SEC Memorandum Circular No. 21
Series of 2020

SUBJECT : RULES ON SIMPLIFIED ONBOARDING PROCEDURES FOR LOW RISK ACCOUNTS

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WHEREAS, the Securities and Exchange Commission (hereinafter referred to as "SEC" or "Commission"), as the regulator and supervisor of the capital markets, is tasked to uphold the interest of the public and protection of investors at all times.

WHEREAS, the Commission, is also mandated to promote the development of the capital markets, encourage the widest participation of ownership in enterprises and enhance the democratization of wealth.

WHEREAS, the Commission finds the promotion of financial inclusion by way of a facilitative but safe onboarding process of customers in the securities markets as being consistent with its mandates.

WHEREAS, SEC Memorandum Circular No. 16, Series of 2018 (2018 AML/CFT Guidelines) permits covered institution to formulate a risk-based and tiered customer acceptance, identification and retention policy that involves reduced customer due diligence (CDD) for potentially low risk customers and enhanced CDD for higher risk accounts.

WHEREAS, the 2015 Implementing Rules and Regulations of the Securities Regulation Code (2015 SRC Rules) prescribes the requirements and procedures without distinction as to risk category of customers relative to the requirements of the Anti-Money Laundering Act (AMLA) and its Implementing Rules and Regulations (IRR).

WHEREAS, the 2015 Implementing Rules and Regulations of the Securities Regulation Code prescribe a definite CDD, also known as the Know Your Customer (or KYC) requirements for Broker Dealer in Securities, with focus on establishing the customer's real identity and creditworthiness and elicit information necessary to comply with the suitability requirements.

WHEREAS, Section 72 of the Securities Regulation Code (SRC) authorizes the Commission to classify persons, securities, and other matters within its jurisdiction, prescribe different requirements for different classes of persons, securities, or matters, and by rule or order, conditionally or unconditionally exempt any person, security or transaction, or class or classes of persons, securities or transactions, from any or all provisions of the SRC.

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WHEREAS, BASED ON THE FOREGOING, there is a need to introduce simplified onboarding procedures for Low Risk customers of Financial Intermediaries in order to achieve financial inclusion.

NOW, THEREFORE, the Commission En Banc hereby approves and issues the following **Rules on Simplified Onboarding Procedures for Low Risk Accounts** opened and maintained by customers of SEC-regulated Financial Intermediaries.

Section 1. Coverage. This circular shall apply to the regulated entities authorized by the Commission to intermediate and effect securities transactions for and on behalf of customers and are required to conduct customer due diligence. It includes financial intermediaries such as Broker Dealers in Securities, Government Securities Eligible Dealers, Investment Houses, Underwriters of Securities, Investment Company Advisers and Mutual Fund Distributors ("Regulated FIs").

Section 2. Low risk accounts. For purposes of this Circular, an account opened and maintained by an individual investor with an initial and subsequent deposit, investment or re-investment amounting to an aggregate of not more than Fifty-Thousand Pesos (Php50,000.00) shall be deemed to be a "low risk account".

Notwithstanding the preceding paragraph, an investor with a low risk account shall be allowed to invest in excess of the prescribed limit only for the purpose of exercising his right as a holder of securities, e.g., participation in a stock rights offering, exercise of pre-emptive right, and other similar acts, the non-exercise of which shall result in the dilution or diminution of his holdings.

Subject to its prior approval, the Commission may allow a regulated FI to prescribe a different threshold amount in determining an account as being low risk.

Section 3. Type of Investors Allowed to Open a Low Risk Account. Only individual Filipino investors shall be allowed to open low risk accounts in accordance with this Circular. These investors shall be presumed to beneficially own the said accounts.

The process for the opening of an account by any legal person such as a corporation or a trust shall follow the regular requisites and procedures required by the concerned regulated FI in accordance with the relevant rules and regulations and its internal procedures.

Nothing herein prevents a Regulated FI from adopting a different risk-based approach following the said regular requisites and procedures in determining other accounts as being low-risk accounts.

Section 4. Account Opening Information for Low Risk Accounts. The following minimum information and documents shall be required in account opening involving low risk accounts:

1. Complete Name of Customer
2. Birthdate of customer
3. E-mail address
4. Residential/business address

5. Mobile and/or Landline Number
6. Source of Income
7. Copy of a verifiable Identification Card or Document with Photo
8. Signature card

The account opening may be allowed and transaction may be commenced once the customer has declared in writing, digitally or through a physical medium, the above information, provide the required documents and at least two responsible staff and/or officers of a regulated FI, acting as checker and maker, have vetted the whole process.

A regulated FI may prescribe other criteria and measures for account opening in addition to the minimum information required above.

Section 5. Establishment of the Identity of the Customers. A regulated FI shall still implement the necessary measures to establish the true identity and existence of its customers. This may be conducted before, during or after the opening of the account but not later than fifteen (15) days from the date the account is opened.

Section 6. Conversion of Account from Low Risk to Normal/High Risk. A regulated FI shall adopt the necessary policies and processes in systemically reviewing the low risk accounts, in random fashion or otherwise. All reviews done by an FI and the decisions made as to whether to retain the low risk status or elevate the same to a normal/regular or high risk status shall be documented and the same be made available for review.

Upon determination that an account ceases to be a low risk account, normal/regular or enhanced CDD, as the case may be, shall be immediately conducted in compliance with the requirements of the 2015 SRC Rules, Anti-Money Laundering Act and its Implementing Rules and Regulations, AML/CFT Guidelines and such other pertinent laws, rules and regulations, and in accordance with the regulated FI's Written Supervisory Procedures and/or the Anti-Money Laundering Manual.

A Regulated FI shall complete the conduct of said normal/regular or enhanced CDD process within one (1) month.

Notwithstanding, if, based on the information provided by the customer, or based on circumstances known or information available to the regulated FI, there is reasonable ground to consider the customer as high risk or that the transaction may be suspicious, the regulated FI shall conduct normal or enhanced CDD, as the case may be.

A low risk account showing more than average active trading activities shall be automatically be the subject of review of its low risk status.

Section 7. Compliance with the Requirements on Suitability and Prompt Payment and Delivery of Obligations and Other SRC Requirements. Notwithstanding the simplified CDD/KYC requirements provided herein, a regulated FI is still required to comply and institute the necessary measures to ensure compliance with the requirements on suitability and on prompt payment and delivery of obligations and other requirements under the SRC and the 2015 SRC Rules that are not inconsistent with this Circular.

A regulated FI operating an online trading or investing system which allows for a direct customer-controlled process of ordering a securities transaction and with established procedures for the pre-payment and pre-delivery of the cash and securities of said transaction shall be deemed to have complied with the requirements on suitability and on prompt payment and delivery of obligations under the 2015 SRC Rules.

Section 8. Sanctions and Penalties. Any violation of these Rules shall be dealt with accordingly pursuant to the applicable provisions of the Securities Regulation Code, as amended, P.D. 129 or The Investment Houses Law, the Investment Company Act and their respective Implementing Rules and Regulations.

Section 9. Effectivity. This Circular shall take effect immediately after its publication in two newspapers of general circulation.

Pasay City, 11 August 2020.

EMILIO B. AQUINO
Chairperson