



LABUAN FINANCIAL SERVICES AUTHORITY
(LEMBAGA PERKHIDMATAN KEWANGAN LABUAN)

Circular No.: 252/2020/ALL
Date: 9 December 2020

Association of Labuan Banks
Labuan International Insurance Association
Association of Labuan Trust Companies
Labuan Investment Banks Group

Dear Sir/Madam,

Principles on Electronic Know-Your-Customer (e-KYC) for Digital Financial Services

This circular is intended to provide minimum regulatory expectations on the appropriate due diligence for Labuan financial institutions (LFIs) that undertake digital financial services (DFS). This is critical for LFIs in managing and addressing risks related to money laundering as well as terrorism financing (ML/TF).

2. As iterated in the circular issued by Labuan FSA dated 26 June 2018 regarding the carrying of DFS activities in Labuan IBFC, it is imperative for these businesses to be undertaken in a transparent and orderly manner with sufficient safeguards. In this regard, the Financial Action Task Force (FATF) has published a set of policy guidance for an effective customer due diligence (CDD) on DFS activities including the electronic Know-Your-Customer (e-KYC). The guidance papers are appended with this circular for LFIs' reference:

- (i) Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers (**Appendix I**); and
- (ii) Guidance on Digital Identity (**Appendix II**)

3. The e-KYC is essentially a digitalisation of customer identification and verification process which enables the LFI to undertake a remote and paperless CDD. LFIs carrying DFS businesses would need to have in place e-KYC measure as an effective oversight of ML/TF risks posed by their virtual transactions. At the minimum, LFIs must observe the principles which are outlined in **Appendix III**. For this purpose, LFIs may either:

- (i) leverage on technological solutions to effect e-KYC due diligence which is appropriate to their nature of business and operations; or
- (ii) subscribe a third-party service provider that provide e-KYC solution that suits the needs of their governance framework. Should a LFI engage a third party service provider which is operating outside Labuan IBFC, it would need to

obtain prior approval from Labuan FSA's Supervision & Monitoring Department on the proposed engagement.

4. For clarity, this circular is to be read together with the requirements of the following AMLCFT guidelines to ensure appropriate implementation by LFIs:

- (i) Guidelines on AMLCFT – Banking Sector
- (ii) Guidelines on AMLCFT – Insurance and Takaful Sector
- (iii) Guidelines on AMLCFT – Trust Company Sector
- (iv) Guidelines on AMLCFT – Capital Market and Other Business Sector

The review of the AMLCFT guidelines are currently being undertaken by Labuan FSA, and further details on e-KYC requirement will be provided as guidance to the respective sectors.

5. Should you have any queries or require any clarification on the e-KYC principles of this circular, you may contact our officers as follows:

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Yours sincerely,



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