

**UNITED ARAB EMIRATES
Ministry of Economy & Commerce**

UNDER SECRETARY OFFICE

Ref: 3/1/st/at/319

Date: 16/07/2002

Circular to all audit firms

To: KPMG
PO Box 3800

Sub: Confronting money laundering operations in the companies

In order to apply the provisions of Federal Law no. 4 of 2002 regarding money laundering crimes, and based on the provisions of Federal law no.8 of 1984 related to Commercial Companies (as amended) and the provisions of Federal Law no.22 of 1995 in relation to the regulations governing the audit profession, and in view of the responsibility the auditor should have towards the profession and its principles and the community, the following must be observed to confront money laundering operations.

Item 1. These instructions shall be applied to all auditors whether they are individuals or firms (local or foreign).

Item 2. Money laundering is every act involving moving, transferring or depositing money collected from the crimes mentioned in item 2 or Article 2 of Federal Law No. 4 of 2002 or hiding it or concealing its true nature so as to present it as if it emanates from a legitimate source.

Item 3. The procedures, which must be undertaken by all audit offices.

A- General Procedures:

The following must be verified:

1. The presence of effective internal control systems in the companies and/or the establishments (clients) audited by them.
2. Major revenue or expenses disproportional to the client's activity.
3. The individuals or the customers of the relevant client from whom large amounts are collected.
4. Transactions made with companies abroad in the countries or territories which lack appropriate financial and tax laws.
5. Reviewing large sale or purchase contracts that do not match the activity of the client.

6. Major expenses, especially those related to travel and entertainment or settling personal debts for the staff of the company.
7. The investment of the client's customers in all their aspects.
8. Cases of incorporating companies and alliances without clear commercial objectives.

B. Regarding financial institutions:

It should be verified that the relevant institution is complying with anti-money laundering rules/regulations issued by the Central Bank in Circular No. 24/2000 as amended, and they should verify:

1. The full name or names of the holders of the accounts opened with the financial institutions and the presence of personal documents, trade licences, residence and work addresses and whether the date is correct and kept up to date.
2. The correctness of traveller's cheques and the names of the beneficiaries.
3. Names of the persons having trust funds and related data.
4. Major and recurring deposits.
5. Cases of frequent deposits of amounts below the threshold limit above which disclosures would be required.
6. The efficiency of the control system over drafts transferred outside the country and currency exchange.
7. Large value monetary transactions other than those made through financial instruments such as cheques, letters of credit etc.
8. The presence of effective control systems over the electronic transfer systems that monitor abnormal transactions.
9. Cases of early repayment of loans/debts.
10. That the securities and foreign investment instruments are real and not false/fake.
11. The source of the cash amounts provided by jewellery shops for foreign finance.

C. Regarding Co-operative, charity, social or professional societies or associations.

- 1- The availability and accuracy of the supporting documents relating to the founders and members of these societies and the presence of the licence from the Ministry of Justice and/or Ministry of Labour and Social Affairs.

- 2- The presence of a licence from the Ministry of Labour to open and run accounts.
- 3- The presence of accounting records properly kept in accordance with the generally accepted accounting standards in this regard.

Item 4. All auditors, whether individuals or firms (local or foreign) are obliged to report any suspicious transactions aimed at money laundering and to report them to the Money Laundering Unit at the Central Bank to enable it take action as appropriate.

Item 5. To support subsequent investigations by the competent authorities, any suspected transaction must be verified to a high degree of confidentiality and the auditors may not contact the client to inform him of what is going on.

Item 6. The auditors (whether firms or individuals) who do not follow the instructions in this circular or fail to notify the authorities about any suspicious transactions shall be subject to a penalty in accordance with the applicable laws and regulations of the UAE.

Item 7. The documents, formats, records and files of the client must be kept for at least five years.

Item 8. If you have any inquiry related to this circular, please contact the Legal Affairs Office at the Ministry of Economy and Commerce.

Item 9. Examples of money laundering shall be attached herewith and shall represent an integral part of this circular.

Attachment of examples relating to money laundering

1. Depositing major amounts of money in bank (x) in some country and then transferring these amounts to bank (y) in another country then transferring these amounts to bank (z) in the same country in the name of a particular person who then exchanges these amounts for cash.
2. A person opens more than one account with one bank or opens more than one account with more than one bank within the same country. That person then makes a cash deposit in these accounts using an amount less than the threshold limits requiring disclosures, then transfers these amounts to one account or withdraws the money, for example, to purchase premises.
3. Opening of bank accounts by institutions with banks in other countries in the name of the institutions. These accounts are then used by unknown individuals in those countries (or in the banks concerned) to launder money.
4. Any financial transactions not relating to the client's activities.
5. Opening accounts to receive deposits or transfer funds unrelated to the client's activities.
6. Frequent transfers between banks accounts.
7. Depositing large value cheques in the name of the account owner.
8. Transactions with countries known for producing, manufacturing or distributing drugs.
9. Expenditure transactions and currency exchanges with rates less than the market rate.
10. Purchase or sale of financial instruments for no reason or purpose or in extraordinary circumstances.
11. Transferring large value amounts to foreign countries disproportional to the client's activities.
12. Using letter of credits in a way which is disproportional to the client's activities.
13. Early extinguishments of debt with large unexpected amounts.
14. Sudden applications for loans that are disproportional to the client's activities and/or against unknown sources of assets.
15. Incoming foreign remittance to clients who then transfer these funds again outside the country without booking these transfers into the client accounts.

16. Large and recurring transfers of funds.
17. Transferring funds to a person or persons with different addresses.
18. Large value foreign currency exchanges for local currency.
19. Purchase of insurance policies then cancelling or liquidating them before maturity date.
20. Subscription to retirement schemes and then cancellation of such subscriptions.
21. Abnormal requirements to issues insurance contracts with large value amounts contrary to the client's business.
22. Contracts where the client is not interested in the return on the investment as much as his concern on early cancellation or disposing of the investment.
23. Payment of insurance installments with cash rather than financial instruments (such as cheques...etc.).
24. Sale of large amounts of gold at less than the market rates.
25. Opening accounts in another country by depositing cash in these accounts and then transfer these amounts to another country to purchase premises in that country.
26. Obtaining mortgage loans and then repaying these loans with cash before the maturity date.