Standard CDD: identification, verification and purpose

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The core of PSN02 is the duty to identify the customer, to verify that identity using reliable and independent sources and to identify and take reasonable measures to verify the beneficial owner. The firm must also understand the ownership and control structure of a legal-person customer and must understand, and where appropriate obtain information on, the purpose and intended nature of the business relationship.[1] For natural persons the notice requires at least the full name including aliases, unique identification number (passport, identity card or birth certificate), residential address, date of birth and nationality. For legal persons it requires the name, legal form, constitution, proof of incorporation, registered office and principal place of business. It further requires the identity of directors or equivalent, of persons authorised to act and of the beneficial owners.

Verification must use reliable, independent source documents, data or information. MAS has accepted since 2018 that this may be done remotely using the MyInfo service for Singapore residents, biometric comparison of a live image with a passport chip, or digital identity services that meet the standards in MAS's circular on non-face-to-face customer due diligence.[2] Remote onboarding is the norm in the DPT sector. The Guidelines nevertheless expect the firm to have assessed the

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impersonation and synthetic-identity risks of its chosen technology and to apply additional measures where the technology is weak, for example a video call or a verified transfer from a bank account in the customer's name.

Beneficial ownership

The beneficial owner is the natural person who ultimately owns or controls the customer or on whose behalf a transaction is conducted, including a person who exercises ultimate effective control over a legal person or arrangement.[3] PSN02 does not fix a percentage. The Guidelines accept that a firm may use an ownership threshold as a starting point. Most Singapore firms use 25 per cent, matching the Companies Act register of controllers. The notice's test remains control, so a 10 per cent shareholder who appoints the board is a beneficial owner however the threshold is set.[4] For trusts the firm must identify the settlor, the trustee, the protector if any, the beneficiaries or class of beneficiaries and any other natural person exercising ultimate effective control. For foundations and similar arrangements the same persons are identified by analogy.

The DPT sector adds two complications. The first is the decentralised autonomous organisation (DAO) or protocol foundation as a customer. A Cayman or Swiss foundation with no members and a council appointed by token vote has no beneficial owner in the ownership sense. The firm must therefore identify the natural persons with effective control: the council members, the multisig signers, the persons able to direct the treasury. Part B, Chapter VII explains the structures. The second complication is the corporate customer whose shareholders are themselves token-governed. Here the firm must look through as far as it can and document where and why it stopped. MAS does not expect the impossible. It expects the attempt and the record.

Natural persons appointed to act

Where a customer acts through an agent, director or authorised signatory, that person must be identified and verified as if a customer. The firm must also verify the authority to act.[5] For DPT custody this rule has teeth: the firm must know which

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named individuals may instruct a withdrawal from a corporate wallet and must verify their authority by board resolution or equivalent. A withdrawal instruction from an employee not on the mandate is a red flag and, in several cases I have seen, the first sign of an internal fraud at the customer.

Notes

1. MAS Notice PSN02, para. 6 (customer due diligence), sub-paragraphs on identification of customers, natural persons appointed to act, beneficial owners and the purpose of business relations. ↩
2. MAS Circular No. AMLD 01/2018, Use of MyInfo and CDD Measures for Non-Face-to-Face Business Relations, 8 January 2018; Guidelines to Notice PSN02, section on non-face-to-face verification. ↩
3. MAS Notice PSN02, para. 2 (definition of "beneficial owner") and para. 6 (identification and verification of beneficial owners). ↩
4. Guidelines to Notice PSN02, section on beneficial ownership; Companies Act 1967, Part 11A (register of registrable controllers), which uses significant interest of more than 25 per cent or significant control as the test. ↩
5. MAS Notice PSN02, para. 6, sub-paragraphs on natural persons appointed to act on behalf of the customer. ↩

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