



Haile Selassie Avenue
P.O. Box 60000 - 00200 Nairobi, Kenya
Telephone: 2860000, Fax: 340192

March 18, 2019

BANKING CIRCULAR NO. 2 OF 2019

TO ALL CHIEF EXECUTIVES OF COMMERCIAL BANKS, MICROFINANCE BANKS AND MORTGAGE FINANCE COMPANIES

INDEPENDENT REVIEW OF ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM COMPLIANCE PROGRAM

Money laundering and terrorism financing (ML/TF) continue to be a serious global threat that can negatively affect a country's reputation leading to adverse economic and social consequences. Kenya continues to implement anti-money laundering and the financing of terrorism (AML/CFT) measures in order to protect the financial system from abuse.

Effective implementation of AML/CFT measures for financial institutions requires that institutions understand Kenya's AML/CFT legal and institutional framework and also fully implement the requirements therein. Institutions are thus required to have sound AML/CFT compliance programs.

The Central Bank of Kenya (CBK) reminds all financial institutions of the requirements of:

1. Regulation 37 of the Proceeds of Crime and Anti-Money Laundering Regulations, 2013. It obligates a reporting institution to adopt an independent audit function to check compliance by the institution with the Proceed of Crime and Anti-Money Laundering Act (POCAMLA) and its Regulations.
2. Clause 5.3.2 of the Central Bank of Kenya Prudential Guideline on Anti-Money Laundering and Combating the Financing of Terrorism (CBK/PG/08). It provides for independent testing/audit, to measure compliance with the relevant AML/CFT laws and regulations.

To facilitate the implementation of these requirements, the CBK hereby issues the following directives to all commercial banks, microfinance banks and mortgage finance companies:

1. To nominate an independent and competent external third party to undertake a review of the institution's AML/CFT compliance program. The terms of reference for the review are attached as Annex I.
2. To submit to CBK the profile of the nominee for approval.
3. The report of this review should be independently submitted to the Central Bank by May 31, 2019 by the contracted third party.

For further enquiries, please do not hesitate to contact:

The Director
Bank Supervision Department
Central Bank of Kenya
P.O. Box 60000-00200
Nairobi.
Tel: 2863005
Email: fin@centralbank.go.ke

Yours faithfully,



GERALD NYAOMA
DIRECTOR, BANK SUPERVISION DEPARTMENT

Cc. Director General

Financial Reporting Centre
CBK Pension House, Harambee Avenue
NAIROBI

ANNEX I

TERMS OF REFERENCE FOR INDEPENDENT REVIEW OF COMMERCIAL BANKS, MORTGAGE FINANCE COMPANIES AND MICROFINANCE BANKS' ANTI-MONEY LAUNDERING AND THE COMBATING THE FINANCING OF TERRORISM

Institutions are required to put in place effective Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT) programs that address the risks posed by money laundering and terrorism financing.

Regulation 37 of the Proceeds of Crime and Anti-Money Laundering (POCML) Regulations stipulates that a reporting institution undertake an independent audit to check its level of compliance with the law.

Pursuant to Section 36A (5) of the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA), a supervisory body may require a reporting institution to report on that institution's compliance with the Act.

An independent audit of the institution's AML/CFT compliance program is necessary in order to ascertain its compliance with requirements of:

- POCAMLA.
- POCAML Regulations, 2013.
- The Prevention of Terrorism Act, 2012.
- The Prevention of Terrorism (Implementation of the United Nations Security Council Resolutions on Suppression of Terrorism) Regulations, 2013.

In this regard, an independent and competent third party appointed by the institution will be required to

- Review the customer due diligence measures.
- Evaluate the appropriateness of the institution's money laundering/terrorism finance risk assessment.
- Assess the adequacy of the internal controls including the AML/CFT governance structure, policies and procedures.
- Review the institution's monitoring process and adequacy of the systems used for transaction monitoring.

- Test the institutions reporting process for suspicious transactions and large cash transactions with the Financial Reporting Centre.
- Determine adequacy of the AML/CFT Training Program.
- Review the record keeping procedures.
- Assess the adequacy of the institutions measures to combat terrorism financing risk.
- Review the operations and role of the money laundering reporting officer.

The independent reviewer will deliver to the Central Bank of Kenya a detailed report outlining: -

- Executive summary.
- Background and methodology.
- Scope.
- Findings.
- Recommendations with prioritized actions and timelines.

CENTRAL BANK OF KENYA

MARCH, 2019