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Standards for the Implementation of the Anti-Money Laundering and Countering the Financing of Terrorism Policy

Summary

This document proposes Standards for the Implementation of the Anti-Money Laundering and Countering the Financing of Terrorism Policy as mandated by decision B.18/10, paragraph (b).

I. Introduction

1. The Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Standards are developed to implement the Policy requirement set under decision B.18/10, paragraph (b) on the *Anti-Money Laundering and Countering the Financing of Terrorism Policy*.
2. The AML/CFT Standards are developed by reference to the *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation* of the Financial Action Task Force.¹ The governance and oversight arrangements set out in these Standards are based on the best practices of comparable international organisations.
3. This AML/CFT Standards set the minimum and mandatory standards to prevent, detect, and investigate money laundering and financing of terrorism, and to control and manage related risks (ML/FT Risks). The AML/CFT Policy and the AML/CFT Standards shall be operationalised by standard operating procedures which shall be developed by the Secretariat and the Independent Integrity Unit (IIU).

II. Recommended action by the Board

4. It is recommended that the Board:
 - (a) Take note of the information presented in document GCF/B.22/18 titled “Standards for the Implementation of the Anti-Money Laundering and Countering the Financing of Terrorism Policy”; and
 - (b) Approve the draft decision presented in Annex I to this document.

¹ Financial Action Task Force (2012).

Annex I: Draft decision of the Board

The Board, having considered document GCF/B.22/18 titled “Standards for the Implementation of the Anti-Money Laundering and Countering the Financing of Terrorism Policy”:

- (a) Adopts the “Standards for the Implementation of the Anti-Money Laundering and Countering the Financing of Terrorism Policy” contained in Annex II to this document;
- (b) Reiterates its request (decision B.14/01, paragraph (f)) that the Accreditation Committee, in consultation with the Head of the Independent Integrity Unit, consider the best way to integrate the AML/CFT Policy in the interim fiduciary standards, and present to the Board a proposal for its consideration in 2019 as a matter of urgency; and
- (c) Requests the Secretariat and the Independent Integrity Unit to develop standard operating procedures to operationalise these Standards and the AML/CFT Policy.

Annex II: Standards for the Implementation of the Anti-Money Laundering and Countering the Financing of Terrorism Policy

I. Introduction

1. The Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Standards are developed to implement the Policy requirement set under decision B.18/10, paragraph (b) on the *Anti-Money Laundering and Countering the Financing of Terrorism Policy* (AML/CFT Policy). These AML/CFT Standards sets the minimum and mandatory benchmarks to prevent, detect, and investigate money laundering and financing of terrorism, and to control and manage related risks (ML/FT Risks). The AML/CFT Policy and these AML/CFT Standards shall be operationalised by standard operating procedures (SOPs) which shall be developed by the Secretariat and the Independent Integrity Unit (IIU).

1.1 Objectives

2. The AML/CFT Standards are intended to establish effective measures comparable to international best practice to enable the GCF to achieve the objectives established in the AML/CFT Policy, which are:

- (a) Preventing the abuse of GCF resources for money laundering (“ML”) and/or financing of terrorism (“FT”);
- (b) Meeting applicable legal requirements and international standards in jurisdictions where the GCF and its Counterparties operate;
- (c) Mitigating any reputational risk;
- (d) Supporting the establishment and/or strengthening of capacities in countries to meet GCF fiduciary standards regarding AML/CFT;
- (e) Guarding against establishing any relations or undertaking any transaction that may relate to or may facilitate ML and/or FT or any other illicit activity;
- (f) Exercising due diligence when dealing with Counterparties, persons appointed to act on behalf of Counterparties, and connected parties of the Counterparties and;
- (g) Continuously reviewing and updating its AML/CFT Policy and its corresponding AML/CFT Standards as threats and international standards evolve to prevent and detect ML and/or FT.

3. These AML/CFT Standards further aim to meet the expectation of the international contributors, donors, and other key stakeholders that the GCF complies with all its policies takes appropriate measures to prevent corrupt, fraudulent, and otherwise illegal practices, including the prevention of the use of Fund resources to finance terrorist activity, and adopts best practice fiduciary principles and standards relating to anti-corruption, countering of financing of terrorism, fraud, and anti-money laundering, as reflected in contribution agreements/arrangements and the associated *Amended and Restated Agreement on the Terms and Conditions for the Administration of the Green Climate Fund Trust Fund*.²

² Section 6.1. Annex to the Terms and Conditions: “The Fund shall comply with all its policies as decided by the Board and take appropriate measures to prevent corrupt, fraudulent, and otherwise illegal practices, including the prevention of the use of Fund resources to finance terrorist activity. For this purpose, it shall adopt best practice

4. In pursuing these purposes and objectives, these AML/CFT Standards intend to prevent that the GCF is exposed to serious reputational damage, financial loss, or legal liability, which may give rise to strong challenge by international contributors, donors, and other key stakeholders.

1.2 Scope

5. These Standards apply to all Covered Individuals in accordance with their roles and responsibilities with respect to the GCF. Certain categories of Covered individuals may have specific obligations as determined in these Standards. The SOPs shall define the roles and responsibilities within the Secretariat required to operationalise the AML/CFT Policy and these Standards.

6. The GCF shall apply these Standards to potential and existing Counterparties in accordance with the provisions of this Policy.

1.3 Exception

7. The standards of the SOPs and their implementation shall be consistent with those set out in these AML/CFT Standards and the AML/CFT Policy (decision B.18/10). An exception to this rule may be permitted only upon formal request by the IIU and approval by the EAC in accordance with GCF policies and procedures. Exception requests shall be submitted to the EAC by the Head of the IIU along with a recommendation by the IIU. An exception should not be applied and approved unless it is considered that, without that exception, GCF operations would be seriously and adversely interrupted.

II. Definitions

8. For the purposes of these Standards, the following definitions shall be applied:

- (a) **“AML/CFT Program”** refers to the overall ML/FT risks control and management components, including governance and oversight and the establishment of an Integrity Risk Management Group, Counterparty due diligence, risk assessment, financial activities monitoring, suspicious activities reporting, United Nations Security Council Sanctions List compliance, training, and record keeping;
- (b) **“Bearer Negotiable Instruments (BNIs)”** refer to monetary instruments in bearer form such as: traveller’s cheques; negotiable instruments (including cheques, promissory notes and money orders) that are either in bearer form, endorsed without restriction, made out to a fictitious payee, or otherwise in such form that title thereto passes upon delivery; incomplete instruments (including cheques, promissory notes, and money orders) signed, but with the payee’s name omitted;
- (c) **“Bearer Shares”** refer to negotiable instruments that accord ownership in a legal person to the person who possesses the bearer share certificate;
- (d) **“Beneficial Owner”** refers to the natural person(s) who ultimately owns or controls a legal entity and/or natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate control over a legal person or arrangement;

- (e) **“Beneficiary”** refers to the person or persons who are entitled to the benefit of any trust arrangement. A beneficiary can be a natural or legal person or arrangement. In the context of life insurance or another investment-linked insurance policy, a beneficiary is the natural or legal person, or a legal arrangement, or category of persons, who will be paid the policy proceeds when/if an insured event occurs, which is covered by the policy;
- (f) **“Board-appointed Official”** means the Executive Director, the Head of the Independent Evaluation Unit (“IEU”), the Head of Independent Integrity Unit, and the Head of Independent Redress Mechanism (“IRM”), who are appointed by the Board;
- (g) **“Competent Authorities”** refers to all public authorities (including financial supervisors established as independent non-governmental authorities with statutory powers) with designated responsibilities for combating money laundering and/or terrorist financing. In particular, this includes the Financial Intelligence Unit; the authorities that have the function of investigating and/or prosecuting money laundering, associated predicate offences and terrorist financing, and seizing/freezing and confiscating criminal assets; authorities receiving reports on cross-border transportation of currency and bearer negotiable instruments; and authorities that have AML/CFT supervisory or monitoring responsibilities aimed at ensuring compliance by financial institutions and Designated Non-Financial Businesses and Professions (“DNFBP”) with AML/CFT requirements. Self-Regulating Bodies as defined by the FATF are not to be regarded as Competent Authorities;
- (h) **“Correspondent Banking”** is the provision of banking services by one bank (the “correspondent bank”) to another bank (the “respondent bank”). Large international banks typically act as correspondents for thousands of other banks around the world. Respondent banks may be provided with a wide range of services, including cash management (e.g. interest-bearing accounts in a variety of currencies), international wire transfers, cheque clearing, payable-through accounts and foreign exchange services;
- (i) **“Counterparty”** is any party that contributes to, executes, implements, bids for, or in any way participates in Fund-related Activities, including receiving a grant, loan, or other form of financing or support from the Fund. Counterparties include an applicant or contracted contributor, Accredited Entity, Direct Access Entity, Executing Entity, delivery partner, fiscal agent, financial intermediary, vendor, and (for the purpose of this Policy) any entity within or to which the Secretariat directly disburses GCF resources, including for the Readiness and Preparatory Support Program;
- (j) **“Covered Individual”** means Co-Chairs of the Board, Board Members, Alternate Members, Advisers (each defined in the Rules of Procedure of the Board), Board-appointed Officials, External Members, and GCF Personnel;
- (k) **“Designated Non-Financial Businesses and Professions (DNFBP)”** means:
- (i) Casinos, including internet- and ship-based casinos;
 - (ii) Real estate agents;
 - (iii) Dealers in precious metals;
 - (iv) Dealers in precious stones;
 - (v) Lawyers, notaries, other independent legal professionals and accountants (this refers to professionals within professional firms, not ‘internal’ professionals);

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- (vi) Trust and Company Service Providers (refers to all persons or businesses providing any of the following services to third parties:
- (1) Acting as a formation agent of legal persons;
 - (2) Acting as (or arranging for another person to act as) a director or secretary of a company, a partner of a partnership, or a similar position in relation to other legal persons;
 - (3) Providing a registered office; business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement;
 - (4) Acting as (or arranging for another person to act as) a trustee of an express trust or performing the equivalent function for another form of legal arrangement; and
 - (5) Acting as (or arranging for another person to act as) a nominee shareholder for another person);
- (l) **“External Member”** means an expert serving as an external member on a panel or group established by the Board;
- (m) **“Financial Action Task Force (FATF)”** is an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing;
- (n) **“Financial Institutions”** mean any natural or legal person who conducts as a business one or more of the following activities or operations for or on behalf of a customer:
- (i) Acceptance of deposits and other repayable funds from the public;
 - (ii) Lending;
 - (iii) Financial leasing;
 - (iv) Money or value transfer services;
 - (v) Issuing and managing means of payment (e.g. credit and debit cards, cheques, traveller's cheques, money orders and bankers' drafts, electronic money);
 - (vi) Financial guarantees and commitments;
 - (vii) Trading in:
 - (1) Money market instruments;
 - (2) Foreign exchange;
 - (3) Exchange, interest rate, and index instruments;
 - (4) Transferable securities; and
 - (5) Commodity futures trading (it does not apply to any natural or legal person that provides financial institutions solely with message or other support systems for transmitting funds);
 - (viii) Participation in securities issues and the provision of financial services related to such issues;
 - (ix) Individual and collective portfolio management;
 - (x) Safekeeping and administration of cash or liquid securities on behalf of other persons;



- (xi) Otherwise investing, administering, or managing funds or money on behalf of other persons;
- (xii) Underwriting and placement of life insurance and other investment-related insurance; and
- (xiii) Money and currency changing;
- (o) **“Foundation”** refers to a non-governmental entity that is established as a non-profit corporation or a charitable trust, with a principal purpose of making grants to unrelated organisations, institutions, or individuals for scientific, educational, cultural, religious, or other charitable purposes. There are two types of foundations:
 - (i) Private Foundation derives its money from a family, an individual, or a corporation; and
 - (ii) Grant-making Public Charity (sometimes referred to as a "Public Foundation") derives its support from diverse sources, which may include foundations, individuals, and government agencies;
- (p) **“Funds”** refers to assets of every kind, whether corporeal or incorporeal, tangible or intangible, movable or immovable, however acquired, and legal documents or instruments in any form, including electronic or digital, evidencing title to, or interest in, such assets;
- (q) **“Fund-related Activity”** means any activity which is financed, administered, or supported by the Fund, either with its own resources or those of others, or any activity that materially affects or may affect or otherwise be relevant to the Fund;
- (r) **“GCF Personnel”** means any GCF Staff and any other individual contracted and/or engaged by the GCF to perform official functions for the GCF, excluding Board-appointed Officials and External Members;
- (s) **“Integrity Risk Management Group”** is a body composed of the Executive Director, the Head of IIU, and senior managers within the GCF Secretariat that is responsible for providing strategy, direction, advice, or necessary assistance to ensure that the GCF’s integrity policies are fully implemented, applied, and maintained;
- (t) **“Money Laundering”** means the conversion or transfer of property, knowing that such property is derived from crime, for the purposes of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of the crime to evade the legal consequences of his or her actions. It is the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing such property is derived from crime, or the acquisition, possession, or use of property, knowing at the time of receipt that such property was derived from a criminal offence;
- (u) **“Money or Value Transfer Service (MVTS)”** refers to financial services that involve the acceptance of cash, cheques, other monetary instruments, or other stores of value and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network to which the MVTS provider belongs. Transactions performed by such services can involve one or more intermediaries and a final payment to a third party and may include any new payment methods. Sometimes these services have ties to geographic regions and are described using a variety of specific terms, including Hawala, Hundi, and Fei-chen;
- (v) **“Non-Profit Organisations (NPO)”** refer to a legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as

charitable, religious, cultural, educational, social, or fraternal purposes, or for the carrying out of other types of “good works”;

- (w) **“Political Exposed Person (PEP)”** refers to individuals who are or have been entrusted (domestically or by a foreign country) with prominent public functions, such as Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state-owned corporations, and important political party officials. It also refers to persons who are or have been entrusted with a prominent function by an international organisation, which includes members of senior management such as directors, deputy directors, members of a board, or persons who hold equivalent functions. The definition is not intended to cover middle ranking or relatively junior individuals in the foregoing categories. Immediate family members of PEPs (such as spouses, children, parents, and siblings) or close associates of PEPs (such as widely and publicly-known close business colleagues and/or personal advisors, in particular financial advisors or persons acting in a fiduciary capacity) are also included in this category as the same risks are involved as with PEPs themselves;
- (x) **“Prohibited Practices”** are specific conduct as defined in the relevant GCF principles and policies. Prohibited Practices include Corrupt Practice, Fraudulent Practice, Coercive Practice, Collusive Practice, Obstructive Practice, Abuse, Retaliation against Whistleblowers or Witnesses, Money Laundering, and Terrorist Financing;
- (y) **“Shell Bank”** refers to a bank that has no physical presence in the country in which is incorporated and licensed, and which is unaffiliated with a regulated financial group that is subject to effective consolidated supervision. Physical presence means meaningful mind and management located within a country. The existence simply of a local agent or low-level staff does not constitute physical presence;
- (z) **“Staff”** means all persons appointed to a post in GCF under a letter of appointment (individually, a “Staff Member”);
- (aa) **“Suspicious Activity”** refers to any activities conducted by Counterparties, whether with monetary value or not, with connection to GCF in whatsoever manner, and that such activity appears to have connection with money laundering, the financing of a terrorist activity, or other Prohibited Practice or criminal offence;
- (bb) **“Suspicious Activity Report (SAR)”** means a report concerning a Suspicious Activity which is made to Head of IIU for investigation and/or disclosure to Competent Authorities;
- (cc) **“Terrorist Financing”** is defined as the commission of any offence as set out in Article 2 of the *International Convention for the Suppression of the Financing of Terrorism*;
- (dd) **“Tipping-off”** means disclosing to a Covered Individual or Counterparty that he, she, or it is the subject of a Suspicious Activity Report (SAR) or otherwise under investigation by the GCF or Competent Authorities; and
- (ee) **“Trust”** refers to the legal relationships created – *inter vivos* or on death - by a person, the settlor, when assets have been placed under the control of a trustee for the benefit of a beneficiary or for a specified purpose. A trust has the following characteristics:
 - (i) The assets constitute a separate fund and are not a part of the trustee's own estate;
 - (ii) Title to the trust assets stands in the name of the trustee or in the name of another person on behalf of the trustee;

- (iii) The trustee has the power and the duty, in respect of which he is accountable, to manage, employ, or dispose of the assets in accordance with the terms of the trust and the special duties imposed upon him by law; and
- (iv) The reservation by the settlor of certain rights and powers, and the fact that the trustee may himself have rights as a beneficiary, are not necessarily inconsistent with the existence of a trust. Settlor refers to natural or legal persons who transfer ownership of their assets to trustees by means of a trust deed or similar arrangement.

III. Roles and Responsibilities

9. Covered Individuals bear responsibilities for achieving the objectives of these Standards. Paragraphs 10 to 14 delineate primary responsibilities. Detailed roles and activities shall be elaborated in the SOPs.

10. All **GCF Personnel** are responsible for:

- (a) Complying with the AML/CFT Policy, these Standards, and controls of the GCF;
- (b) Familiarising themselves and acting in accordance with relevant GCF processes and procedures to manage AML/CFT compliance; and
- (c) Reporting to the IIU without undue delay any suspected ML/FT activity, any suspicious activity, or red flag (indicator of suspicious activity).

11. The **Board through its Ethics and Audit Committee** is responsible for ensuring governance and oversight of the GCF's controls in relation to detection, prevention, investigation, and remedy of ML and FT.

12. The **Independent Integrity Unit** is responsible for monitoring the effective implementation of the AML/CFT Policy, Standards, and Program, recommending improvements thereto, providing advice on integrity and AML/CFT for the GCF and Counterparties upon request and in the discharge of its monitoring responsibilities, and conducting ML/FT investigations and proactive integrity reviews.

13. The **Integrity Risk Management Group** is responsible for providing strategy, direction, advice, or necessary assistance to ensure that GCF's integrity policies including the AML/CFT Policy, AML/CFT Standards, and SOPs are fully implemented, applied, and maintained.

14. The **Secretariat** is responsible for implementing the AML/CT Policy, Standards, and SOPs in day-to-day operations including conducting potential or existing Counterparty due diligence, identifying, assessing, controlling, and mitigating ML/FT risks, carrying out compliance functions, conducting AML/CFT theme audits, retaining records, and carrying out training and capacity building for Covered Individuals. In addition to the obligations stated in paragraph 10 above, all GCF Staff are obliged to inform or report any ML/FT risks of which they know or are aware of to the IIU directly, through periodic reports or upon request. The Executive Director is responsible for ensuring that the AML/CFT Program is effectively developed and maintained at the Secretariat, that the AML/CFT Policy and related policies and standards are complied with, and that sufficient GCF Personnel capacities and resources including technologies will be available and deployed to control and manage ML/FT risks.

IV. AML/CFT Risk Management

15. The GCF shall ensure that ML/FT risks are effectively managed to mitigate exposure to reputational, financial, and legal risks, as well as to protect its operations and the integrity of its resources and activities.
16. At minimum, the GCF's ML/FT risk management shall include:
- (a) A fit-for-purpose AML/CFT Program to control and manage ML/FT risks in an effective manner, including the establishment of the Integrity Risk Management Group;
 - (b) An annual Institutional Risk Assessment, conducted under the supervision of the IIU, designed to identify the residual³ risks to which the GCF is exposed and to assess the effectiveness of the overall AML/CFT Program;
 - (c) Assurances that the AML/CFT Standards and SOPs are executed and complied effectively including a Risk Control Self-Assessment (RCSA) tool⁴ to measure the completeness and level of compliance of the standards and procedures;
 - (d) An annual AML/CFT compliance review to test the effectiveness of AML/CFT controls and to formulate appropriate action plans to address identified control and compliance gaps; and
 - (e) AML/CFT theme audits as required.
17. The Secretariat shall ensure that outcomes and any risks or deficiencies of the assessments, reviews, and audits specified in paragraph 16 (b) to (e) are reported to the ED, the IIU, and relevant divisions/offices of the Secretariat.

V. Assessing Risk and Risk-Based Approach

18. The GCF shall take all reasonable measures to identify, assess, and understand ML/FT risks, document those assessments, and apply resources to ensure the risks are managed and mitigated effectively. For this purpose, the GCF shall adopt and implement a continuous risk-based approach to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified. Following the risk-based approach, the GCF shall implement an annual Institutional Risk Assessment to identify and understand ML/FT residual risks in its operations with a view to enhancing its systems and controls for risk mitigation and resource distribution in overall AML/CFT control and management.

VI. Counterparty Due Diligence

6.1 GCF Counterparty Due Diligence Terms

19. In accordance with paragraph 14 (a) and (b) of the AML/CFT Policy, the GCF Secretariat shall apply Counterparty Due Diligence (CDD) measures, as determined on in accordance with the risk-based approach, considering the type of Counterparty, Counterparty relationship, financial instrument, and country of operation, and shall identify and verify the identity of its Counterparties (including their Beneficial Owners) with which the GCF enters into a Counterparty relationship. Further, the GCF shall take reasonable measures to duly assess the purpose, economic rationale, and overall AML/CFT and related integrity aspects of the

³ Refers to expected, non-exceptional risks in day-to-day operations.

⁴ Risk Control Self-Assessment (RCSA) is a tool to integrate and co-ordinate a firm's risk identification and risk management efforts and to improve the understanding, control and oversight of its operational risks. It provides a systematic means of identifying control gaps that threaten the achievement of defined business or process objectives and monitoring what management is doing to close these gaps.

Counterparty and its Beneficial Owners to avoid being involved in relationships structured for the purposes of ML and TF.

20. Pursuant to paragraph 19 above, the GCF Secretariat shall assess ML/FT risks in potential or existing Counterparty relationships through a risk assessment process to be developed based on a risk assessment methodology which shall be elaborated in the SOPs.

21. In conducting risk assessments, the GCF Secretariat shall establish guidance in the AML/CFT SOP to assist in determining the level of risk posed by a potential or existing Counterparty taking into account the types of persons or entities which may present elevated ML/FT risks according to international standards set by the FATF. These include but are not limited to:

- (a) Politically Exposed Persons (PEP) including their immediate family members or close associates, or PEP-linked entities;
- (b) Financial Institutions providing Correspondent Banking or Money/Value Transfer Services (MVTs);
- (c) Designated Non-Financial Businesses and Professions;
- (d) Entities issuing Bearer Shares or with nominee shareholders or directors;
- (e) Trusts;
- (f) Entities with unduly complex structure⁵ of ownership; and
- (g) Non-profit organisations (NPOs).

22. The GCF shall undertake appropriate Know-Your-Counterparty (KYC) measures in entering any relationship with a potential or existing Counterparty. KYC measures shall include identifying and verifying, the full identity of the Counterparty and the authenticity of that information.

23. Following the risk-based approach, the GCF may apply more stringent or more specific KYC measures with regard to potential or existing Counterparties which are assessed in any one of the categories identified in paragraph 21 (a) to (g). In particular, the Beneficial Owner(s) of Counterparty must be identified and verified.

24. CDD information and identification evidence must be obtained directly from the potential or existing Counterparty, or from independent and reliable sources, such as public records maintained by the relevant government or relevant government-connected sources, the potential or existing Counterparty's official website, publication or public materials, or, in exceptional cases, on-site visits by GCF Personnel or appointed third parties. Information from public web search platform or telephone calls may be referenced but will not be considered as independent and reliable sources for verification purposes.

25. The GCF shall ensure that all potential and existing Counterparties are screened against United Nations Security Council Sanctions List.

26. The GCF shall ensure that CDD is to be completed before entering into a contractual relationship with a Counterparty. Under no circumstance shall disbursements be made before CDD is completed and approved.

27. The GCF shall ensure ongoing AML/CFT monitoring after a Counterparty has been onboarded following the risk-based approach. At minimum, such measures shall include ensuring CDD data is up-to-date and monitoring that Fund-related Activities undertaken by

⁵ Unduly complex structure means that a complex structure has been put in place for no apparent purpose, suggesting that it is mainly there to disguise the beneficial owners.

Counterparty are in accordance with contractually agreed terms, and that GCF Funds are not being misused for ML/FT activities. Counterparties shall be required to inform the GCF of any changes regarding CDD information when they become aware of such changes and without undue delay.

28. The GCF shall ensure that periodic CDD reviews of Counterparties are conducted so that emerging risks may be identified early, minimising any undue consequences and impact to GCF. The CDD review cycle shall be determined through the risk-based approach.

29. In accordance with paragraph 14 (b)(ii) of the AML/CFT Policy, the GCF will not establish a new relationship with any entity and will terminate any existing Counterparty relationship under the following circumstances:

- (a) The potential or existing Counterparty fails to cooperate with the GCF's CDD requirements and/or the GCF is unable, despite every effort possible, to identify or verify CDD information of potential or existing Counterparties;
- (b) The potential or existing Counterparty is engaged in activities prohibited under the GCF's Policy on Prohibited Practices in a potential or ongoing Fund-related Activity; and
- (c) The potential or existing Counterparty is listed on the United Nations Security Council Sanctions List.

30. Pursuant to paragraph 29 above and in accordance with paragraph 8 of AML/CFT Policy which states that the Policy shall be consistent with the relevant United Nations (UN) Conventions and Recommendations of the FATF, the GCF shall refrain from engaging with potential or existing Counterparties which are:

- (a) Shell banks, unlicensed banks, or unregulated Money/Value Transfer Service Agents ("MVTs");
- (b) Engaged in relationships with (have dealings with or provide services to) shell banks, unlicensed banks, or unregulated MVTs;
- (c) Engaged in relationships with other entities which engage in relationships with shell banks, unlicensed banks, or unregulated MVTs for the purposes of implementing a Fund-related Activity;
- (d) Disbursing funds, directly or indirectly, through Cash Couriers for the purposes of implementing a Fund-related Activity;
- (e) Financial Institutions that issue Bearer Shares; and
- (f) Financial Institutions that keep anonymous accounts or accounts in fictitious names for their clients.

31. In addition, the GCF shall not allow fund disbursements to anonymous, numbered accounts or passbooks, or third-party accounts, under any circumstances.

32. Pursuant to paragraphs 51 below, the list of unacceptable relationships may be expanded or amended in line with the changing environment.

6.2 Reliance on Accredited Entities and Delivery Partners to Perform CDD on Underlying Counterparties

33. The GCF shall rely on Accredited Entities and Delivery Partners to identify and mitigate risks of ML/FT in deploying and managing GCF resources. To that end, the GCF relies on Accredited Entities and Delivery Partners to perform due diligence on their underlying potential

or existing counterparties and to ensure AML/CFT record-keeping in accordance with their policies and procedures.

34. The GCF shall take steps to ensure appropriate due diligence will be applied to Accredited Entity's or Delivery Partner's underlying potential or existing counterparties in Fund-related Activities, and that the AML/CFT measures taken by an Entity or Partner to identify ML/FT risks are effective.

35. Following the execution of any contractual agreement with an Accredited Entity, the GCF shall monitor that the Accredited Entity or Delivery Partner applies effective AML/CFT measures in any Fund-related Activity. Such monitoring may include requesting that Accredited Entities and Delivery Partners make available copies of identification data and other due diligence documents without undue delay, and other appropriate examination actions as required. It also may include monitoring actions and proactive integrity reviews conducted by the IIU.

VII. Financial Transaction Activities Monitoring

36. In accordance with paragraph 14 (b)(i) of the AML/CFT Policy, the GCF shall establish processes for monitoring financial transaction activities and reporting Suspicious Activities. At minimum, the GCF shall undertake a number of informed measures (to be elaborated in the SOPs) following the risk-based approach including but not limited to:

- (a) Setting criteria for or providing guidance to Counterparties for the selection of Financial Institutions or financial intermediaries through which GCF Funds are disbursed from the GCF to end recipients or beneficiaries. Such criteria include financial transaction monitoring and reporting;
- (b) Setting criteria for and requiring the extent to which Counterparties report regularly to the GCF on their underlying financial transactions in Fund-related Activities; and
- (c) Developing tools to analyse reported financial transactions, regularly reviewing the continuing effectiveness of the tools and, where necessary, initiating any enhancements or changes.

VIII. Reporting Red Flags, Suspicious Activities, and Suspected ML/FT

37. Covered Individuals shall report any Suspicious Activity, red flag (indicators of a suspicious activity), or ML/FT activity which they identify or suspect in the course of performing their duties, to the Head of IIU for investigation. Such reports shall be made and investigated in accordance with the GCF's policies and procedures. Failure to report may leave the Covered Individual and the GCF open to serious reputational damages or legal liability.

38. The Head of IIU shall take appropriate measures to enable Covered Individuals, Counterparties, and external parties to report red flags, Suspicious Activities, or ML/FT activities directly to the IIU by raising awareness and by providing easily accessible reporting channels. The IIU shall ensure that all reports of red flags, Suspicious Activities, and suspected ML/FT activities reports are documented, attended, and investigated in a prompt and professional manner.

39. The Head of the IIU shall notify the GCF Executive Director when a Suspicious Activity or suspected ML/FT activity has been substantiated pursuant to an IIU investigation. The GCF Secretariat shall determine to disclose that Suspicious Activity or suspected ML/FT activity to a Competent Authority, such as the Financial Intelligence Unit of a country where the Suspicious

Activity takes place in accordance with GCF policies and procedures. The GCF Secretariat may authorise the IIU to make a disclosure on behalf of the GCF. Decisions to disclose or not to disclose Suspicious Activities and suspected ML/FT activities must be clearly recorded and reported to the EAC. Procedures for disclosing Suspicious Activities and suspected ML/FT to Competent Authority shall be developed by the IIU in coordination with the GCF Secretariat.

40. In accordance with GCF policies and procedures, the GCF may take disciplinary or other remedial action against any GCF Personnel who, having knowledge of Suspicious Activities, fails without reasonable excuse, to make a report, or who blocks, or attempts to block, a report by another GCF Personnel.

41. Under no circumstances should a Covered Individual engage in Tipping-Off as such actions could prejudice an existing or potential investigation by the IIU or Competent Authorities. Covered Individuals found to have engaged in Tipping-Off may be subject to remedial action in accordance with GCF policies and procedures.

IX. Exiting a Relationship

42. It is the policy requirement under Section VI (Key provision), paragraph 15 (b) (ii) of the AML/CFT Policy not to enter into or maintain relationships that may be used, or are being used, for money laundering or terrorist financing. Guidelines on exiting a relationship shall be provided in the SOPs.

X. Training and Capacity Building

43. The GCF shall ensure that Covered Individuals receive adequate AML/CFT training which aims to strengthen their knowledge and awareness of the following subject matter:

- (a) The relevant obligations, requirements, rules, and procedures set out in the AML/CFT Policy, Standards, and in related GCF policies and guidelines policies and the possible consequences for compliance failures; and
- (b) Information and methods useful for identifying and procedures for reporting ML/FT, red flags, Suspicious Activities, and other related integrity risks or violations.

44. To give effect to AML/CFT training, the GCF shall develop and implement AML/CFT training guidelines. Such guidelines should address, at minimum, the frequency, content, methods, and knowledge testing of the training and consequences for failure to undergo or complete the training, and should be designed for GCF Personnel in consideration of their position or role within the Fund and the risk-based approach.

45. In accordance with paragraph 10 of the AML/CFT Policy, the GCF shall take steps to encourage its potential and existing Counterparties to adopt policies and procedures that are consistent with the principles set in the AML/CFT Policy and these Standards and to support to the extent possible potential or existing Counterparties in their efforts to prevent, detect, manage, and mitigate ML/FT risks, and to investigate red flags, Suspicious Activities, and suspected ML/FT. To that end, the GCF will provide training and capacity development support or specialised training to such Counterparties in situations:

- (a) Where the potential or existing Counterparty has specifically requested capacity building support to enable it to effectively prevent, detect, manage, and mitigate ML/FT risks, and to investigate red flags, Suspicious Activities, and suspected ML/FT;
- (b) Where the Secretariat has identified through its accreditation, due diligence, and/or risk assessment processes that such potential or existing Counterparty is lacking sufficient

capacity or knowledge to prevent, detect, manage, and mitigate ML/FT, causing potential risk to the GCF investment project; and

- (c) Where the IIU has identified through its proactive integrity reviews and other engagements with Accredited Entities that a Counterparty is lacking sufficient capacity or knowledge to prevent and detect risks of ML/FT and other Prohibited Practices, or to receive, handle, or investigate reports of red flags, Suspicious Activities, or suspected ML/FT and other Prohibited Practices.

46. Training and capacity building support referred in paragraph 45 above should be differentiated according to different needs and capacities of potential or existing Counterparties and may be informed by an AML/CFT capacity assessment. The areas of support and training include but not limited to:

- (a) **Policy Advice:** Support in developing the entity's policies, standards, operating procedures, and governance arrangements with regard to Prohibited Practices including AML/CFT, Whistleblowing and Witness Protection, and investigations;
- (b) **Technical Training:** Know-how in effective ways to implement an AML/CFT compliance program including CDD, risk assessment, and ongoing monitoring; and
- (c) **Experience Sharing:** Providing market information, including data base and system providers to assist entities to enhance their capabilities in assessing and detecting risks.

XI. Record Retention

47. In accordance with paragraph 14(e) of the AML/CFT Policy, the GCF shall ensure mandatory and minimum requirements for record retention for AML/CFT purposes including to demonstrate that due diligence has been undertaken to prevent ML/FT, and to ensure that sufficient information or documentation may be provided when requested by Competent Authorities in any AML/CFT investigation.

48. Guidelines on retaining and retrieving Records shall be established to address the following issues:

- (a) The duration and terms of record retention;
- (b) Record storage and internal and external access to records;
- (c) The use of record of investigation purposes;
- (d) Terms of record retention compliance;
- (e) Confidentiality and security of record retention; and
- (f) The scope and contents of records.

XII. Data Protection and Confidentiality

49. Any data, information, and documents, whether in physical or electronic format, obtained during the course of Counterparty Due Diligence ("CDD") or Suspicious Activities monitoring shall be protected and kept confidential in accordance with GCF policies and procedures and the GCF's internal legal framework.

XIII. Right of Interpretation

50. The GCF Board has the ultimate right of interpretation of these Standards. However, for operational purposes, at first instance, the Board delegates this responsibility to the Head of the IIU, in consultation with the EAC.

XIV. Authority of the Documents

51. The AML/CFT Standards are a GCF Board-approved document. Any amendment, enhancement, or update requires the Board's approval.

XV. Review

52. The AML/CFT Standards shall be reviewed biennially or at such intervals as required, to reflect international best practices consistent with evolving FATF recommendations or as otherwise required by the Board or recommended by the IIU or the Secretariat. The reviews shall be conducted by the IIU in collaboration with the GCF Secretariat.

XVI. Effective Date

53. These Standards shall come into effect upon the approval of the Board of the GCF from XX February 2019.
