



EUROPEAN CENTRAL BANK

EUROSYSTEM

Harmonisation KYC procedures

Summary of DIMCG
separate session

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KYC (know-your-customer requirements)

- Issue statement:

A lot of resources are spent on ensuring compliance with know-your customer requirements when on-boarding investors (parallel manual procedures)

- Assumptions:

- KYC responsibilities remain a core service by dealers / agents, i.e. validation of investor identity is dealers / agents' task but could be made more efficient by more harmonised procedures
- Regulatory requirements already harmonised via common EU KYC rules (although leaving significant room for differing national implementation)
- Third party services seem to exist to support and potentially share KYC data (at least on banks as customers) – fragmentation along national borders prevent such services from realising full potential

KYC (know-your-customer requirements)

Onboarding and validation of identities

- Done by dealers or issuer agents (depending on form of issuance)
- Financial service provider (e.g. bank) is responsible to execute KYC procedures (customer due diligence) on its customers – can be outsourced to third party but responsibility remains with the fin. service provider
- Simple / basic customer due diligence consists of two elements: i) recording relevant data on customer identity and ii) verifying customer identity
- To note: European Commission is rethinking KYC rules in the context of its Digital Finance package also taking into account the lessons learnt from COVID-19 lockdowns

KYC (know-your-customer requirements)

Data sharing / consolidated databases on investors

- *“A common data base, the basis for a performant syndication tool and possibly direct access in auctions could be an ultimate goal. Currently, dealers provide issuers with an important KYC service on investors, for whom they bear onboarding responsibility. Here also, one could imagine the set-up of a “certified database”, fed by dealers through an onboarding and KYC procedure of investors and issuers alike. This database could be used in different issuance mechanisms : auctions and syndications. It would simplify straight-through handling of allocated orders and increase issuer’s client knowledge.” – **quote from a respondent in the 2019 market consultation***
- Issuers clearly see a need to maintain up-to-date data on their investors in an efficient way – both in relation to the investor bids in a given transaction and on an on-going basis
- On the other hand such data in the context of a transaction may be confidential and may require strict control on who has access to it (GDPR limitations are also relevant)
- Investor passporting and third-party solutions / common tools can greatly help – potential room for harmonisation

KYC (know-your-customer requirements)

Existing process and situation :

- *Dealers / issuer agents collect all KYC data and on-board customers – in most cases happens before customer participates in any transactions*
- *With standing customer relationships no need to repeat identification but regular updates / maintenance have to be made (e.g. changes in any of the identifying elements, e.g. change of address or legal name) – in European HQL issues there is a relatively stable set of potential investors*
- *Customer identity is verified in accordance with EU AML directive and transposing national rules*
 - Method / document used for verification:*
 - ✓ *For natural persons: checking national identity card, passport, resident permit other identifying document, qualified e-ID, etc.*
 - ✓ *For companies: requiring certificate of public registration, e.g. commercial register or a partnership agreement, id of partners, qualified e-ID and other relevant documents*
- *Customer data is stored / maintained by dealer / issuer agent*
 - Data recorded on customer:*
 - ✓ *For natural persons: name, address, place and date of birth, nationality...*
 - ✓ *For companies: company, trading name, legal form, commercial register number, the address of its registered office or head office, names of the members of its representative body or of its legal representative...*
- *Selected data (investor name, id) is shared with issuer for book building*

KYC (know-your-customer requirements)

Different levels / target of potential harmonization work:

I. Harmonising methods / documents used for identification and / or data elements to be recorded:

- *Common minimum list of documents used for identification across the EU – a common harmonized minimum set would alleviate the burden on both the investors and the bank side (individual banks can decide to require more on top of minimum)*
- *Probably requires change in national laws (at least in some cases)*

II. Sharing of KYC data / identification of customers by common database / central datahub:

- *Investor KYC data entered into common registry to avoid duplications in managing / preparing documents*
- *All deal managers + relevant agents could access / query the database*
- *In its simplest form such registry would not affect the each bank / agent's liability to conduct customer due diligence but would alleviate the burden of (re-) producing the required documents*
- *Existing third-party services offer such solution but their take-up is limited due to fragmented requirements*

KYC (know-your-customer requirements) – summary of DIMCG discussion

Different levels / target of potential harmonization work:

III. KYC passporting:

- *one investor could be identified only once and by only one of the dealers / deal managers, with the identifying dealer issuing a ‘KYC passport’ and retaining legal / compliance responsibility for the identification*
- *could also be treated as an infrastructure, i.e. ‘MTF-like approach’ (as with trading infrastructures where members do not need to KYC each other to trade)*
- *would require a common ‘scheme’ / contractual framework to govern responsibilities and who does what*
- *such a solution would require agreement of common risk assessments which can be difficult*

These steps build on each other – a stepwise approach can be used

KYC (know-your-customer requirements) – summary of DIMCG discussion

Potential barriers:

- *With most banks active in many market segments KYC is done once at customer-level, issuance-specific KYC solutions may limit existing synergies between business lines*
- *National data privacy law may restrict / prohibit sharing data on customers / may restrict the prospect of harmonizing processes / verification methods*
- *If liability transfer is involved it is difficult to agree on scheme and governance, Non-EU investors / dealers may be subject to different rules from EU AML requirements*

Opportunities:

- *Link with LEI / investor id discussion – LEI will help also here (for legal entities)*
- *DIMCG could highlight existing fragmentation and recommend stronger legal harmonisation*
- *EC reviewing KYC / AML rules in the context of Digital Finance Strategy*

KYC (know-your-customer requirements)

Next steps:

- *Verifying direction of work with DIMCG plenary*
- *Further fact finding:*
 - *Stock-take of national requirements on required documents for investor identification in KYC process*
 - *Draw on experience by KYC third-party service providers (potential link to Pillar 3)*

Thank you for the attention

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