

BANK SUPERVISION SECTOR

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CIRCULAR NO. 2/2012

TO ALL BANKS OPERATING IN THE REPUBLIC

The General Manager/Regional Manager

..... Bank

BASIC INDICATORS FOR SUSPECTED TRANSACTIONS INVOLVING MONEY LAUNDERING AND TERRORISM FINANCING

According to the subject in above and the Central Bank's continuous efforts to keep abreast of developments in the field of combating money laundering and terrorism financing and following Circular No. 1/2012 related to the instructions and supervisory controls to banks in respect of combating money laundering and terrorism financing and pursuant to the directives of the Governor,

these basic indicators for suspicion have been issued as a minimum level to assist banks to recognize this kind of operations which may involve money laundering or terrorism financing and in compliance with the reporting requirements to the Financial Information Unit (FIU) in order to ensure that banks comply with the provisions of Law No. 1/2010 related to Combating Money Laundering and Terrorism Financing and its executive regulation.

A. Aim of the Circular

Providing the banks with the minimum level of the suspicion indicators for transactions suspected of involving money laundering and terrorism financing in compliance with the terms of the Law on Combating Money Laundering and Terrorism Financing and its executive regulation.

B. Circular's application range

All banks operating in the Republic of Yemen.

C. Money Laundering Stages

The money laundering process is typically segmented into three stages:

First Stage: placement

At this stage, depositing of illegal funds in most cases cash in a number of bank accounts, investing them in legal projects or for the purchase of shares and real estate.

Second Stage: layering

At this stage, the illegal funds taking away and transfer them locally or overseas (in most cases to tax havens and countries with strict bank secrecy acts). These operations are mostly complex and intricate in order to make it difficult to trace the source of the illegal funds by means of using available bank services and accounts of fictitious companies which do not exercise any real activities except receiving financial transfers and redirecting them to other destinations.

Third Stage: integration

At this stage, rechanneling of the illegal funds into the domestic and international economy as if they are legal funds by means of buying shares, bonds, real estate, and setting up investment projects,...act , which an action accepted in most countries particularly in the developing ones . Consequently the launderer has been able to obliterate all evidence leading to the real illegal source of the funds which appear to be funds derived from legal activities and as such the money launderers are able to use these funds and benefit from them.

D. Terrorism Financing

The various methods used in money laundering are basically consistent with those used to hide the sources and uses of terrorist financing , as the funds used in supporting terrorism may emanate from either legal sources or illegal activities or both, but the camouflaging of the source of terrorist financing is crucial regardless whether the source is legal or not.

E. The Guideline Indicators for Transactions associated to Money Laundering or Terrorism Financing

a. Indicators for detecting operations suspected of involving money laundering

Recognizing operations suspected of involving money laundering depends on the extent of knowledge of bank employees of the provisions of the Law on Combating Money Laundering and Terrorism Financing, its executive regulation and relevant instructions, in addition to acquired expertise from practice and special training in the field of combating money laundering and terrorism financing. The following are some examples of operations that require enhanced care and examination in order to recognize the extent of the existing of suspicion of money laundering.

1. Cash Transactions

- 1.1. Depositing unusual large amounts of cash by a natural person or legal person inconsistent with the size of his/its business activities or position.
- 1.2. Frequent cash deposits of small amounts aiming at distracting bank employees with the total deposited during a specified time period inconsistent with the customer's activities.
- 1.3. Use of multiple accounts by the customer in depositing sums of cash the total of which is large during a short period of time.
- 1.4. Frequent cash deposits by various persons or parties into the account of a customer neither unclear justification nor without an existing connection among those persons, parties and the customer.
- 1.5. Cash deposits or withdrawals in large amounts by a customer who uses cheques or other payment instruments despite the fact that his activities do not necessitate dealing a lot in cash.
- 1.6. Frequent cash deposits in a number of branches of the same bank in a short period of time whether this is done by the account holder himself or others.
- 1.7. Cash deposits without a clear justification particularly if they are followed by a transfer to other accounts that have no clear connection to the customer.

- 1.8. Depositing large amounts and withdrawals which are carried out by means of ATMs in order to avoid direct contact with the bank employees particularly if such transactions are inconsistent with the nature of activities of the customer or his ordinary income.
- 1.9. Relatively large amounts of deposits and withdrawals into and from dormant accounts or accounts credited with unexpected large amounts from overseas.
- 1.10. Frequent withdrawal of funds after a short period of depositing them without a clear justification.
- 1.11. The Customer performing multiple transactions from his account to other accounts held with another bank in such way that the funds return to the bank from which the transactions were initiated, in addition to maintaining accounts at a number of banks in the same geographical area and transferring the balances of those accounts to one account then transferring overseas thereafter the accumulated amount.
- 1.12. Presenting of large value cheques inconsistent with the customer's activities and without the existence of a clear relationship justifying such transactions between the beneficiary and the drawer or the endorser of the cheques.
- 1.13. Cash deposits including banknotes in large amounts inconsistent with the customer's activities.
- 1.14. Deposits followed by withdrawals on the same account within short periods without a clear justification.
- 1.15. Customer retrieves part of an amount originally intended to be deposited on knowing the requirement to follow the procedures of due diligence.
- 1.16. Customer asks for conversion of large quantities of small denomination banknotes into larger denominations without clear reasons.
- 1.17. Customer presents financial information on his commercial activities clearly different from those of comparable companies in the same line of business.
- 1.18. Companies conducting relatively large businesses presenting unaudited financial statements.
- 1.19. The company which accepts cheques from its customer does not withdraw large amounts from its accounts for depositing these cheques indicating that it has other sources of income.

- 1.20. The occurrence of a fundamental change in the way a customer's account is run inconsistent with his records and without a clear justification.

2. Transfers

- 2.1. Outgoing and incoming transfers to and from overseas inconsistent with the customer's activities.
- 2.2. Executing transfers to and from the outside world in large amounts with instructions to pay in cash.
- 2.3. Frequent transfers from various parties with no clear connection to the customer or transfers initiated by the customer in favor of those parties.
- 2.4. Transfers of equal or approximately equal amounts to a number of persons in different countries or to be credited to a number of accounts held by one beneficiary.
- 2.5. Domestic transfers in large amounts followed by transfers overseas in different currencies.
- 2.6. Transferring the deposits in the account directly overseas either wholly or in installments.
- 2.7. Initiating transfers in large amounts to countries characterized as tax havens or for their strict bank secrecy laws.
- 2.8. Incoming transfers with instructions to convert the equivalent into cheques and send them by mail to a beneficiary with no bank account.
- 2.9. Receiving of transfers in large amounts and on a regular basis from areas famous for specific crimes such as planting or trafficking in drugs or from countries lacking effective systems for combating money laundering or terrorism financing.
- 2.10. Incoming large transfers from the outside world for credit to dormant accounts.
- 2.11. Frequent outgoing transfers or in large amounts paid in cash inconsistent with the customer's activities.
- 2.12. Frequent transfers the total of which during a specific period is inconsistent with the customer's activities.
- 2.13. Customer using his account as an intermediary for transferring funds between other parties or accounts.

3. Letters of Credit and documents on Collection

- 3.1. Importing or exporting of goods inconsistent in kind or value with the nature and size of the customer's activities.
- 3.2. Indicators on large discrepancy between the value of the goods as shown in the letter of credit or collection and their real value.
- 3.3. Customer asks without clear justification to amend the beneficiary's name in the letter of credit or collection documents before payment.
- 3.4. Frequent opening of letters of credit or dealing in collection documents in a way inconsistent with the customer's activities.
- 3.5. Opening of letters of credit against financial guarantees inconsistent with the size of the customer's activities and his dealing history with the bank.
- 3.6. Apparently, unusual terms of payment or payment in favor of other parties with no clear connection to the letter of credit or collection documents.
- 3.7. The beneficiaries of the letter of credit are companies owned by the customer or the shipping companies are owned by the same customer.
- 3.8. The amounts mentioned in the letter of credit documents presented by the customer to the bank or the customs authorities don't match with the original.
- 3.9. The customer changes the place of payment in the letter of credit to another country different from the beneficiary' country.

4. Letters of Guarantee

- 4.1. Frequent issue of letters of guarantee inconsistent with the nature and size of the customer's activities.
- 4.2. Issuing letters of guarantee against financial guarantees inconsistent with the size of the customer's activities and his dealing history with the bank.
- 4.3. Customer without clear justification asks to have letters of guarantee liquidated a short period after their issue by the bank.
- 4.4. Issuing letters of guarantee at the request of the customer without the existence of underlying contracts covering ongoing projects.

5. Credit Facilities

- 5.1. Applying for loan against guarantee of assets owned by others or borrowing customers presenting guarantees of additional assets owned by others without there being a clear connection between them.

- 5.2. Obtaining credit facilities against guarantees from a bank operating outside the country without a clear reason for such an action.
- 5.3. Borrowing customer requests to transfer the loan quickly to other banks or overseas without a clear reason for such an action.
- 5.4. Unexpected settlement in advance of nonperforming loans before their due dates by the customer or other parties.
- 5.5. Customer's purchase of certificates of deposit and using them later on as guarantee to repay credit facilities.
- 5.6. Obtaining credit facilities against the freezing of the deposits of a company or its subsidiaries overseas especially if they are located in countries renowned for planting or trafficking in drugs.
- 5.7. Obtaining credit facilities against cash deposits.
- 5.8. Obtaining credit facilities against cash deposits overseas.
- 5.9. Customer suddenly repays a large loan without a clear and reasonable justification of the source of funds.
- 5.10. Application for credit facilities rejected by bank owing to doubts regarding the validity and genuineness of the guarantees presented.
- 5.11. Customer presents unaudited financial statements.

6. Electronic Bank Transactions

- 6.1. The customer account received multiple small electronic transfers and transferring overseas large amounts in the same manner thereafter.
- 6.2. Depositing or receiving large amounts by electronic means regularly from countries renowned for growing, producing and trading in narcotics.
- 6.3. Customer applies through the internet for a bank account to be opened without submitting the necessary required information.
- 6.4. Customer uses the e-banking service to transfer funds several times between his accounts for unclear reason.

7. Credit Cards

- 7.1. Crediting the account without clear justification with amounts in excess of the credit limit granted to the customer or the utilized balance.
- 7.2. The Customer frequently utilizes his credit limit in full then settles the debit balance also in full.
- 7.3. Frequent cash withdrawal of the daily maximum limit allowed on a card.

8. Foreign Currency Transactions and Traveler Cheques

- 8.1. Purchase or sale of foreign currencies in large amounts inconsistent with the customer's activities.
- 8.2. Frequent purchase or sale of foreign currencies, the total of which in a specific period of time is inconsistent with the customer's activities.
- 8.3. Frequent applications for issuing traveler cheques and other convertible instruments in a way inconsistent with the customer's activities.
- 8.4. Personal Identity verification by foreign entity located in a country famous for growing and trafficking in drugs.

9. Safe deposits boxes leasing Services

- 9.1. Customer's unusually frequent visits to his safe deposit box.
- 9.2. Customers not residing in the area of a bank keeping safe deposit boxes without a clear justification particularly where such services are available at the banks operating in the area where they reside.
- 9.3. Use of safe deposit boxes in large quantities which may indicate a customer is depositing vast amounts of money in these boxes.
- 9.4. Customer renting several safe deposit boxes without a clear justification.

10. Customer's Behavior

- 10.1. Customer keen to avoid direct dealing and contact with bank staff by way of using ATMs on a continuous basis and declines to meet bank officials when they call him.
- 10.2. Suspected customer or his representative appears anxious and perplexed while carrying out a transaction in the bank.
- 10.3. Suspected customer holds various bank accounts for no clear reason.
- 10.4. Customer persistently inquires about systems, records and directives at the bank related to money laundering and terrorism financing in order to avoid reporting.
- 10.5. Customer asks in an abnormal and excessive way that some transactions be kept in utmost secrecy.
- 10.6. Suspected customer or his representative cancels a transaction merely because a bank employee tries to obtain some missing important information.
- 10.7. Customer shows resentment and refuses to complete the procedures of a specified financial transaction on knowing that its details must be reported to the concerned authorities.

- 10.8. Customer behaves in an unusual manner like not seizing an opportunity available to obtain a higher interest on a large account balance and is ignorant of the basic facts underlying the financial transaction.
- 10.9. Customer refuses to provide the bank with the required personal identification documents.
- 10.10. Customer who is still a student irregularly receives transfers or applies of such payment orders and exchanges unusually large amounts of currencies in a way inconsistent with his position and situation.
- 10.11. Customer who is under the influence of another person while visiting the bank and is unaware of what is happening or the customer is elderly and is accompanied by a person who is not related to him in any way during the execution of the financial transaction.
- 10.12. Customer who offers unjustified gifts or bribes to a bank employee and tries to convince the employee not to examine the customer's personal identification documents or other documents or submits suspicious personal identification documents and refuses to provide the bank with his personal information.
- 10.13. Customer who refuses to disclose the details of his activities, data, documents or pieces of information related to his organization or company.

11. Other Indicators

- 11.1. Customer dealing through a number of persons who are authorized to sign on one single account without there being a clear connection between them especially if they are of foreign nationalities.
- 11.2. Using of bank accounts which belong to other customers.
- 11.3. Real beneficiary belongs to an area famous for its criminal activities.
- 11.4. Persons who try without a clear reason to exchange large quantities of banknotes from small to high denominations.
- 11.5. Customers whose accounts are used to receive and pay large amounts non-matching with the account holder and his activities.
- 11.6. Accounts which are credited with various cash deposits or transfers and then closed after a short period of time or left in a dormant state.

- 11.7. Signs of luxury and wellbeing on the suspected customer and his family in an extravagant way inconsistent with his position particularly if these signs appear abruptly.
- 11.8. The suspected customer, the real beneficiary or any party to the transaction has a criminal record.
- 11.9. Purchase of real estate, vehicles, jewelry or other properties with high value.
- 11.10. Forgery proven of documents, manuscripts or certificates.
- 11.11. Any Party of the transaction (the suspected person, the real beneficiary or others) is under investigation by foreign authorities.
- 11.12. A natural person and a legal person both have the same address.
- 11.13. The existence of fictitious contracts with other parties.

12. Employee's Behavior

The following aspects of behavior on the part of the bank employee may indicate he is involved in illegal transactions:

- 12.1. A substantial and sudden improvement in his standard of living and spending norms inconsistent with his monthly income.
- 12.2. Employee repeatedly violates control procedures and follows a policy of evasion and deception in carrying out his duties.
- 12.3. Employee assisting in executing transactions in which the counterparty is not fully known or identified.
- 12.4. Employee exaggerates the credibility, character and capabilities of the customer and his financial resources and means in his reports to the bank management.
- 12.5. Sudden change in the standard of living of a bank employee without a clear justification.

13. General Indicators

- 13.1. The bank should use all possible means to follow up suspected operations and transactions while focusing on transactions done through countries incorporated in the list of non cooperative states and the list of persons and entities chased internationally.
- 13.2. The bank should follow up updates of patterns of money laundering and terrorism financing and procedures of combating them especially what is

published in this field by the Financial Action Task Force (FATF), the International Monetary Fund, the World Bank, the Basle Committee and other international organizations.

- 13.3. The bank should identify the source of funds deposited on opening an account particularly large cash deposits.
- 13.4. In managing dormant and inactive accounts, the bank should comply with the following:
 - Fixing a time limit for dormant accounts after which they should be transferred to the head office.
 - Not to execute any transaction on these accounts except through the branch manager or his deputy.
 - Examining closely cheques drawn on such accounts.
 - Not to pay cash from these accounts except by cheque.
- 13.5. Programming the IT system of the bank to generate reports which assist in enhancing the efficiency and effectiveness of the bank's internal systems for combating money laundering and terrorism financing.
Following are some of the suggested reports:
 - Reports of current account entries and balances including all accounts whether relating to customers or employees and comprising all entries in every account during a specified time period (monthly or quarterly), the account balances at the end of each month, the balance average and the number of transactions executed in order to identify any unusual activity.
 - Reports of transfers including all transfers incoming and outgoing domestic and foreign, the amount of each transfer, the currency and the way of payment whether cash or by cheque in respect of every customer separately.
 - Reports of entries and balances of foreign banks' accounts including all transfers executed by any means showing the amount and currency, bank's name, beneficiary's name, the number and size of dealing with every foreign bank and any other changes.

Indicators for Identifying Transactions Suspected of Involving Terrorism Financing

1. Accounts to which are credited deposits or transfers from nonprofit making organizations, societies or other parties domestic or foreign particularly if these parties are located in countries renowned for their support of terrorism.
2. Transactions posted in the accounts of a nonprofit making entity inconsistent in pattern or volume with its objectives and activities.
3. Having huge donations particularly from foreign entities for the accounts of a nonprofit making entity especially if there is no clear connection between them.
4. Incoming or outgoing transfers to countries famous for their support of terrorism.
5. Incoming transfers in favor of beneficiaries that belong to countries linked to terrorism activities.
6. Personal accounts to which are credited large transfers from an unknown source for the alleged reason of covering the beneficiaries' living expenses.

Based on the above, reference should be made to this circular for identifying suspicious transactions. The general indicators should be complied with and any transaction suspected of involving money laundering or terrorism financing must be reported to the Financial Information Unit (FIU) regardless of whether the transaction has been executed or not in accordance with the notification indicators issued by the (FIU) which include specimens of notification on suspicious transactions.

This circular comes into force on the date of its issue.

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Bank Supervision Sector

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