



## WHAT IS A REGULATORY QUICK GUIDE?

A quick guide gives regulated businesses a brief snapshot of an AML/CTF compliance topic, to help you make sure you are meeting your obligations and protecting your business and the community from serious and organised crime.

# Customer due diligence arrangements

Reliance on customer identification procedures by a third party under a customer due diligence (CDD) arrangement can reduce your compliance costs and be convenient for your customers who may need to have contact with multiple businesses. However, you must manage the risks and regularly assess the arrangement.

Entering into a CDD arrangement lets you take advantage of customer identification and verification performed by a reliable third party on an ongoing basis. These arrangements also give you 'safe harbour' from liability for isolated breaches of the customer identification procedures – provided you have done your due diligence and consider that a person would reasonably believe that the third party's processes and procedures to be adequate.

You can use reliance without a CDD arrangement on a case-by-case basis. In these circumstances you are liable for any breaches of customer identification procedures when a designated service is provided to a customer.

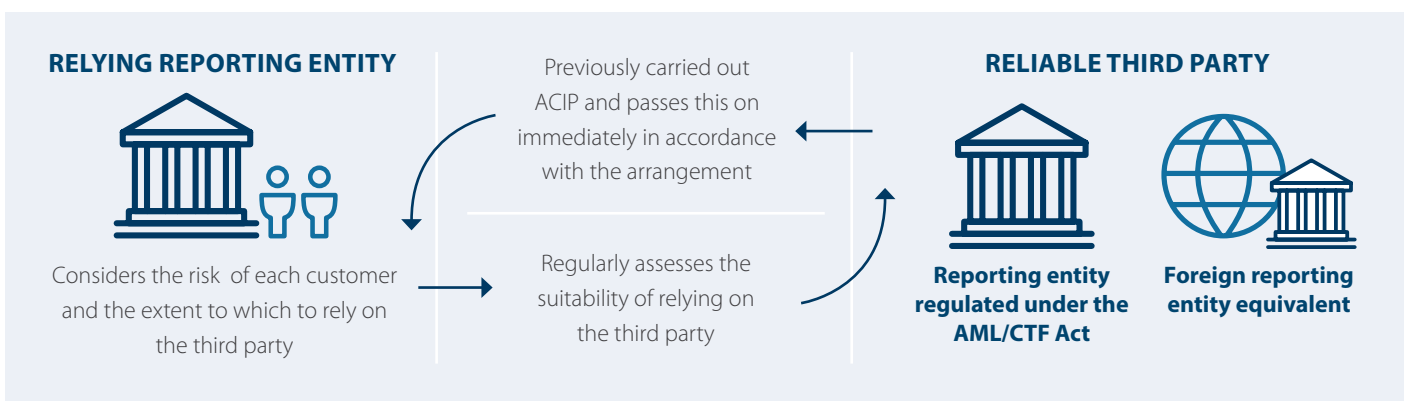
When entering into a CDD arrangement, you must ensure the third party has appropriate measures in place to comply with their obligations.

## Who is considered a reliable third party?

You can enter into a CDD arrangement with the following reliable third parties:

- another reporting entity regulated by AUSTRAC
- a foreign equivalent of a reporting entity, which is subject to equivalent AML/CTF obligations for customer due diligence and record-keeping as those in Australia.

You cannot rely on identification by a third party that is not subject to AML/CTF regulation.





## What do you need to include in a CDD arrangement?

CDD arrangements must be recorded in writing with approval from a senior managing official or your governing board. The CDD arrangement must include:

- an outline of the responsibilities of each of the parties to the arrangement
- provisions to enable the relying reporting entity to obtain all required KYC information relating to the identity and verification details on request and without delay, including:
  - » the customer
  - » the beneficial owner of the customer
  - » a person acting on behalf of the customer.

## Assess your CDD arrangements regularly

You must complete an assessment of CDD arrangements at a maximum of two year intervals, or more frequently when an event or any material change triggers the need for a review.

You should also consider undertaking the following:

- review them when there are changes to ML/TF and other serious crime risks, or anything affecting the appropriateness of relying on the third party
- conduct more frequent assessments if your ML/TF risks require it
- document each assessment within 10 days once conducted
- use assessments to ensure that the reliable third party is continuing to meet the agreed requirements
- stop using the arrangement and re-verify any affected customers as soon as practicable If you believe that a CDD arrangement no longer meets the requirements
- terminate the arrangement if you believe the third party will not be able to meet the requirements.

## Managing risk under a CDD arrangement

Remember that the risks faced, and the risk assessment completed, by the third party you are relying on might be different from your own.

- Make sure that appropriate due diligence and/or enhanced due diligence is applied to all customers and transactions consistent with your business' risk assessment.
- ML/TF risks and the reliability of third parties change over time, so must be taken into account when completing your regular assessments.
- If the third party is based in a foreign country, consider the ML/TF risks of the country where the third party is based.

### Using the risk-based approach

A third party may have completed simplified ACIP because they assessed a customer to be low risk. However, if the designated service you're providing poses a higher ML/TF risk, additional customer due diligence may be needed.

Make sure you apply a risk-based approach to determine if the customer identification procedure is sufficient.

### Need more guidance?



For more detailed information about reliance and CDD arrangements, see our guidance on reliance.

Find out more about customer identification and due diligence at [austrac.gov.au/cdd-overview](https://austrac.gov.au/cdd-overview), and using a risk-based approach at [austrac.gov.au/risk-based-approach](https://austrac.gov.au/risk-based-approach).