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BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE DEPUTY GOVERNOR
FINANCIAL SUPERVISION SECTOR

MEMORANDUM NO. M-2018-021

To : **ALL BSP-SUPERVISED FINANCIAL INSTITUTIONS (BSFIs)**

Subject : **Frequently Asked Questions on Anti-Money Laundering -related concerns on the adoption of National Retail Payment Systems Framework**

Relative to the adoption of the National Retail Payment Systems (NRPS) Framework under BSP Circular No. 980 dated 6 November 2017, which provides the Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT) requirements for all transactions performed under the NRPS Framework, attached is a primer on Frequently Asked Questions (FAQ) on AML-related concerns on the adoption of NRPS Framework.

For information and guidance.


CHUCHI G. FONACIER
Deputy Governor

Att: FAQ

10 August 2018

FREQUENTLY ASKED QUESTIONS
AML-Related Concerns on the Adoption of the
National Retail Payment System (NRPS) Framework
under Circular No. 980 dated 06 November 2017

To facilitate the implementation of the NRPS Framework and to guide relevant stakeholders, the following answers to Frequently Asked Questions (FAQs) are issued:

1. What are covered in the NRPS framework?

The NRPS¹ framework covers all *retail* payment-related activities, mechanisms, institutions and users. It applies to *all domestic payments* which are denominated in Philippine Peso (Php), and which may be for payments of goods and services, domestic remittance or fund transfers.

Retail payments under the NRPS framework are payments that meet at least one of the following characteristics:

- a. The payment is not directly related to a financial market transaction;
- b. The settlement is not time-critical;
- c. The payer, the payee, or both are individuals or non-financial organizations; and
- d. The payer, the payee, or both are not direct participants in the payment system that is processing the payment.

2. Is fund transfer covered under the NRPS framework?

NRPS covers account-to-account fund transfers to and between customers of BSP-supervised financial institutions (BSFIs) which are direct participants under the NRPS framework.

3. Does NRPS apply to both cross-border and domestic fund transfer?

Yes, NRPS applies to domestic account-to-account fund transfers and the domestic leg of a cross-border wire transfer.

4. What is the domestic leg of a cross-border wire transfer?

In general terms, a domestic leg of a cross-border wire transfer refers to the Php fund transfer component of a cross-border wire transfer.

¹ As defined under Circular No. 980

5. What are the responsibilities of BSFIs under the NRPS framework?

The responsibilities of the BSFIs under the NRPS framework will depend on their roles or participation in the payment transactions, either as an originating institution (OI), beneficiary institution (BI) or intermediary institution (II) of domestic fund transfer and incoming cross-border wire transfer.

A. Domestic Fund Transfer

a. Originating Institution²

- (1) Performs customer due diligence, including sanction screening, on the customer-sender upon on-boarding and conducts risk- and materiality-based ongoing monitoring of the customer-sender's account; and
- (2) Consistent with Subsection X806.2, item "k" and Section X807 of the Manual of Regulations for Banks (MORB):
 - (i) ensures that the required information accompanies the wire transfers, unless this information can be made available to the BI and relevant authorities by other effective means. In the latter case, the OI shall include only the account number or a unique identifier within the message or payment form which will allow the transaction to be traced back to the originator or beneficiary. OIs are required to provide the information within three (3) business days from receipt of request; and
 - (ii) reports covered or suspicious transaction/s of the customer-sender, if any, to the Anti-Money Laundering Council (AMLC).

b. Beneficiary Institution²

- (1) Performs customer due diligence, including sanction screening, on the customer-beneficiary upon on-boarding and conducts risk- and materiality-based ongoing monitoring of the customer-beneficiary's account. The BSFI should adopt an appropriate and robust monitoring system wherein measures, procedures or mechanisms are aligned or suited with the retail nature of the payment platform;
- (2) Consistent with Subsection X806.2, item "k" and Section X807 of the MORB:
 - (i) ensures that the agreed required information under the clearing rules accompanies the wire transfers; and

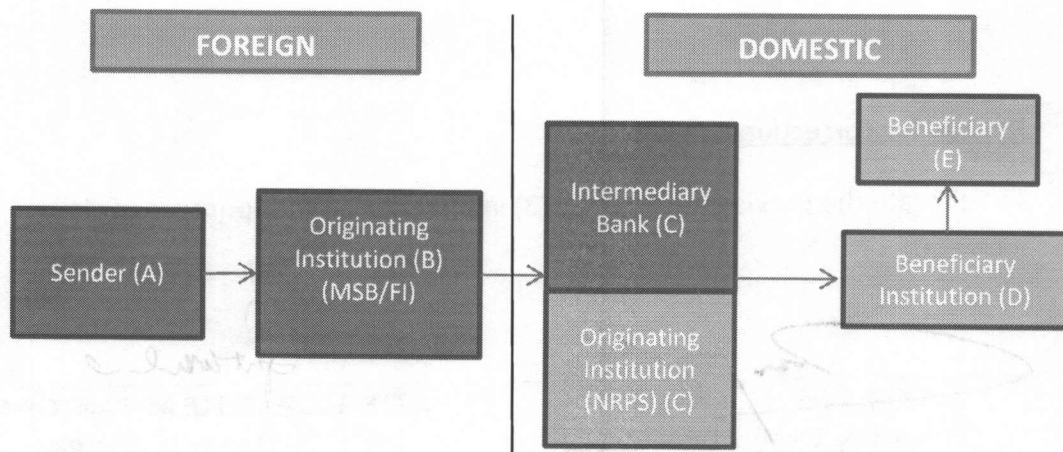
² As defined under Section X803 of the MORB

- (ii) reports covered or suspicious transaction/s of the customer-beneficiary, if any, to the AMLC;
- (3) Observes the prescribed turn-around time and the requirement of immediate crediting to the account of the customer-beneficiary and making the funds available as provided under Circular No. 980 and Memorandum No. 2018-012 dated 23 March 2018, unless there is a clear hold instruction on the transaction from the customer-sender.
- (4) Performs ongoing monitoring of the beneficiary account as part of the risk-based approach to customer due diligence. If the transaction appears to be unusual or suspicious, the BI should instantly conduct a holistic assessment of the customer-beneficiary's account taking into consideration the noted unusual transaction as part of its conduct of enhanced due diligence. The BI should still observe the prescribed turn-around time and the requirement of immediate crediting and making the funds available as provided under Circular No. 980 and Memorandum No. 2018-012. It should immediately report an STR if circumstances warrant and decide whether to continue maintaining or to close the account.
- (5) Ensures that the actual account number and amount credited are consistent with the beneficiary account number and the amount indicated in the payment instructions received by the BI.

B. Incoming Cross-border Wire Transfer

Presented below are diagrams of sample cross-border incoming wire transfers which are for further credit through the Automated Clearing House (ACH) under the NRPS, with delineation of the responsibilities of the parties involved.

Scenario 1 – Cross Border Inward Remittance with the following arrangements:



- OI (B), which is a Foreign Remittance Tie-up, such as Money Service Business (MSB)/Financial Institution (FI), is an accountholder of the Intermediary Bank (C³)
- B funds its account with C, thru SWIFT (cover payment); B sends payment instruction to C, for further credit to a beneficiary account (E) maintained with the BI (D)
- C implements the payment instruction to D through the NRPS

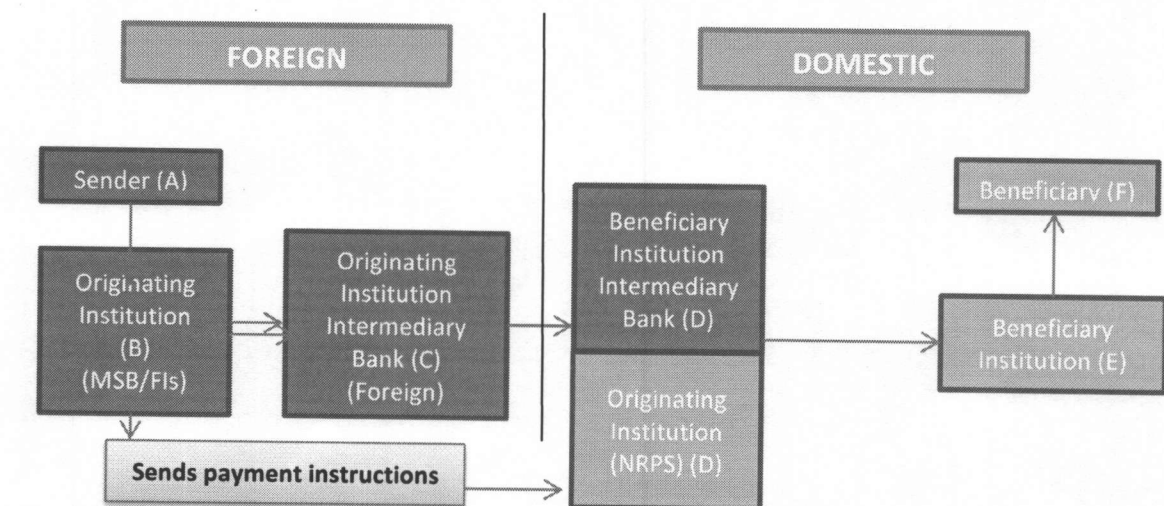
a. Intermediary Bank/OI (NRPS) (C)

- (1) Performs customer due diligence, including sanction screening, on the OI (B) (Tie-up account) upon on-boarding and as part of risk- and materiality-based ongoing monitoring of the OI's (Tie-up account) (B) account;
- (2) Conducts transactional sanction screening on the payment parties (originator and beneficiary); and
- (3) Consistent with Subsection X806.2, item "k" and Section X807 of the MORB:
 - (i) ensures that the required information accompanies the wire transfers, unless this information can be made available to the BI and relevant authorities by other effective means within three (3) business days from receipt of request; and
 - (ii) reports covered or suspicious transaction/s of the originator (or OI, B), if any, to the AMLC.

b. Beneficiary Institution

Refer to the responsibilities of a BI in item 5.A, domestic fund transfer.

Scenario 2 – Cross Border Inward Remittance with the following arrangements:



³ Can have different roles depending on the perspective in the payment transaction: perspective of cross-border fund transfer (as an II) and perspective of the NRPS transaction leg (as an OI)

- *OI (B) (e.g., MSB or foreign FI) does not have an account with the BI Intermediary Bank (D) in the Philippines*
- *Transaction is facilitated through the NOSTRO account of D maintained with the OI Intermediary Bank (C)*
- *B sends funds to C and transmits payment instruction to either C or D, for credit to the account of beneficiary (F) with the BI (E). E has no correspondent banking relationship with C.*
- *C credits the NOSTRO account of D; then D implements the fund transfer to E through NRPS; and E credits the account of F.*

a. Beneficiary Institution Intermediary Bank/ Originating Institution (NRPS) (D) (also the Intermediary Institution [II] in a cross-border remittance transaction)

- (1) Consistent with item “k” of Subsection X806.2 of the MORB, ensures that all originator and beneficiary information that accompanies the wire transfer is retained with it, unless this information can be made available to the beneficiary institution and relevant authorities by other effective means within three (3) business days from receipt of request;
- (2) Observes the requirements on correspondent banking under item “j” of Subsection X806.2 of the MORB;
- (3) Conducts transactional screening on payment parties (originator and beneficiary); and
- (4) Performs risk-and materiality-based ongoing monitoring of the correspondent banking account or relationship and implement effective and risk-based policies and procedures for determining: (i) when to execute, reject, or suspend a wire transfer lacking the required originator or required beneficiary information; and (ii) the appropriate follow-up action.

b. Beneficiary Institution (E)

Refer to the responsibilities of a BI in item 5.A, domestic fund transfer.

6. Are the OI and BI required to perform name matching in a domestic account-to-account electronic payment?

Pursuant to Circular No. 980, account number matching will suffice for domestic account-to-account electronic payments. However, to comply with the requirement of Subsection X1002.1 on Disclosure and Transparency, OIs and BIs shall ensure that customers are informed that account number matching will suffice to implement a transaction, and OIs and BIs are free and

harmless from liability for their reliance on the account number provided by the customer/originator.

- 7. In relation to the preceding item, are the OI and BI required to perform transactional sanction screening?**

Refer to the respective roles and responsibilities as defined in item No. 5.

- 8. How can the financial institutions perform their obligation to freeze or block transactions/accounts pursuant to applicable sanctions list if the account name of the beneficiary is not required to be supplied?**

For NRPS transactions which involve account-to-account transfers, obligation to freeze and/or block accounts/transactions should be complied with by the OI and BI for their respective customers, namely, the sender for OI and the beneficiary for BI.

- 9. Is the domestic settlement leg of a cross-border wire transfer considered as a domestic transaction under BSP Circular No. 980, and therefore not subject to EDD?**

The domestic settlement leg of a cross-border wire transfer is considered a domestic transaction under BSP Circular No. 980. On the conduct of EDD, please refer to the discussion in Item 5.

- 10. How can a financial institution immediately credit its client's account upon receipt of advice if it is implementing its AML preventive controls, such as the following:**

- **subjecting the remitter to sanction screening? (Note: Though BSP Circular No. 980 passes this responsibility to the OI, there may be differences in the type of global sanctions lists being used especially if the receiving institution is contractually obliged to screen against certain country lists, as well as, its maintenance of an internal blacklist.)**

As provided under Circular No. 980, and as explained in item 5 herein, pre-crediting transactional sanction screening by the BI on the non-customer remitter/sender is not required for NRPS transactions. BSFIs may, however, institute controls such as post-credit sanction screening on all payment parties for certain transactions based on risk and materiality, considering that existing clearing rules and regulations provide that the payment information shall include, at a minimum, the sender's name which is still transmitted to the BI.

- **performance of EDD if amount breaches the internal AML threshold amount?**

Refer to the responsibilities of a BI in item 5.A, domestic fund transfer.

11. Is the purpose required as part of the payment information/instruction?

No. The purpose of the account-to-account fund transfer under the NRPS framework is not required. When the conduct of EDD procedures is warranted, BSFIs may inquire from the OI on the purpose of the transaction.

12. If cross-border wire transfer is allowed, will the BI immediately have the following information as required per MORB and Financial Action Task Force (FATF)?

- remitter name;
- remitter account no./unique reference no.; and
- if more than P50,000, remitter address/ID/Date and place of birth

Yes, there are still pass thru cross-border wire transfers wherein payment messages are directly sent to the BI. Thus, it should contain all the required information required under Subsection X806.2, item "k" for cross-border wire transfer. Also, the II will receive the complete information required under FATF and Subsection X806.2 of the MORB. For the domestic leg of the cross-border wire transfer, it should contain the required payment information as agreed in the clearing rules. The II, though, will have the required information.