

**[SEC CIRCULAR NO. 1, S. OF 2002, JANUARY 22,
2002, June 22, 2002]**

**ANTI-MONEY LAUNDERING OPERATING MANUAL FOR COVERED
INSTITUTIONS**

The Securities and Exchange Commission, pursuant to its regulatory and supervisory authority under the Securities Regulation Code, the Corporation Code, PD 902-A, as amended, the Anti-Money Laundering Act of 2001 and all other pertinent laws, rules and regulations administered and enforced by the Commission, hereby issues its Anti-Money Laundering Model Operating Manual to combat money laundering.

SECTION 1. The Manual shall cover all institutions where the Commission is vested by law the jurisdiction to regulate and supervise under the foregoing enumerated laws. These institutions are hereinafter referred to as "Regulated Intermediaries".

SECTION 2. All Regulated Intermediaries are hereby directed to comply with the Manual's procedural guidelines on the implementation of the Anti-Money Laundering Act of 2001, as follows:

- a. Filing of Covered Transaction Report
- b. Filing of Suspicious Transaction Report
- c. Establishment of Customer Identification System
- d. Maintenance and Retention of Record of Transactions
- e. Institution of Reporting Procedures and Compliance Manuals
- f. Establishment of Training and Internal Control Procedures

SECTION 3. Regulated Intermediaries shall submit to the Commission their Statement of Policies and Procedures in accordance with the Operating Manual for review and approval by the Commission, on or before July 01, 2002.

SECTION 4. A Regulated Intermediary that fails to submit its Statement of Policies and Procedures shall be subject to a penalty of P500.00 per day of delay and which penalty shall continue until said statement has been submitted.

SECTION 5. This Circular shall take effect immediately.

Adopted: 22 January 2002

FOR THE COMMISSION:

(SGD.) LILIA R. BAUTISTA
Chairperson

SECURITIES AND EXCHANGE COMMISSION

ANTI MONEY LAUNDERING MODEL OPERATING MANUAL FOR COVERED INSTITUTIONS

CHAPTER 1

INTRODUCTION

SECTION 1.1. The Securities and Exchange Commission (the Commission hereby issues this Anti-Money Laundering Model Operating Manual for its Covered Institutions pursuant to the authority granted to it under the Anti-Money Laundering Act of 2001 (Republic Act No. 9160) and its regulatory and supervisory powers under the Securities Regulation Code, the Corporation Code, Presidential Decree 902-A, as amended, the Investment Houses Law, the Investment Company Act, the Financing Company Act and other pertinent laws, rules and regulations administered and enforced by the Commission.

SECTION 1.2. Except as otherwise defined herein, all terms used shall have the same meaning as those terms are defined in the Anti-Money Laundering Act of 2001, Republic Act No. 9160, hereinafter referred to as the "Act".

SECTION 1.3. The term "Regulated Intermediary/Intermediaries" shall be used to refer to all Covered Institutions regulated by the Commission under the Securities Regulation Code, the Investment Houses Law, the Investment Company Act, the Financing Company Act, other laws and regulations implemented by the Commission and the Anti-Money Laundering Act of 2001. Regulated Intermediaries are, among others:

- a. Securities Brokers, Dealers and Salesmen, Associated Person of a Broker or Dealer
- b. Investment Houses and other similar entities managing securities or rendering services as Investment Agent, Advisor or Consultant
- c. Mutual Fund Companies, Closed-End Investment Companies
- d. Common Trust Fund Companies
- e. Pre-Need Companies
- f. Companies dealing in other valuable objects, cash substitutes and monetary instruments or property, supervised or regulated by the Commission

The following definitions shall apply to the following:

"*Securities Broker*" is a person engaged in the business of buying and selling securities for the account of others;

"*Securities Dealer*" means any person who buys and sells securities for his/her own account in the ordinary course of business;

"*Securities Salesman*" is a natural person, employed as such or as an agent, by a dealer, issuer or broker to buy and sell securities;

"Associated person of a broker or dealer" is an employee thereof who, directly exercises control of supervisory authority, but does not include a salesman, or an agent or a person whose functions are solely clerical or ministerial;

"Investment House" means any enterprise which engages or purports to engage, whether regularly or on an isolated basis, in the underwriting of securities of another person or enterprise, including securities of the Government and its instrumentalities;

"Mutual Funds" or an open-end investment company is an investment company which is offering for sale or has outstanding, any redeemable security of which it is the issuer;

"Closed-end Investment Company" refers to an investment company other than open-end investment company;

"Common Trust Fund" refers to a fund maintained by an entity authorized to perform trust functions under a written and formally established plan, exclusively for the collective investment and reinvestment of certain money representing participation in the plan received by it in its capacity as trustee, for the purpose of administration, holding or management of such funds and/or properties for the use, benefit, or advantage of the trustor or of others known as beneficiaries;

"Pre-Need Company or Issuer" means any corporation authorized or licensed to sell or offer for sale pre-need plans. Pre-need plans are contracts which provide for the performance of future service(s) or payment of future monetary consideration at the time of actual need, payable either in cash, or installment by the planholder at prices stated in the contract with or without interest or insurance coverage and includes life, pension, education, internment and other plans, which the Commission may, from time to time, approve.

Investment Advisor/Agent/Consultant shall refer to any person:

- (1) who for an advisory fee is engaged in the business of advising others, either directly or through circulars, reports, publication or writings, as to the value of any security and as to the advisability of trading in any security or
- (2) who for compensation and as part of a regular business, issued or promulgates analyzes reports concerning the capital market, except:
 - a) any bank or trust company;
 - b) any journalist, reporter, columnist, editor, lawyer, accountant or teacher;
 - c) the publisher of any bonafide newspaper, news, business or financial publication of general and regular circulation, including their employees;
 - d) any contract market;

e) such other person not within the intent of this definition, provided that the furnishing of such service by the foregoing persons is solely incidental to the conduct of their business or profession.

(3) any person who undertakes the management of portfolio securities of investment companies, including the arrangement of purchases, sales or exchange of securities.

"Money Payment, Remittance and Transfer Companies" mean those intermediaries who offer to pay or transmit money on behalf of any person to another person resident in another country.

SECTION 1.4. The Commission, as the Supervising Authority over the Covered Institutions as enumerated under Section 3 (a)(3) of the Act and where its supervision applies only to the incorporation of the Covered Institution, shall have the authority, within the limits of the Act, to require and ask assistance from the government agency having regulatory power and/or licensing authority over said covered institution for the implementation and enforcement of the Act and its Implementing Rules and Regulations.

CHAPTER 2

DESCRIPTION OF MONEY LAUNDERING

SECTION 2.1. Money Laundering is a process intended to mask the benefits derived from serious offenses or criminal conduct as described under the Act, so that they appear to have originated from a legitimate source.

SECTION 2.2. Generally, the process of money laundering comprises three stages, during which there may be numerous transactions that could alert a Regulated Intermediary to the money laundering activity:

(a) *Placement* — the physical disposal of cash proceeds derived from illegal activity.

(b) *Layering* — separating illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the audit trail and provide anonymity.

(c) *Integration* — the provision of apparent legitimacy to criminally derived wealth. If the layering process has succeeded, integration schemes place the laundered proceeds back into the economy in such a way that they reenter the financial system appearing to be normal business funds.

SECTION 2.3. Because of the nature of the business relationships entered into by and among clients and the Regulated Intermediaries, which are no longer predominantly cash-based, they are less conducive to the initial placement of criminally derived funds than other financial industries such as banking. Most payments are made by way of checks from another financial institution and it can therefore be assumed that the first stage of money laundering has already been achieved. Nevertheless, the purchases by cash is not unknown and the risk of business being used at the placement stage cannot be ignored. The business of these Regulated Intermediaries are most likely to be used at the second stage of money laundering i.e. the layering process, as they provide a potential avenue which may allow a dramatic alteration of the form of funds — from cash in hand to

cash on deposit, from money in whatever form to an entirely different asset such as securities, investment contracts, pension plans, insurance policies stock certificates, pre-need plans, bearer and other negotiable instruments. Investment transactions incorporate an added attraction to the launderer in that the alternative asset is normally highly liquid. The ability to liquidate investment portfolios containing both lawful and illicit proceeds, whilst concealing the criminal source of the latter, combined with the huge variety of investments available, and the ease of transfer between them, offers the sophisticated criminal launderer an ideal route to effective *integration* into the legitimate economy. Due diligence must, therefore, be exercised to prevent the use of these Regulated Intermediaries as instruments for money laundering.

CHAPTER 3

BASIC PRINCIPLES AND POLICIES TO COMBAT MONEY LAUNDERING

SECTION 3.1. The Commission seeks to combat money laundering by requiring Regulated Intermediaries to apply the following principles:

- i. *Know your customer:* Regulated Intermediaries shall obtain satisfactory evidence of the customer's identity, and have effective procedures for verifying the bona fides of new customers.
- ii. *Compliance with laws:* Regulated Intermediaries shall ensure that business is conducted in conformity with high ethical standards, that laws and regulations are adhered to, and that service is not provided where there is good reason to believe that transactions are associated with money laundering activities.
- iii. *Cooperation with law enforcement agencies:* within the legal constraints relating to customer confidentiality, Regulated Intermediaries shall co-operate fully with law enforcement agencies. This includes taking appropriate measures allowed by law if there are reasonable grounds for suspecting money laundering. Disclosure of information by Regulated Intermediaries for the purposes of this Act regarding suspicious transactions shall be made to Executive Director, Anti-Money Laundering Council, Bangko Sentral ng Pilipinas.
- iv. *Policies, procedures and training:* Each Regulated Intermediary shall adopt policies consistent with the principles set out in this Manual, and ensure that its staff, wherever located, are informed of these policies and adequately trained in matters covered herein. To promote adherence to these principles, Regulated Intermediaries shall implement specific procedures for customer identification (Chapter 4), record keeping and retention of transaction documents (Chapter 5), and reporting of covered and suspicious transactions (Chapter 6).

CHAPTER 4

CUSTOMER IDENTIFICATION

SECTION 4.A. *General.*

SECTION 4.A.1. Regulated Intermediaries shall obtain satisfactory evidence of the true and full identity, representative capacity, domicile, legal capacity, occupation or business purposes of clients, as well as other identifying information