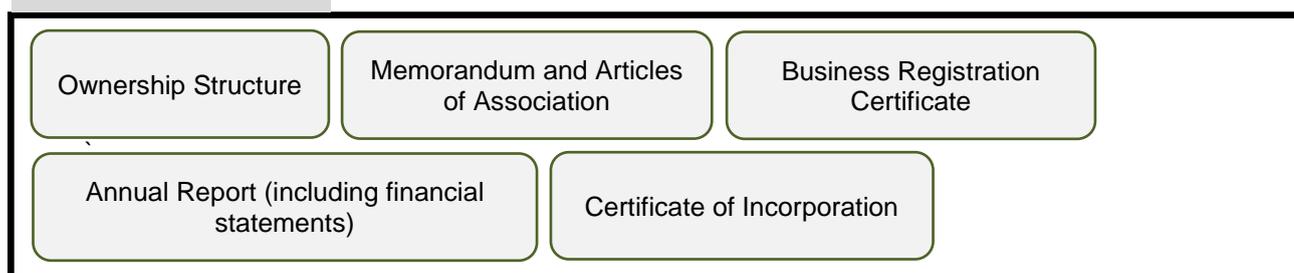
### 3.7 Public listed entities from approved jurisdictions

The common practices set out below assume that decisions on what constitutes an approved jurisdiction will be taken by each financial institution following a consideration of the risks associated.

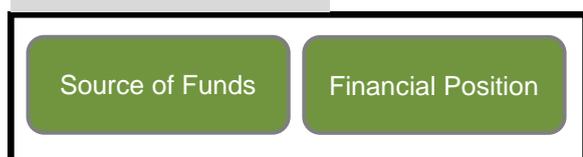
#### Information to be verified by documentation



#### Documents



#### Financials



#### PPTA, BOs and Other Relevant Individuals



#### Other

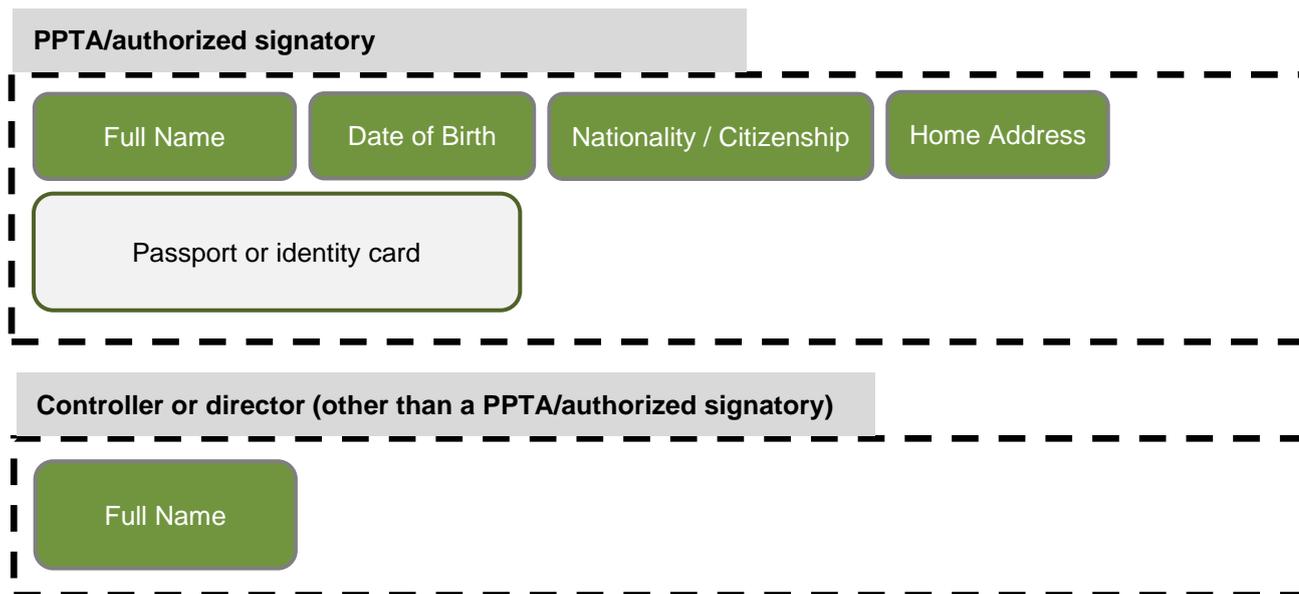


#### Legend:

- Datapoints
- Documents
- Requirements satisfied by legal entity
- Requirements apply to a relevant individual associated with the customer

### 3.7.1 Relevant individuals associated with public listed entities from approved jurisdictions

The common practices assume that each relevant individual is a low risk, natural person. The requirements set out in this section apply to each relevant individual within a prescribed category, subject to thresholds that financial institutions may adopt and change from time to time.



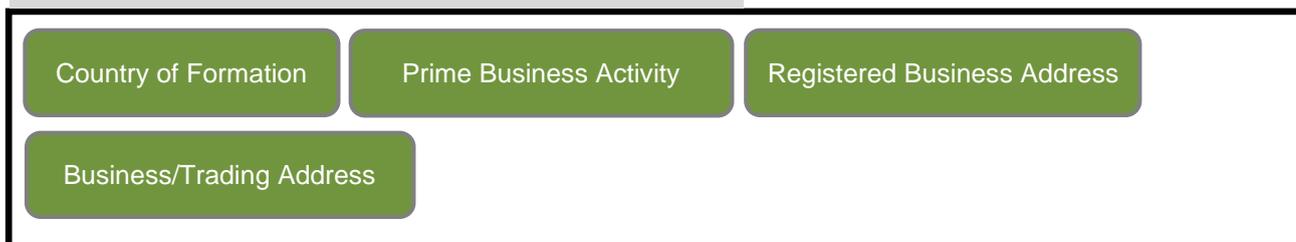
**Legend:**

- Datapoints
- Documents
- Requirements satisfied by legal entity
- Requirements apply to a relevant individual associated with the customer

### 3.8 Partnerships

The common KYC baseline requirements for partnerships are set out below.

#### Information to be verified by documentation



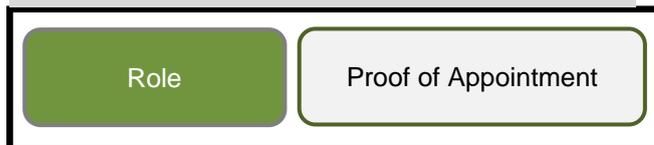
#### Documents



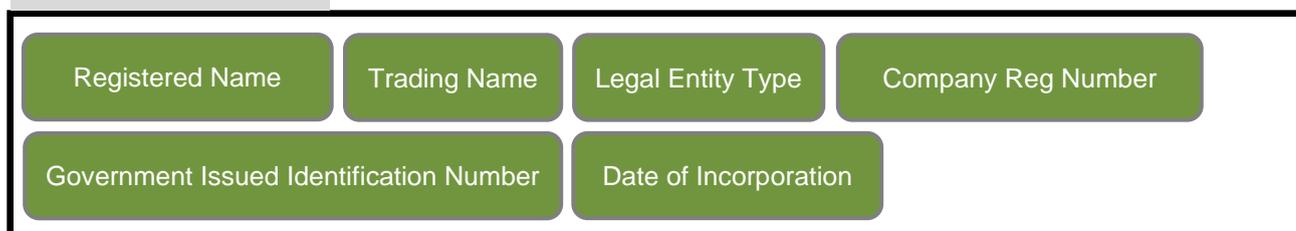
#### Financials



#### PPTA, BOs and Other Relevant Individuals



#### Other



\* Large, well established partnerships may be exempted from providing their full partnership agreement.

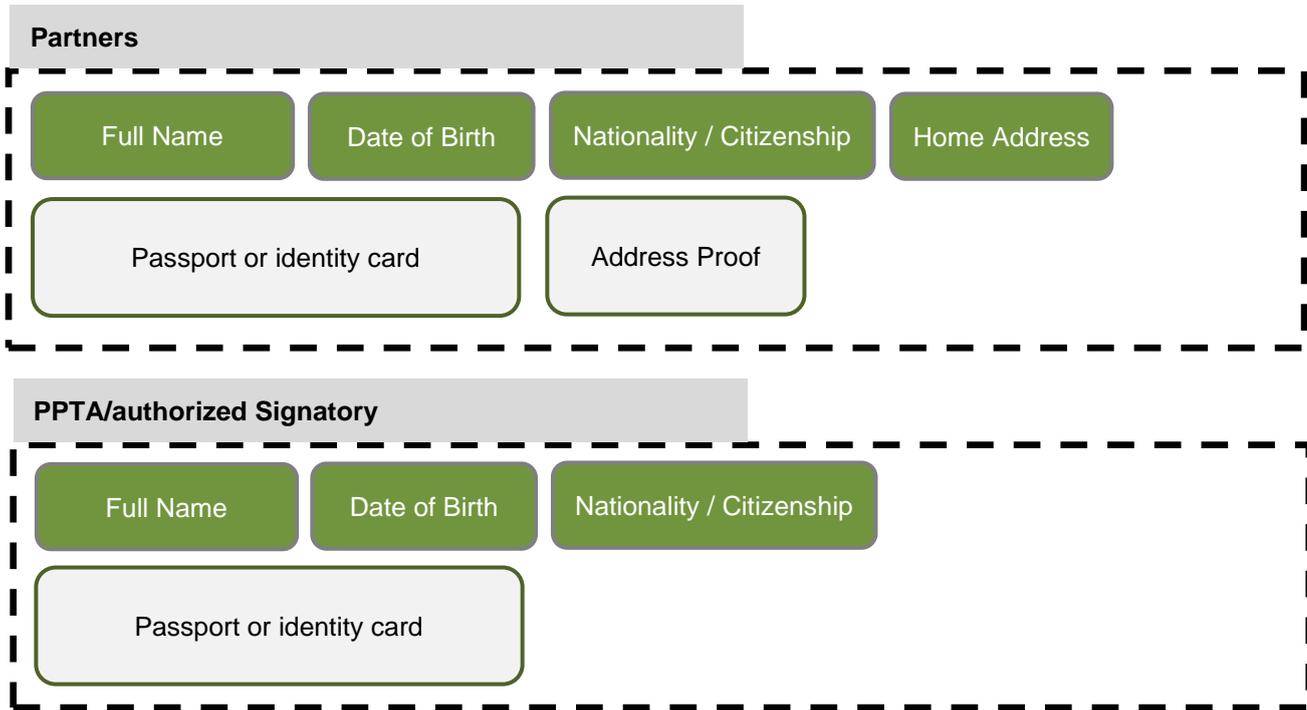
#### Legend:

-  Datapoints
-  Documents
-  Requirements satisfied by legal entity
-  Requirements apply to a relevant individual associated with the customer



### 3.8.1 Relevant individuals associated with partnerships

The common practices assume that each relevant individual is a low risk, natural person. The requirements set out in this section apply to each relevant individual within a prescribed category, subject to thresholds that financial institutions may adopt and change from time to time.



**Legend:**

- Datapoints
- Documents
- Requirements satisfied by legal entity
- Requirements apply to a relevant individual associated with the customer