

**KYC – Know Your Customer** 





Groupe d'action financiare



Japan will remain in enhanced follow up **2023** Brazil's 4<sup>th</sup> round onsite visist

2022



**2021** Japan 4<sup>th</sup> round of mutual evaluation



2016

2008
Japan's first mutual evaluation by FATF

THRO MUTUAL EVALUATION REPORT ANTI-MONEY LAUNDERING AND COMMUTING THE FINANCING OF TERROREM

JAPAN

17 OCTOBER 2008

Japan was placed under the regular follow-up
Brazil's first mutual evaluation by FATF

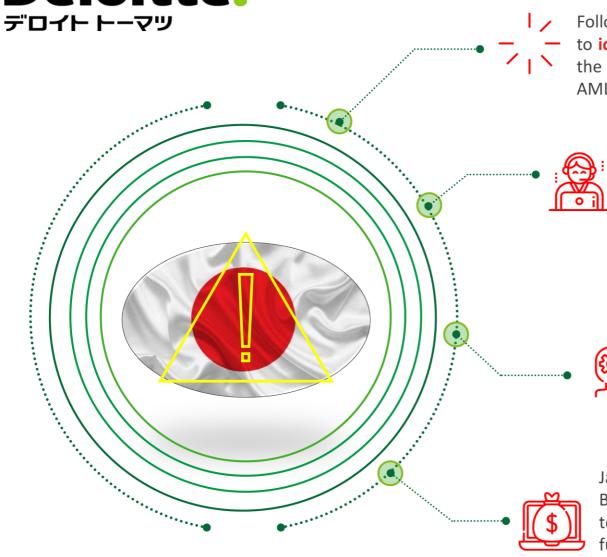




2014

Japan was placed under targeted follow-up process

Japan exited from the targeted follow-up process Between 2016 and 2019, the FATF issued a number of statements conveying deep concerns about Brazil's continued failure to remedy the serious deficiencies



Following the recommendations of FATF, Japan was urged to improve procedures to identify persons who have substantial control of Japanese companies to bring the country up to international standards. In April 2019, the FSA revised the AML/CFT guidelines it had established in February 2018.

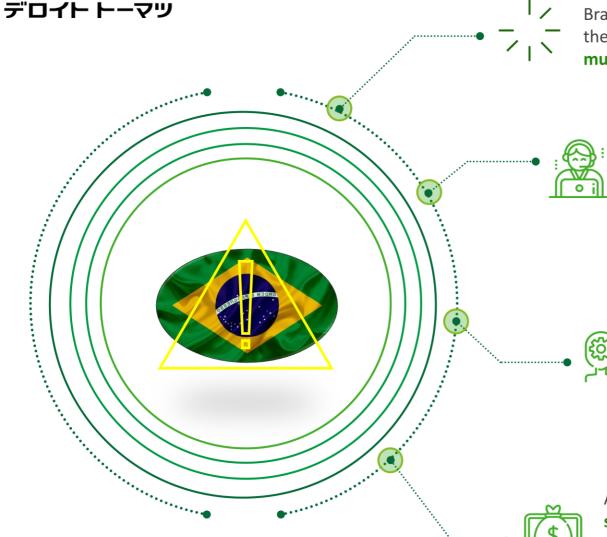
The Amendments only apply to three types of corporate entities in Japan:

- (i) a company;
- (ii) a general incorporated association (ippan shadan hojin); and
- (iii) a general incorporated foundation (*ippan zaidan hojin*). Thus, identification of the Beneficial Owner is not required when establishing a Japanese limited liability company (*godo kaisha*), or the branch of a foreign company.



According to a survey of Japanese financial institutions conducted by The International RegTech Association, KYC and AML are some of the fields in which financial institutions expect to be able to improve their business efficiency by introducing technology.

Japan has been taking effective measures to combat financial crime for years. But, despite all these measures, Japan still faces risks of money laundering, terrorist financing, corruption, and fraud. The principal sources of laundered funds are narcotics trafficking, illicit gambling, loan-sharking, extortion, abuse of legitimate corporate activities, internet fraud schemes, and all types of property-related crimes, which are often linked to Japan's organized criminal organizations.



Brazil has not yet been assessed in the fourth round of mutual evaluations. Due to the COVID-19 pandemic and the pause in the FATF's assessment process, the mutual evaluation of Brazil has been postponed to 2023.

In 2016 FATF, released a statement conveying its deep concerns about Brazil's continued failure to remedy **the serious deficiencies**, **especially those related to terrorism and terrorist financing**. The FATF has repeatedly called for action to address those deficiencies in June 2016, October 2016, February 2017, June 2017, November 2017 and June 2018.

In 2019, Brazil finally published Decree no.9.825 addressing the remaining shortcomings for identifying and freezing terrorist assets

The Amendments due to FATF's MER to Brazilian regulation in 2012 added the following practices:

- (i) Fls must identify, qualify and classify its customers (KYC Program);
- ii) Wider Politcally Exposed Person concept;
- (iii) UBO identification standards; and,
- (iv) Inclusion of KYE, KYP and KYS



According to a survey conducted by CAF, Brazil has some of **the most sophisticated types of fraud**, which is driven by its high innovation, digital savvy population and fraudsters' access to technological tools.

Therefore, some of the most common types of fraud are spoofing and document forgery. **Brasil bore R\$ 587.508.000 in losses due to fraud in 2022** 



KYC is a legal requirement for financial institutions.

Some may mistakenly think KYC is as simple as collecting someone's passport. But in order to run an effective and compliant KYC program, you must establish KYC policies and procedures addressing the following topics:





The identity verification requires a software capable of verifying features including name, address, date of birth and a customer's photo on documents (such as a driving license) to certify identification and be able to determine the thickness of a document in order to confirm it has not been altered. Amendment of the Ordinance for the Enforcement of the Act on Prevention of Transfer of Criminal Proceeds — using e-KYC to tighten identity verification

Customer Risk Assessment (CRA)



Assessing the risk level of a customer during the KYC process involves evaluating factors such as their geographic location, nature of business, source of funds, expected transaction volume, and past financial behavior.

This risk assessment allows FIs to categorize customers and determine the extent of due diligence required and the frequency of monitoring.

Customer (Enhanced) Due Diligence (CDD/EDD)



The level of due diligence must be proportionate to the level of risk presented to the business.

CDD: Ongoing monitoring of customer activities based on their transactions, source of funds, and background as well as screening against regulatory, legal and criminal watchlists.

EDD: Additional scrutiny and monitoring for higher-risk customers or transactions.

Risk-based Customer Management



This process must be done periodically, in accordance with the customer risk rating (CRR), through various means, such as: a. Document Verification b. Address Verification c. Biometric Verification d. Database Checks Customer Risk Rating is supposed to assign an index (= rating) that objectively indicates risk for each individual customer. In the scoring model, various customer attributes are quantified and calculated to provide the customer score.

(YC processes are not data protection nemesis



Ensuring the privacy and confidentiality of customer data during KYC processes is crucial and must abide to:

- a. Adhering to data protection laws and regulations.
- b. Limiting access to customer information only to authorized personnel on a need-to-know basis.
- c. Utilizing secure systems and technologies to store and transmit sensitive data.
- d. Conducting regular audits to identify and address any vulnerabilities in data security.



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