

Proposal: simplified customer due diligence

We seek your views about whether it's appropriate to expand the types of low-risk institutions that reporting entities are allowed to conduct simplified due diligence on.

The Act currently allows simplified customer due diligence (CDD) to be performed on:

- an entity listed on the NZX
- a government department named in Schedule 1 of the State Sector Act 1988
- a local authority as defined in section 5 of the Local Government Act 2002
- NZ Police
- the NZ Security Intelligence Service
- any other entity or class of entities specified in regulations.

The AML/CFT (Requirements and Compliance) Regulations 2011 specify that the following entities are customers for the purposes of the Act's simplified due diligence provisions:

- a person licensed to be a supervisor or statutory supervisor under the Financial Markets Supervisors Act 2011, when the person acts for themselves
- a trustee corporation, within the meaning of section 2(1) of the Administration Act 1969, when it acts for itself
- a Crown entity
- an organisation named in Schedule 4 of the Public Finance Act 1989 or a company named in Schedule 4A of the Public Finance Act 1989
- a government body that:
 - corresponds to a government department named in Schedule 1 of the State Sector Act 1988, and
 - is located in an overseas jurisdiction with sufficient anti-money laundering and countering financing of terrorism systems and measures in place
- a registered bank within the meaning of section 2(1) of the Reserve Bank of New Zealand Act 1989
- a licensed insurer within the meaning of section 6(1) of the Insurance (Prudential Supervision) Act 2010
- a company whose equity securities are listed on an overseas stock exchange that has sufficient disclosure requirements and is located in a country with sufficient anti-money laundering and countering financing of terrorism systems and measures in place.

The FATF states that where the risks of money laundering or terrorist financing are lower, financial institutions could be allowed to conduct simplified CDD measures. These simplified measures should take into account the nature of the lower risks and should be commensurate with them (for example, the simplified measures could relate only to customer acceptance measures or to aspects of ongoing monitoring).

We note that currently in New Zealand, State Owned Enterprises (SOEs) aren't included in the simplified CDD provisions. While they're owned by the government, they have been subject to a

different risk profile than other government bodies due to their different legal structure and the commercial nature of their operations. .

However, under the State-Owned Enterprises Act 1988, SOEs may represent a lower risk, given that they are owned by the state through the responsible shareholding minister and the Minister of Finance. Therefore, there is limited value in requiring businesses dealing with SOEs to carry out due diligence on the beneficial owner (in this case, the Government), which is currently required in situations when simplified CDD is not permitted.

We also note that currently, simplified due diligence can be carried out on a company listed on the NZX, or on an overseas stock exchange that has sufficient disclosure requirements and is located in a country with sufficient AML/CFT systems and measures in place.

However, when reporting entities are dealing with majority-owned subsidiaries of such companies, the simplified CDD provisions don't apply. Given these subsidiaries face the same ownership and disclosure requirements as their parent companies, it may be appropriate to extend simplified CDD to them. This would mean that due diligence of beneficial owners is not required. We note that the FATF recognises that simplified due diligence may be applied to such majority-owned subsidiaries.

We propose that reporting entities be allowed to conduct simplified customer due diligence on:

- SOEs as defined by Schedule 1 of the State Owned Enterprises Act 1986
- majority-owned subsidiaries of publicly traded entities in New Zealand and in low risk overseas jurisdictions



Questions

1. Should the simplified customer due diligence provisions be extended to the types of low-risk institutions we've proposed above? If not, why?
2. Should we consider extending the provisions to any other institutions?