

Directive on

Method of Identification of Foreign Customers of Financial Institutions

Purpose

In order to combat money laundering and prevent financing of terrorism and in the effective implementation of article 14 (8) of The National Money and Banking Act (July 1972 and its later amendments), article 7(a) of the Anti-Money Laundering Act (adopted by the Islamic Consultative Assembly on the 22 January 2008), chapter 2 of the Executive By-Law of the Anti-Money Laundering Act, subject of By-Law No. 181434/T 43182K of 5 December 2009 issued by the Ministers member of the Work Group for the Adoption of By-Laws of the Anti-Money Laundering Act and its later amendments, the Cabinet By-Law No. T/211815 H39395 on Documenting the Flow of Funds in the Country of 16 March 2008, By-Law on “Determining the Designated Number of Foreign Persons Related to the Country”, Subject of H40266T/ 16173 of Apr.18, 2009 approved by the Council of Ministers and Resolutions by the Committee of its Article 9 and to manage various banking risks, especially operational, reputation, and conformity risks, this Directive on “Method of Identification of Foreign Customers of Financial Institutions” is hereby notified.

Definitions

Article 1- The terms and phrases used in this Directive have the following definitions:

1-1- Central Bank: Central Bank of the Islamic Republic of Iran.

1-2- Act: The Anti-Money Laundering Act of 22 January 2008.

1-3- By-Law: the Executive By-Law of the Anti-Money Laundering Act No. 181434/T 43182K of 5 December 2009 issued by the Ministers member of the Work Group for the Adoption of By-Laws of the Anti-Money Laundering Act and its later amendments.

1-4- Financial institutions: means banks (including Iranian banks and branches and representative offices of foreign banks based in the Islamic Republic of Iran), non-bank financial institutions, credit cooperatives, interest-free loan funds, leasing companies, investee companies, and other legal persons acting as intermediaries in the exchange of funds.

Note: A financial institution includes a branch or representative office existing in the free trade and industrial zones and the special economic zones of the Islamic Republic of Iran.

1-5- Senior Management: members of the executive board/managing director and such managers and senior personnel of the financial institution who are directly under the supervision of the

executive board/managing director and are responsible for carrying out the strategies and policies of the Board of Directors/Board of Trustees or the executive board as the case may be.

1-6- Operational Risk: the possibility of loss arising from insufficient or inappropriate processes and methods, manpower and internal systems or occurrences that take place outside the financial institution, including suspension of operations, customer penalties, business products and performance, employee performance and workplace safety.

1-7- Reputation Risk: potential loss due to loss of reputation for reasons such as an unfavorable financial situation, a decrease in credit ranking or loss of public trust.

1-8- Conformity: compliance of the financial institution's activities with laws, regulations and standards relevant to the activities of the institution.

1-9- Conformity risk: the possibility of imposition of fines, legal punishments, monitoring punishment, suffering of important losses or damage to the reputation of the financial institution resulting from violating laws, regulations and standards.

1-10- Customer:

- a natural or legal person who has an account in a financial institution, or a bank account is opened in favor or on behalf of that person;
- any natural or legal person who is in another banking or credit service relation with the financial institution (or other beneficiary or beneficiaries) and from whom various risks, especially risks to reputation and operations, may arise for the financial institution.

A customer may be divided into two types of occasional and permanent as defined below.

1-10-1- Occasional customer: a customer visits the financial institution to receive non-basic services and the provision of services to the customer does not require the creation of a file. An occasional customer does not have a "continuous" relationship with the financial institution. Customers requesting the payment of checks, money order and payment of bills are occasional customers.

1-10-2- Permanent customer: a customer whose relationship with the financial institution has the important quality of being continuous and due to the type and nature of the services required, it is necessary to create an identification and other relevant information file for that customer.

1-11- Foreign natural persons: are individuals who do not have Iranian nationality, have valid documents of the passport issuing country and have visa or valid residence permission in Iran. As regards stateless foreigners, have special card for foreign nationals or valid temporary exit card issued by the Interior Ministry of I.R. Iran. As for foreign refugees, have valid refugee card issued by the Police of I.R. Iran.

1-12- Foreign legal persons

They include:

a) Institutions, companies and their active branches registered outside Iran.

Note- Agency and branches of foreign companies and institutions registered with the Iranian General Bureau of Registration of Companies are considered as Iranian legal persons.

b) Foreign political representatives resident in Iran including embassies and consulates.

c) Official representative offices of international organizations located in Iran approved by the Ministry of Foreign Affairs.

d) Offices of foreign NGOs with license for activity issued by the Interior Ministry.

1-13- Customer identification: the recognition and verification of the customer's identity using information sources, documents and data that are independent, valid and reliable. Customer identification is divided into two groups of activities known as "initial identification" and "full identification".

1-13-1- Initial Identification: means checking against identification documents and entry of information declared by customer. In case the information is provided by representative or attorney, information of the principal shall be entered in addition to that of the attorney or representative.

1-13-2- Full Identification: means precise identification of customer at the time of providing basic services as referred to in this Directive.

1-14- Banking and financial services: refers to various services provided by the financial institution to a customer. Banking and financial services are divided into two groups, known as "non-basic services" and "basic services" as described below.

1-14-1- Non-basic Services: means services which are not a prerequisite and required for providing other services to a customer nor will they result in a continued relationship of the customer with the financial institution. The provision of these services to a customer only requires the customer's initial identification by the financial institution as set forth in this Directive. Non-basic services include:

- Money order;
- Any form of payment or withdrawal;
- Buying and selling foreign currencies, whether cash, transfers, foreign travelers check, etc.;

- Issuance of various cashier's checks and interbank (certified) checks and payment of checks.

1-14-2- Basic Services: means banking and financial services which, according to regulations, are considered to be prerequisite and required for providing other services by financial institutions after which customers call on the financial institution to receive frequent and continuous services. Basic services include:

- Opening accounts of any type with banks;
- Provision of facilities and leasing transactions;
- Transactions related to letters of credit;
- Issuance of various bank guarantees and endorsement;
- Buying debt, reception or discounting of commercial and banking documents (including promissory notes, checks and bills of exchange) and endorsements thereof;
- Renting of safe deposit boxes;
- Issuance of various withdrawal and payment cards.
-

1-15- Designated Number: A unique number which is determined and allocated to each of foreign natural and legal persons and shall be inserted on the valid ID as a code.

1-16- Financial Intelligence Unit: (FIU) a national, centralized and independent financial unit that has the responsibility to receive, analyze and refer the reports about suspicious transactions to the competent authorities (as specified in article 38 of the Executive By-Law of the Anti-Money Laundering Act).

1-17- Designated Threshold Amount: as defined in article 1 (G) of The Executive By-Law of the Anti-Money Laundering Act.

1-18- The Council: means High Council on Anti-Money Laundering.

1-19- Secretariat: means the Secretariat of the High Council on Anti-Money Laundering.

1-20- National Database for Foreign Nationals: the authority in charge of determining the designated number of foreign natural and legal persons having relation with I. R. Iran, , according to By-Law No. H40266T/ 16173 of Apr.18, 2009 approved by the Council of Ministers.

1-21- Persons Identity Verification System (PIVS): a system existing in the Ministry of Economic Affairs and Finance, which is connected to relevant organizations (National Organization for Civil Registration, National Database for Foreign Nationals, State Organization

of Deeds and Properties, Post company, and the Tax Affairs Organization) and facilitates replies to financial institutions inquiries on various persons identification and address.

1-22- Valid identification documents

1-22-1- Foreign natural persons

- Valid passport: means a passport that its expiry date has not been passed and includes valid residence permission.

Note 1: Valid residence permission is:

- 1- The valid residence permission issued by the Police, inserted on the passport;
- 2- Visa with valid date issued by the Ministry of Foreign Affairs, inserted on the passport;
- 3- The passport of nationals whose country requires entry visa for Iranian nationals with entrance stamp to the country and at most one month since the entrance date;
- 4- Passport of foreign nationals with visa renewal permission issued by the Police.

Note 2- visa or residence permission inserted on the service and political passports issued by the Ministry of Foreign Affairs.

- Valid refugee document issued by the Police;
- Valid identification card issued by the Interior Ministry;
- Valid temporary exit card (Processing) issued by the Interior Ministry.

Note 3- Validity of refugee documents, identification cards and Processing is subject to non-expiry of the date.

1-22-2- Foreign legal persons

- Introduction letter by the Ministry of Foreign Affairs for political representative of countries and international organizations

- Introduction letter by the Interior Ministry for foreign NGOs;
- Registration documents of other foreign legal persons outside Iran on which the place, date and number of registration and subject of legal person's activity have been inserted;

1-23- Identity specifications

1-23-1- Natural persons: Name and surname, father or mother's name, date of birth, country of birth, number and kind of identification document, nationality, gender, designated number.

Note: as regards Arab nationals, the name of ancestor is considered as identity specifications with no need to obtain surname

1-23-2- Legal persons: name, nationality, subject of activity, kind of activity, number, place and date of registration, designated number.

Note: This Directive contains minimum necessary information on the method of identification of valid documents of foreign documents. The Central Bank take measures to prepare and notify relevant guidelines of valid identification documents. Also, due to complexity of identifying the validity and lawfulness of presented documents by foreign natural or legal persons, personnel of financial institutions shall have to inquire the matter on a case basis via connecting to PIVS or through contact with National Database for Foreign Nationals.

Note: While verification of evidences and documents of occasional foreign customers is conducted at the place of the financial institution, they should employ experienced staff in each branch.

Article 2- A financial institution shall, in order to give effect to the purposes of this Directive, draft transparent policies and procedures within the framework of the prescribed laws and regulations and review the same annually. These policies and procedures must contain the following:

- The policy on accepting customers;
- The procedures for identification of customers;
- Continuous monitoring of accounts;
- Risk management.

The Policy on Accepting Customers

Article 3- A financial institution must have clearly defined criteria for accepting customers. These criteria should incorporate the following:

3-1- Opening any kind of account requires full identification of the customer based on identity documents and papers, valid residence and activity permission and rules set forth in this Directive.

3-2- A financial institution must check the identity and information provided by the customer and its representative (parent, executor (of estate), guardian, and Iranian or foreign attorney) against valid identification documents, according to the rules set forth in this Directive.

3-3- Prior to opening an account, a financial institution shall check to ensure that the details of the person requesting the opening of an account does not correspond to the details of foreign persons for whom it is forbidden to open accounts.

3-4- The financial institution shall have to refrain from opening account for foreign natural and legal persons who do not provide valid documents for their residence in Iran.

3-5- AML Unit of financial institution is obliged to report details of foreign customers who have provided false information to the Financial Intelligence Unit.

Article 4- as for foreign nationals with refugee document issued by The Police, special card of foreign nationals and temporary exit card (processing) issued by the Interior Ministry, financial institutions shall have only, after initial and full identification, to provide relevant services of opening interest-free loan saving account, investment saving and operation for cashing checks.

Note: provision of any E-card and license of E-services to the above mentioned persons are forbidden.

Article 5- provision of any bank services to foreign nationals with valid passport and residence permission is permitted.

Article 6- The financial institution must promptly implement article 15 of the By-Law concerning the identification of existing customers.

Note 1: Such existing customers, whose details show inconformity at the comparison stage, must clarify such inconformity within three months. If the inconformity is not clarified, the Anti-Money Laundering Unit of the financial institution shall submit the matter to the Financial Intelligence Unit.

Note 2: Such existing customers whose median annual activity is considered unimportant by virtue of the relevant Directive that shall be approved by the Council are exempt from this article.

Article 7- If a financial institution is unable to obtain the necessary information for the identification of a customer for reasons such as a lack of cooperation by the customer or the customer provides false information, the financial institution shall, after explaining the issue, abstain from providing services to the customer.

Article 8- A financial institution shall report the details of customers who have provided false information to the Financial Intelligence Unit.

Procedures for Identification of Customers

The identification of a foreign natural or legal customer is divided into initial identification and full identification based on the services it requests. While providing banking services to foreign customers, financial institution is obliged to obey relevant provisions of Directive on Identification of Iranian Customers of Financial Institutions in addition to rules set forth in this Directive. Hence, a financial institution shall, when providing any banking and financial services (whether non-basic services or basic services) to a foreign customer, whether occasional or permanent, and conducting any kind of monetary and financial operations (even under the designated threshold amount), including any form of payment and withdrawal, money order, issuance and payment checks, provision of facilities, issuance of any kind of payment and debit cards, issuance of guarantees, sale and purchase of foreign currencies, certificate of deposit and participation bonds, acceptance of guarantees and undertakings of guarantors in any form, such as signing promissory notes, bills of exchange and letters of credit, carry out identification of the customer as set forth in this Directive and registered information in its information systems.

Note: Payment of government bills and utilities under the designated threshold amounts does not require the identification of the customer.

Initial Identification of Foreign Persons (Natural, Legal)

Article 9- While providing non-basic services, the financial institution is obliged to obtain identity specifications of the customer and his/ her representative (parent, executor (of estate), guardian, Iranian or foreign attorney) and upon verification against the original valid identity documents, register them.

Note: as regards legal persons, identification of their representative or attorney is mandatory.

Full Identification of Foreign Persons (Natural, Legal)

A financial institution shall, when providing any basic services to foreign persons (natural or legal), fully identify them, in addition to carrying out the initial identification.

Full Identification of Foreign Natural Persons

Article 10- For full identification of foreign natural persons, relevant personnel of the financial institution is obliged to complete the annexed form number 1, attached with the scan or copy of valid identification documents of foreign natural persons and send it to the AML Unit. This Unit shall obtain the designated number of foreign persons via PIVS. If that number already exists, the AML Unit shall have to check its authenticity and then order opening the account to the requesting branch. At the same time, the valid documents and the filled out form shall be sent to FIU via the communication system of FIU. The latter Unit, after doing necessary surveys from relevant databases which shall take within at most three working days, notifies the license of activity to the AML Unit of the financial institution. Prior to the issuance of the said license, the financial institution is only allowed to receive funds from the owner of the account and provision of any other banking services is subject to the issuance of license. In case the FIU does not issue the said license, the financial institution shall have to take measures according to the order of the FIU.

Full Identification of Foreign Legal Persons

Article 11- For full identification of foreign legal persons, relevant personnel of the financial institution is obliged to complete the annexed form number 2, attached with the scan or copy of valid identification documents of foreign legal persons and send it to the AML Unit. This Unit shall obtain the designated number of foreign persons via PIVS. If that number already exists, the AML Unit shall have to check its authenticity and then order opening the account to the requesting branch. At the same time, the valid documents and the filled out form shall be sent to FIU via the communication system of FIU. The latter Unit, after doing necessary surveys from relevant databases which shall take within at most three working days, notifies the license of activity to the AML Unit of the financial institution. Prior to the issuance of the said license, the financial institution is only allowed to receive funds from the owner of the account and provision of any other banking services is subject to the issuance of license. In case the FIU does not issue the said license, the financial institution shall have to take measures according to the order of the FIU.

Note: as regards foreign companies, branches and representative offices of foreign companies in Iran and foreign NGOs, in addition to full identification of natural persons with authorized signature, foreign resident officials traveling to Iran (as per the requirements for natural persons)

and also specifications of board of directors, and senior managers and equivalent organizational position in foreign countries (as noted for natural persons, except the number of residence permission and visa and address), obtain specifications of their principal company outside Iran, according to the content of forms No. 1 and 2).

Article 12- For full identification of foreign customers (natural or legal), financial institution shall have to obtain all information that it obtains (as the case may be) for full identification of Iranian customers (natural, legal) and maintain them in their records.

Continuous Monitoring of Accounts

Article 13- branches that open accounts for foreign natural and legal persons are obliged to provide a summary of the information of customers' turnover and submit it to AML Unit of the financial institution every three months via E-system, so that, based on this information, in addition to monitoring specified in this Directive, necessary monitoring shall be conducted in accordance with conditions of legal and illegal activity and presence of natural and legal persons. In case of changes of the said conditions, necessary informing to the relevant branches shall be conducted.

Article 14-The Board of Directors, senior management, or equivalent organizational position of the financial institution shall ensure the existence and implementation of effective programs for foreign customer identification by adopting appropriate procedures. These programs must provide for the possibility of efficient management of systems, controls, segregation of duties and training of personnel. The final responsibility for decisions taken in this regard rests with the Board of Directors or its equivalent in the financial institution.

Article 15- The responsibility for the implementation of policies and procedures of the Board of Directors and senior management or equivalent organizational position in the financial institution (in respect of foreign customer identification and creation of relevant information systems) rests with that institution's Anti-Money Laundering Unit. The said unit shall evaluate the implementation of the policies and procedures for customer identification in all branches and all levels of the financial institution and report any deviation accompanied by corrective suggestions to the Board of Directors and senior management of the financial institution.

Article 16- Financial institution shall provide training to its personnel on identification of customers. Training modules must be designed such that personnel gain sufficient and reasonable knowledge on the necessity, importance and method of implementing policies and procedures on customer identification. These modules must be continuous (specifically in respect of new personnel) so that it is ensured that the relevant personnel have received the relevant training in this regard. The financial institution shall include the relevant training records in its employees' files.

Article 17- Financial institution is obliged to review the information pertaining to a customer being active once every six months. Also, on request of a customer or the incidence of substantial change in a customer's situation, the financial institution shall once again conduct a full identification of the customer.

Keeping Records of Customers and Their Transactions

Article 18- The Board of Directors of the financial institution shall ensure that necessary steps have been taken for the appropriate maintenance and processing of information, and that powerful systems have been established in the institution, such that when necessary, these systems are able to provide required information by relevant authorities with ease, and within the framework of relevant laws and regulations within one working day at the maximum.

Article 19- The maintenance of the documents and evidences in the financial institution shall be in accordance with the By-Law on “the Duration and Method for Maintaining Commercial Papers, Banks' Ledgers and Documents” approved in the 1114th session of the Money and Credit Council on 15th June 2010 (the Central Bank By-Law number 80223/89 of 6 July 2010, and its later amendments).

The type of transaction, amount and kind of currency, date of transaction and parties to the transaction, accounts whereby the transaction has taken place, and details of the account holder(s) shall be included in the records of financial transactions maintained.

Miscellaneous

Article 20- Observance of other provisions mentioned in the Directive on Identification of Iranian Customers of Financial Institutions is mandatory for foreign natural and legal persons.

Scope of This Directive

Article 21- In addition to financial institutions, this Directive is binding on all branches and representatives of foreign banks and financial institutions in Iran, financial institutions situated in free trade and industrial zones and special economic zones.

Effective Date

Article 22- The effective date of this Directive is one month after its notification by the Central Bank. During this time, financial institutions shall inform customers and adopt the necessary

measures and facilities for implementing this Directive, such that its implementation will as far as possible not interfere with customers' affairs.

This Directive has been approved in the twelfth session of the High Council on Anti-Money Laundering on 2 January 2012 in 22 articles and 14 notes.