

Why are banks asking questions?

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1. The 'Know Your Customer' (KYC) principle or why are banks asking questions?

Similar to elsewhere in the world, banks in Latvia have an obligation to apply the **'Know Your Customer'** principle in accordance with the following regulations:

- Law On the Prevention of Money Laundering and Terrorism Financing;
- Regulations for Enhanced Customer Due Diligence issued by the Financial and Capital Market Commission (FCMC).

The aims of the 'Know Your Customer' principle is to maintain a secure environment, and to prevent the potential risks of money laundering and terrorism financing. To achieve this, all banks are obligated to **obtain information on their customers and the origins of their funds.**



2. What can banks ask their customers?

According to regulations (**Section 28 of the Law On the Prevention of Money Laundering and Terrorism Financing**) **banks have the right** to request information and documents necessary for Customer Due Diligence (CDD) to be performed, and **customers have the obligation** to provide these, including **information** on customers' ultimate beneficial owner (UBO), customers' transactions, customers' and their UBO's economic and personal activities, financial situation, and the origin of funds and other sources of income. In some cases, banks are entitled to request additional information.

3. Can customers refuse to provide the information requested by the bank?

If a customer refuses to provide the requested information or documents to the extent required to substantially ensure that Customer Due Diligence can be carried out according to the regulations, the **bank will terminate the business relationship** (**Regulatory Provisions for Credit Institutions and Licensed Payment and Electronic Money Institutions on Enhanced Customer Due Diligence**) with this customer and require that the customer fulfils its liabilities before term. In order to successfully continue with the business relationship, it is important to provide the necessary information and documents in a timely manner.

4. Customer Due Diligence, questionnaires, documents

When complying with the regulatory requirements and implementing the 'Know Your Customer' principle, each bank performs Customer Due Diligence, as part of which the bank receives the customer's application to open an account, a questionnaire filled in by the customer, and:

- identifies the customer by means of a **personal identification document**;
- verifies whether the customer is a **politically exposed person**;
- obtains information on the customer's personal and **economic activity** and the **origin of the customer's funds**;
- obtains information on the **UBO**;
- **obtains information on the purpose** and intended nature of the **business relationship**;
- verifies the customer's **tax residency**;
- **monitors transactions** and acquires information and documents in support of the transactions carried out in the accounts;
- stores and **regularly updates** the documents, data and information acquired as part of the Customer Due Diligence process.

A politically exposed person is:

- a person who holds or has in the past held a **significant public position** in Latvia or abroad;
- a **family member** or **relative** of a person who holds or has in the past held a significant public position in Latvia or abroad;
- a person **closely associated** with a person who holds or has in the past held a significant public position in Latvia or abroad.



Ultimate Beneficial Owner (UBO):

AN INDIVIDUAL (A NATURAL PERSON) WHO OWNS OR CONTROLS A COMPANY (THE LEGAL PERSON), INCLUDING INDIVIDUALS:

- who directly or indirectly own more than 25 percent of the company's (the legal person's) stock capital or of total shares with voting rights;
- who directly or indirectly control the company (the legal person);
- who own a legal entity that is not a company or a legal person;
- in whose interests a legal entity that is not a company or a legal person has been established or operates.

A NATURAL PERSON in whose name or interests or to whose benefit a merchant (the legal person):

- establishes business relationships;
- executes specific transactions without establishing business relationships;

- who directly or indirectly controls a legal entity that is not a company or a legal person, such as the founder, trustee or supervisor (manager) of the legal entity.

Tax residency

The bank is obligated to verify a customer's tax residency and taxpayer's registration number if the customer is a tax resident in a country which is involved in the [global automatic exchange of information about financial accounts](#), or if the customer is a USA tax resident ([Law on Taxes and Duties](#)).

5. What is customer identification?

According to the regulations, a bank must **identify the client prior to establishing a business relationship**.



A bank identifies a natural person by requesting the presentation of a valid personal identification document.

Types of valid personal identification documents are passports (citizens' passports, non-citizens' passports, diplomatic passports, service passports, stateless persons' travel documents, asylum-seekers' travel documents, travel documents of persons with alternative status) and personal identification cards (citizens' personal identification cards, non-citizens' personal identification cards, personal identification cards of staff members of an international organisation accredited in Latvia, personal identification cards of representatives of a diplomatic or consular office, and ID cards issued to persons under temporary protection).

When identifying a legal person, a bank checks documents which prove:

- the establishment or **registration** of the legal person;
- the customer's **legal address**;
- the **power** of attorney or other documents which establish the rights of a specific natural person to **represent** the legal person in business relationships with the bank.

6. All information about the customer is confidential

Banks are obligated to guarantee the confidentiality of their customers' identity, accounts, deposits and transactions ([Credit Institutions Law, Section 61](#)).

Information, which the credit institution acquires in providing financial services in accordance with a contract, regarding a client and their transactions is non-disclosable information and does not contain official secrets ([Credit Institutions Law, Section 62, Paragraph 5](#)).

A bank may only provide this information to the customer and their representatives, or to state institutions and state officials, in accordance with the procedures laid down in the Credit Institutions Law ([Credit Institutions Law, Section 63](#)).

Further Information

1. Law on the Prevention of Money Laundering and Terrorism Financing
2. Credit Institution Law
3. Law on Taxes and Duties
4. Regulatory Provisions for Credit Institutions and Licensed Payment and Electronic Money Institutions on Enhanced Customer Due Diligence issued by the FCMC
5. FCMC Recommendations for credit institutions and financial institutions on the establishment of politically exposed persons (for example, members of parliament, ministers, judges), their family members and closely associated persons, and the examination and monitoring of their transactions
6. The Regulation of the Cabinet of Ministers: 'Procedures by which a Financial Institution Implements the Due Diligence Procedures for Financial Accounts and Provides Financial Accounts Information to the State Revenue Service'
7. List of countries involved in the automatic exchange of information
8. Information provided by the FCMC
9. Policy Guidance and Guidelines on Anti-Money Laundering, Countering Terrorism Financing and Enforcement of Sanctions (2017)

