



CENTRAL BANK OF EGYPT
INTERNAL AUDIT SECTOR
COMPLIANCE DEPARTMENT

البنك المركزي المصري
قطاع المراجعة الداخلية
إدارة الالتزام

CBE Compliance Policy

For

Anti-Money Laundering/Combating Terrorist Financing



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Introduction

This policy has been developed in application of the AML/CFT Regulations for Banks, issued by the Egyptian Money Laundering Combating Unit (EMLCU) and according to the Recommendation No. 15 of the FATF Forty Recommendations. Recommendation 15 states that “financial institutions should develop programs against money laundering and terrorist financing. These programs should include:

- a) The development of internal policies, procedures and controls, including appropriate compliance management arrangements, and adequate screening procedures to ensure high standards when hiring employees;
- b) An ongoing employee training program; and
- c) An audit functions to test the system.”

The policy has also been set in application of the Working Paper of Compliance and the Compliance Function in Banks issued by Basel Committee in April 2005. The Paper sets out the responsibilities of a bank's board of directors for compliance. Principle 1 states that “the bank's board of directors is responsible for overseeing the management of the bank's compliance risk. The board should approve the bank's compliance policy, including a formal document establishing a permanent and effective compliance function. At least once a year, the board or a committee of the board should assess the extent to which the bank is managing its compliance risk effectively”.



1- Objectives

- 1) Ensuring the bank's abidance by "Anti-Money Laundering and Terrorism Financing" Law No. 80/2002, its Executive Regulations, and its amendments issued by Law No. 78/2003 and Law No. 181/2008, along with all that are to be issued of AML systems and procedures, KYC rules, the FATF Forty Recommendations, and the Nine Special Recommendations on Terrorist Financing.
- 2) Ensuring that all sectors and branches of the bank adhere to the instructions and procedures prescribed in the Guidelines on Anti-Money Laundering and Combating of Terrorism Financing.
- 3) Ensuring compliance with the bank's AML/CFT policy.
- 4) Preventing the use of the bank's services in the processes of money laundering and terrorist financing, and preventing damage to the bank's reputation by association with such processes.
- 5) Supporting AML/CFT domestic and international efforts.

2- Concepts

- 1) **Money Laundering: According to Articles (1-B) and (2) of Law No 80/2002 and its amendments**, money laundering refers to "any conduct involving the acquisition, holding, disposing of, managing, keeping, exchanging, depositing, guaranteeing, investing, transferring or converting Funds, or tampering with their value, if such Funds are the proceeds of crimes such as (planting, manufacturing, smuggling narcotics or psychotropic substances or trafficking therein; and the crimes of hijacking means of transport and detaining of individuals; and the crimes in which terrorism, or the financing thereof falls among its purposes or means of perpetration; the crimes of unlicensed importation, trading and manufacturing of weaponry, ammunition and explosives; the crimes of money theft and usurpation; and swindling and perfidy; and fraud and deceit, and debauchery and prostitution; any crimes against antiquities; and the crimes stipulated in Chapters (1), (2), (3), (4), (15) and (16) of Book II of the Penal Code regarding the environment crimes related to dangerous wastes and materials; and organized crimes under international treaties to which Egypt is a party), provided that such conduct purports to conceal, disguise or alter the nature, source, location, ownership, or any interest therein, or change the true nature, or to prevent the discovery thereof or impede the identification of the perpetrator of the crime the proceeds of which are these Funds.



2) **Financing of Terrorism:** any conduct by any person, group of persons, institution, or any other entity, whether directly or indirectly and willfully provide, or collect funds or any other assets with the intention that they should be used, or in the knowledge that they should be used, in full or in part, in order to facilitate or carry out acts of terrorism; or provide them to terrorists, terrorist organizations, or persons or entities acting on their behalf or at their direction.

- **Terrorist act:** refers to any act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation or armed conflict, when the purpose of such act, by its nature or context, is to intimidate a population, or to compel a government or an international organization to do or to abstain from doing any act.
- **Terrorist:** refers to any natural or legal person commits, or attempts to commit, terrorist acts by any means, directly or indirectly, unlawfully and willfully; participates as an accomplice in terrorist acts; organizes or directs others to commit terrorist acts; or contributes to the commission of terrorist acts by a group of persons acting with a common purpose.
- **Terrorist organization:** refers to any group of terrorists that commits, or attempts to commit, terrorist acts by any means, directly or indirectly, unlawfully and willfully; participates as an accomplice in terrorist acts; organizes or directs others to commit terrorist acts; or contributes to the commission of terrorist acts by a group of persons acting with a common purpose.

3) **Difference between money laundering and terrorist financing:**

There are some crucial differences between the two processes, in terms of:

- **Objective:** the crime of terrorist financing is committed for ideological motives, while the objective of most crimes associated with money laundering is to make profit.
- **Source of funds:** Terrorists finance their activities through sources of legitimate or illicit origin, but in money laundering, the initial funds always originate from illicit origin.
- **Methods:** the techniques and methods used in terrorist financing are essentially the same or similar to those used in money laundering.
- **Amounts of funds:** terrorist financing does not usually require large amounts of money, and the processes associated with it may be less complex than is the case with money laundering.



3- General Policy and its Components

A) General policy:

Considering that banks are typically one of the channels used for money laundering and the financing of terrorism and, complying with AML/CFT local laws and international standards, the CBE - out of its pivotal role and leadership of all banks operating in Egypt – has targeted to formulate a strict policy to avoid the exposure of the Bank or any of its employees to legal liability, and protect it from reputation risks, or legal/financial penalties enforceable in this regard. Nonetheless, it is very unlikely for the Central Bank to be vulnerable to the risks of being exploited in the offenses of money laundering and terrorism financing, on the following grounds:

- 1) Opening accounts at the CBE is not permissible for any individuals other than its employees;
- 2) Selection of CBE employees is based on the highest standards of competence and integrity, and prior to their appointment, the security authorities are consulted;
- 3) It is not permissible to open accounts for legal persons other than government bodies. Being sovereign entities, they can not be used in the activities of money laundering or the financing of terrorism; and
- 4) The CBE has in place an integrated KYC system (for employees), accessible by the AML/CFT Compliance Department.

B) Policy components:

- 1) Prohibiting the management of accounts or execution of operations known, or suspected, of involving criminal activities;
- 2) Cooperating with all entities, to the extent permitted by applicable local laws, legislations, regulations and systems;
- 3) Ensuring that the best efforts are exerted to comply with all laws, legislations, controls and Know-Your-Customer rules for combating money laundering and terrorism financing;
- 4) Ensuring that AML/CFT internal controls are in place;
- 5) Ensuring that there is a clear and well-defined mechanism for the reporting of transactions suspected of involving money laundering or terrorism financing; and



- 6) Providing adequate training to all existing and new staff, and raising their awareness of the Bank's AML/CFT general policy.

4- Responsibility

The Head of the Internal Audit Sector has been designated as a compliance officer responsible for the CBE compliance with AML/CFT laws and regulations. He will also be responsible for ensuring that all the departments and branches of the Bank do comply with the Anti-Money Laundering Law, its amendments, and Executive Regulations; and that they adhere to the AML/CFT Regulations for Banks and Know Your Customer Rules (KYC) issued by EMLCU. The compliance officer will also verify the effectiveness and efficiency of the internal controls and procedures of the Bank. Importantly, the CBE has introduced a new department in its organizational structure (Compliance Department) affiliated to the Internal Audit Sector that reports directly to the Bank's Governor.

5- Approval and Revision of the General Policy

The AML/CFT policy is reviewed and approved by the CBE Governor. The policy is to be periodically reviewed (annually or as appropriate).

6- International and Local Standards

The AML/CFT policy is based on both the international standards and the local legislative and regulatory structure, as follows:-

1) AML/CFT International Standards:

- 1-1 The FATF Forty Recommendations;
- 1-2 The FATF Nine Special Recommendations on CFT; and
- 1-3 Basel Accords which include the requirements of customer due diligence, and cover in detail the rules of Know Your Customer (KYC), and the methods of managing KYC risks.



2) Local Legislative Structure

- 2-1 Anti-Money Laundering Law No. 80/2002, its amendments and Executive Regulations;
- 2-2 KYC rules issued by the EMLCU; and
- 2-3 AML/CFT Regulations for Banks, issued by EMLCU.

7- AML/CFT Compliance Department Responsibilities

- 1) Examining unusual and suspicious transactions referred to the Department, substantiated with justifiable reasons of suspicion.
- 2) Reporting to EMLCU the transactions suspected of involving money laundering or terrorist financing on the forms designed for this purpose.
- 3) Taking decisions for filing reports on the transactions, wherein suspicion is found to be groundless, stating the reasons behind this decision.
- 4) Proposing whatever measures deemed necessary for developing and updating the Bank AML/CFT policies, and relevant systems and procedures to enhance the effectiveness and efficiency thereof, and keep pace with local and international developments.
- 5) Ensuring compliance of all bank branches with AML/CFT regulations and internal controls, via off-site and on-site supervision.
- 6) Cooperating and coordinating with the Human Resources Department (HR) to set AML/CFT training plans for the bank staff, proposing training programs necessary for carrying out such plans and following up their implementation.
- 7) Preparing a periodical report- at least once a year - on the Bank's AML/CFT activities, and submitting it to the Governor. The Governor reviews the report, makes comments thereon and takes the necessary actions, then send it with his comments and decisions to the EMLCU. The report must include the following:
 - Efforts exerted in the reporting period concerning the unusual and suspicious transactions and the measures taken in their regard;
 - Weaknesses found during the periodical review of the bank AML/CFT systems and procedures, and proposals to rectify such weaknesses, including the bank internal disclosures on unusual transactions;



- Any amendments to the bank AML/CFT policies, internal systems, or procedures during the period covered by the report.
- Degree of commitment to the implementation of approved off-site and on-site supervision plans to verify compliance of different bank branches with AML/CFT laws, regulations and internal systems.
- An outline of the plan set for off-site and on-site supervision on bank branches for the period following the reporting period.
- Details of AML/CFT training programs for the bank staff in the reporting period.

8- Data Access and Staff Protection

A) Data Access

Officials at the Compliance Department have the following abilities and powers:

- 1) Directly communicate with any of the Bank's staff to access any files/information necessary for performing their duties.
- 2) Check potential non compliance incidents, and request support from the staff in charge at the Bank (legal advisor- internal audit), if necessary.

B) Warranty of Staff Protection

The Bank warrants the protection of those employees who report –in good faith- suspicious transactions.

9- Procedures of Reporting Suspicious Transactions

- 1) All transactions suspected of involving money laundering or terrorist financing, including attempts to conduct such transactions, should be reported, regardless of their volume or type.
- 2) The report should include detailed reasons and causes that led the bank to suspect the transaction.
- 3) The report shall be made in the form designed by the EMLCU for this purpose. All data and copies of documents pertaining to the suspicious transaction should be attached with the said form.
- 4) Procedures pertaining to reported transactions suspected of involving money laundering or terrorist financing, or data related thereto, shall not be disclosed to the customer, beneficial owner, or to any other entity, except to the authorities and entities responsible for enforcing the provisions of Anti-Money Laundering Law.



10- Record Keeping

The following documentations should be maintained for five years:

- 1) Unusual transaction reports and the documents proving review thereof.
- 2) Copies of the documents of suspicious transactions (originals are to be kept with bank's documents at the Archive & Microfilm Dept. in Al Haram), including copies of reports sent to the EMLCU.
- 3) Copies of documents and reports that the Head of Compliance Dept. has decided to keep.
- 4) Records of training programs, provided that such records contain data on all AML/CFT programs offered to Bank staff, names of trainees, their divisions/departments, content and timeframe of training programs, and training entity, whether at home or abroad.

11- AML/CFT Training

According to AML/CFT Regulations for Banks issued by the EMLCU, banks should develop plans and programs -on continuous basis (annually at least) to train their staff to enhance compliance with the AML/CFT rules and systems and to ensure that they are updated on the latest ML/TF techniques and trends and counter measures; as well as the latest relevant developments on the domestic, regional and international levels. Developing and implementing such programs should be carried out in coordination with the HR Dept., and EMLCU. In this context, the following points should be observed:

- 1) Training should be provided to all Bank staff and units.
- 2) Training programs should be conducted with the assistance of the Egyptian Banking Institute or any other entity whose objectives include inter alia, training on combating money laundering and terrorist financing. Such assistance should be consistent with the general policy of qualification and training set by the EMLCU.
- 3) Reporting to EMLCU all data related to training programs.