

Clearstream

AML and KYC for investment funds

Service information

Supporting Transfer Agents in performing KYC & due diligence on Clearstream

In short

Luxembourg law and regulations

- Clearstream Banking S.A. is an ICSD subject to Luxembourg laws and regulations
- Best Practices with regards to Compliance, AML and CTF programme
- Luxembourg is EU and Financial Action Task Force (FATF) member state and not on the FATF list of countries that have been identified as having AML deficiencies

Transparency reports for Transfer Agents

- Reflect the positions/transactions performed by each Clearstream underlying customer
- Order details are enriched with "Agent code" reference data
- Those reports are available in Vestima and can be setup at any time

Enhanced Due Diligence on Clearstream

- Clearstream Banking S.A. performs enhanced due diligence (EDD) on direct customers pursuant to Art. 19 of Directive (EU) 2015/849
- Transfer Agents should do EDD on Clearstream Banking S.A.
- Exceptions are risk-based scenarios: Clearstream has a system of risk-based triggers in place and will request further disclosure on end investors in a Fund when there is a risk-based reason for doing so.

In alignment with principles provided by key financial market associations and Clearstream's role as Luxembourg based ICSD (International Central Securities Depository), we support Transfer Agents in their AML (Anti Money Laundering) and KYC due diligence measures. Clearstream is recommending to perform an enhanced due diligence on Clearstream Banking S.A. rather than due diligence directly on its customers.



In its role as ICSD and subject to Luxembourg laws and regulations that together define the framework under which it implemented its Compliance, AML and CTF (Counter Terrorism Financing) programme, Clearstream Banking S.A. aims to support Transfer Agents in their AML and KYC due diligence measures.

Located in Luxembourg – a European Union and Financial Action Task Force (FATF) member state – Clearstream Banking S.A. is subject to the Luxembourg laws and regulations that together define the framework under which Clearstream implemented its Compliance, AML and CTF programme.

Everything Transfer Agents need to know



Clearstream profile

Clearstream Banking S.A. is an ICSD, operating from its head office in the Grand Duchy of Luxembourg, with regional offices providing commercial support and services to customers in their specific geographical areas. Clearstream provides the post-trade infrastructure for the Eurobond market and for securities from more than 50 domestic markets. Services include the issuance of securities, the settlement and custody services for international and domestic securities as well as Investment Fund Services and Global Securities Financing.

Account structure with Luxembourg Transfer Agents

Clearstream Banking S.A. holds positions in investment funds in a nominee capacity/role on behalf of its direct customers.

The entitlements of its customers can be either commingled on an omnibus basis (pooled/omnibus accounts) or segregated on dedicated accounts. Transfer Agents may also use a sub-structure of the Clearstream Banking S.A. omnibus account that further details the omnibus position by identifying the underlying positions of their customers.

Enhanced Due Diligence requirements on Clearstream

Transfer Agents should do an enhanced due diligence (EDD) on Clearstream Banking S.A. and should not perform due diligence directly on Clearstream's customers. No documentation/account opening form should be requested to those customers except in case of risk-based scenarios. This includes the identification/disclosure of Ultimate Beneficial Owners (UBOs). Due diligence information can be found on the [Clearstream website](#).

Clearstream's view is based on guidelines/principles provided by key market associations.

- According to the Risk Factors Guidelines¹ issued by the European Supervisory Authorities (ESA), correspondent banks are not required to perform customer due diligence measures on their customers' individual clients² (i.e. on the underlying account holders).
- This has also been outlined in the FATF Guidance on correspondent banking services according to which the FATF Recommendation does not require financial institutions to conduct customer due diligence on the customers of their customer (i.e. each individual customer).
- The Principles on Client Identification and Beneficial Ownership for the Securities Industry issued by the Committee on Payments and Market Infrastructures and the International Organisation of Securities Commissions (CPMI-IOSCO

Principles), have also stressed out that, for accounts established by and in the name of regulated financial institutions in order to engage in securities transactions on behalf of their underlying clients (which is generally the case as regards "nominee accounts" in the collective investment industry), securities service providers are not required to "drill down" through the relevant financial institution (i.e. their customer) to identify and verify all of the financial institution's underlying clients. The CPMI-IOSCO Principles recommend, for this type of accounts, to implement EDD measures on the customers (i.e. on the regulated financial institutions) in order to rely on such customers' AML-CTF processes and procedures as regards the identification of the underlying clients and the UBOs down the holding chain.

- Finally, the Financial Crime Compliance Principles (FCCP) for securities custody and settlement issued by the International Securities Services Association (ISSA) in order to provide additional authoritative guidance as regards client and beneficial ownership identification in the securities custody and settlement industry³, have further specified that identification of ultimate asset beneficial owners (i.e. end investors) may only be requested to the account holders (i.e. the customers) "via an agreed operational procedure, based on predicated risk factors" (and provided that such information is to be provided within a reasonable period of time)⁴.

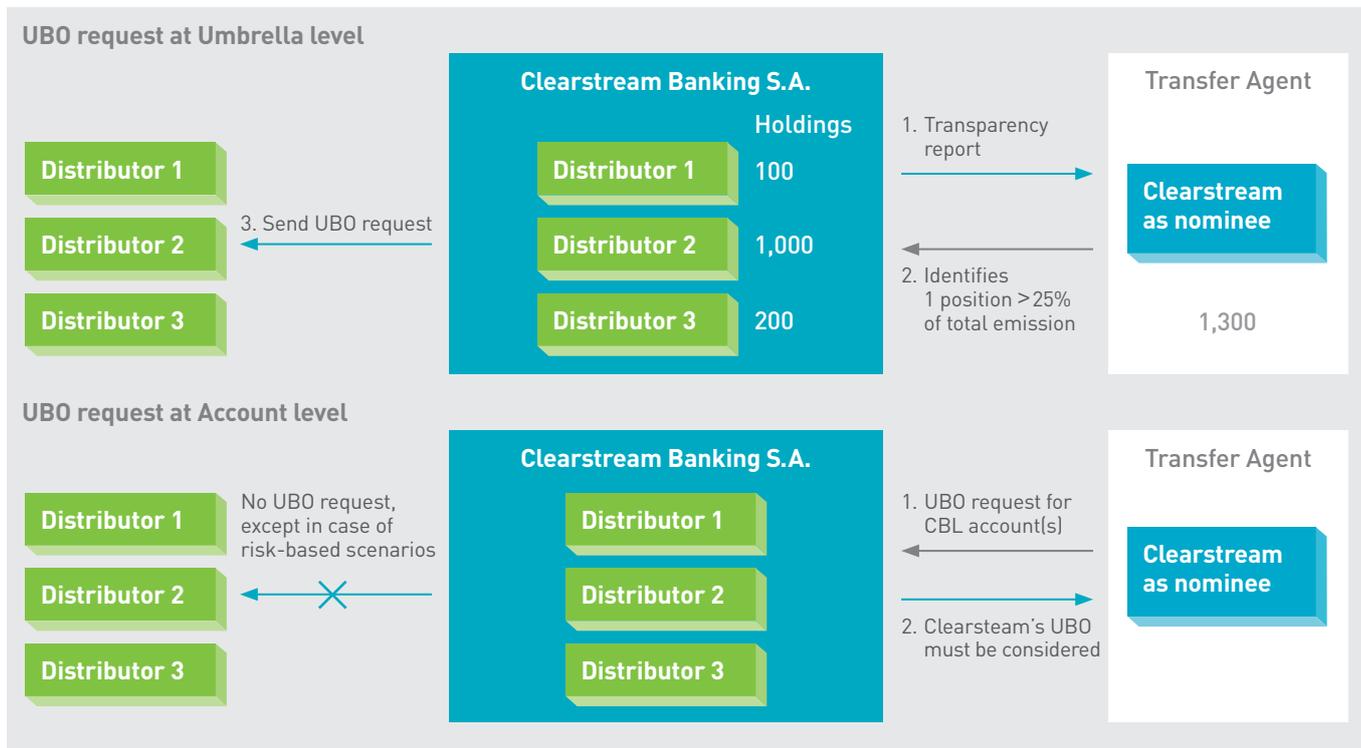
¹ Joint Guidelines under Articles 17 and 18(4) of Directive (EU) 2015/849 on EDD and the factors credit and financial institutions should consider when assessing the money-laundering and terrorist financing risk associated with individual business relationships and occasional transactions, 26 June 2016 (JC/2017/37).

² Par. 87 of the Risk Factors Guidelines.

³ These principles set forth the due diligence measures that should be implemented by correspondent banks in order to rely on their customers' AML-CTF systems and controls, as well as the related obligations incumbent upon the 'account holders' (i.e. their customers), taking into account the multiple layers of intermediation between securities issuers and ultimate asset beneficial owners transforming ownership interests multiple times.

⁴ This is also reflected in the FATF Guidance on Securities Services, according to which correspondent financial institutions are required to perform customer due diligence and transaction monitoring at the level of their intermediary customers and it is (only) under specific risk-sensitive situations detected during the course of the transaction/activity monitoring that correspondent financial institutions should "follow-up with the intermediary by making a request for information on any particular transaction(s), possibly leading to more information being requested on the underlying customers of the intermediary on a risk-sensitive basis" (par. 108, emphasis added).

Ultimate Beneficial Owner (UBO) identification



Clearstream performs EDD on direct customers pursuant to Art. 19 of Directive (EU) 2015/849. This would typically include, among other things, obtaining additional information on our direct customers, the nature of their business, the complexity of their operations, information on the type and quality of underlying clients, their activities and jurisdictions, the quality of the AML and CTF checks applied by our direct customers, and enhanced monitoring of the business relationship where required.

Ultimate Beneficial Ownership identification

All European business entities registered with the RCS must file the details of their beneficial owners with the RBE (Register of Beneficial Owners). Clearstream provides reports to help Transfer Agents identify whether one or several Clearstream Banking S.A. underlying customers hold more than 25 percent of a Fund. When a Transfer

Agent identifies such holdings, Clearstream will contact each specific customer to find out whether one or several UBOs hold more than 25 percent of the Fund.

The requirement is targeted at 25 percent or more ownership at the Fund (umbrella) level, not at the sub-fund or account level as interpreted by some Funds and Transfer Agents.

Responsibility should therefore not be placed upon Clearstream Banking S.A. to provide (to Transfer Agents) a "look through" on end investors of nominee accounts, other than in specific risk-based situations. This is not required under the AML-CTF correspondent banking regulations (as developed here above) and we do not believe this contributes to the efficiency of the market. More information on the process and pricing can be found on the [Clearstream website](#).

When Transfer Agents wish to identify the UBO for an account held by Clearstream as nominee, they should consider the UBO of Clearstream Banking S.A. As there is no beneficial owner holding more than 25 percent of the shares of Clearstream, the senior management has been identified as BO of Clearstream. This information is publicly available in the RBE of Luxembourg.

Contact information

For further information, please contact your Relationship Manager or our Customer service team:

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