Bhutan Trust Fund for Environmental Conservation

Anti-Money Laundering and Countering the Financing of Terrorism (AML-CFT)

2024

(Approved at 73rd Board Meeting, 18th January 2024)

FOREWARD

Money laundering is increasingly becoming a prevalent threat with criminals targeting financial institutions, government bodies, and agencies including the trust funds. While global efforts are being coordinated to fight money laundering and terrorism financing, criminals are also advancing their capacities to counter anti-money laundering efforts. Access to digital technology has also facilitated the criminals to pioneer new ways for their illegal activities. These developments call for a well- coordinated response to track down and root out money laundering.

In response to this call, I am happy to note that Bhutan Trust Fund for Environmental Conservation (BTF) has revised its Anti-Money Laundering (AML) and Countering of Financing of Terrorism (CFT) Policy 2019 to better align with local and international relating to AML/CFT.

I believe that the adoption and adherence to this policy will embed a compliance culture within BTF, provide solid and effective controls, and demonstrate that BTF has committed itself and its resources to maintain and support the principles laid out within this policy to uphold our integrity, both internally and externally.

I would like to encourage the honorable Board of Trustee, secretariat staff, and all those associated with BTF to commit and complement the efforts of the Royal Government of Bhutan and the world to root out money laundering and terrorism financing.

In my capacity as the Managing Director of BTF, I will fully commit myself to full implementation of controls for the detection and prevention of illicit activities as well as nurturing an outstanding compliance culture.

Karma Tshering (Ph.D)
Managing Director

ACRONYMS

AML	Anti-Money Laundering
AMLCO	Anti-Money Laundering Compliance Officer
BTF	Bhutan Trust Fund for Environmental Conservation
CDD	Customer Due Diligence
CFT	Countering Financing of Terrorism
CSO	Civil Society Organizations
FATF	Financial Action Task Force
GEF	Global Environment Facility
GNH	Gross National Happiness
LGs	Local Governments
ML	Money Laundering
RMA	Royal Monetary Authority
STRs	Suspicious Transaction Reports
TF	Terrorist Financing
UNDP	United National Development Program
WWF	World Wildlife Fund

Table of Contents

1. INTRODUCTION

1.1 The Bhutan Trust Fund for Environmental Conservation (BTF) was established in 1992 with an endowment of US$21 million contributed by the Global Environment Facility (GEF), UNDP, WWF, and the Governments of Bhutan, Denmark, Finland, the Netherlands, Norway, and Switzerland, to fund the conservation of Bhutan's rich natural resources to sustain ecological and social integrity. To further strengthen BTFEC, it was legally incorporated through a Royal Charter in 1996.

1.2 As Bhutan's only conservation trust fund, BTF is charged with the mandate of supporting the Royal Government, Civil Society Organizations (CSOs), Local Governments (LGs), Research and Educational Institutes, and the Bhutanese citizens at large in their pursuit of the sustainable conservation of Bhutan's rich natural resources. Over the last two decades or so, the BTF have played an inevitable role in achieving Bhutan's conservation goals, thereby directly contributing to successfully upholding the environmental conservation pillar of our development philosophy, the Gross National Happiness (GNH).

2. AML/CFT POLICY

2.1 This Anti-Money Laundering/Countering of Financing of Terrorism (AML/CFT) Policy will be called the, "BTF Anti-Money Laundering and Countering of Financing of Terrorism (AML/CFT) Policy 2024[1].

2.2 These policy standards shall apply to all covered individuals in accordance with their roles and responsibilities with respect to BTF. Certain categories of covered individuals may have specific obligations as determined in these standards.

2.3 BTF AML/CFT Policy was approved by the Management Board on 24th April 2020 during its 56th Board meeting.

2.4 This AML/CFT policy 2024 shall supersede the Policy Standards for AML/CFT 2019.

3. OBJECTIVES

The objectives of this AML/CFT Policy are as follows:
3.1 Preventing the abuse of BTF resources for money laundering (ML) and/or financing of terrorism (TF);
3.2 Exercise due diligence when dealing with the BTF's clients or any connected parties of the clients;
3.3 Meet applicable requirements and standards relating to AML/CFT;
3.4 Review and update its AML/CFT Policy as threats and standards evolve to prevent and detect ML and/or FT.

[1] Reference has been made to Bhutan's AML/CFT Act 2018 and AML/CFT Rules and Regulations 2022, Green Climate Fund's policy and standards on AML/CFT.

4. KEY PROVISIONS

The key provision of this KYC/AML Policy are as follows:

(a) Customer Due Diligence
(b) Governance and Internal Controls
(c) AML/CFT Risk Management
(d) Reporting Reg Flags, Suspicious Transaction, Suspected ML/TF
(e) Training and Awareness
(f) Record Retention
(g) Confidentiality and Protection of Information
(h) Review

5. CUSTOMER DUE DILIGENCE (CDD)

The Customer Due Diligence (CDD) or Know Your Customer (KYC) shall be the mandatory process of identifying and verifying the BTF's customers when establishing the business relationship. In other words, BTF must make sure that its customers are genuinely who they claim to be. The standards on the Customer Due Diligence (CDD) have been developed with reference to the Guide on Customer Due Diligence issued by the Royal Monetary Authority.

5.1 Objective of CDD

The objective of CDD is to ensure that BTF obtain sufficient customer information before establishing the business relationship. The BTF will be required to collect, verify and keep records of customer identification information and conduct screening against the list of known United Nation's sanctioned list or sanctioned list of Ministry of Home Affairs (MoHA), Bhutan.

5.2 When to Undertake Due Diligence

The BTF will undertake the customer due diligence as follows:

(a) when establishing a business relationship with a potential customer;
(b) when there is reason to doubt the identification information the customer has provided; and
(c) when circumstances indicate that it is necessary in the case of existing customers; for example, if there is a significant change in their business activities or the geographic locations where they operate or have business relations.

5.3 Standard Due Diligence Approach

The customer relationship of the BTF shall be handled through Standard Due Diligence in order to ensure appropriate Customer Identification. Customer Identification means undertaking the process of customer due diligence (CDD) i.e., identifying the customer and verifying its identity by using reliable, independent source of documents, data or information.

The information collection form as a part of BTF's standard due diligence is attached as **Annexure 1.**

5.4 Targeted Financial Sanctions

(a) The BTF will be required to collect, verify and keep records of customer identification information and conduct screening against the list of known United Nation's sanctioned list published in its website or domestic sanctioned list published in the Ministry of Home Affairs (MoHA). The link to the UN and domestic sanction lists is as follows:

https://www.un.org/securitycouncil/content/un-sc-consolidated-list#entities

https://www.moha.gov.bt/?page_id=2324

(b) The BTF shall conduct sanctions screening on existing or new customers against the domestic list and UN List. Where applicable, screening shall be conducted as part of the CDD process and on-going due diligence.

(c) BTF will refrain from engaging with any individual or entity listed thereon. Additional tools will also be utilized, as needed, during this screening process to supplement any relevant risk area not covered by this policy.

5.5 Ongoing Due Diligence

(a) The BTF shall conduct on-going due diligence on the business relationship with its customers. This is to ensure that documents, data or information collected under the CDD process is kept up-to-date and relevant, by undertaking reviews of existing records. For conducting on-going due diligence, the BTF shall take into consideration business relationship which:
    - (i) appears unusual casts doubt on the legality of such business relationship with its customers; or
    - (ii) is inconsistent with the expected type of activity and business model.

(b) The frequency of the on-going due diligence shall be commensurate with the level of ML and TF risks posed by the customer.

5.6 Decision Making

Where BTF determines that it cannot obtain information sufficient to enable it to know its customer and the risks posed by the business relationship, it shall:
- (i) not start business relations or perform the requested activities, or
- (ii) terminate the existing business relationship.

6. GOVERNANCE AND INTERNAL CONTROLS

BTF AML/CFT policy is to facilitate adequate internal control to allow for compliance with the provisions specified under section 55 (1) of Bhutan's AML/CFT Act, 2018, and other appropriate regulations and legislation to fight against ML/TF.

6.1 Responsibilities of the Board

(a) Understand ML/TF risks faced by BTF and establish an effective internal control system to prevent ML/FT risks;
(b) Approve policies regarding BTF AML/CFT measures including those required for risk assessment and mitigation, record keeping, reporting of suspicious transactions, and combating the financing of terrorism;
(c) Establish appropriate mechanisms to ensure that the AML/CFT policy is reviewed and assessed in line with changes and developments of BTF's products and services, technology as well as trends in ML/TF;
(d) Ensure effective internal audit function in assessing and evaluating the robustness and adequacy of controls implemented to prevent ML/TF;

6.2 Responsibilities of the BTF Secretariat

(a) Oversee the overall implementation and management of AML/CFT policy;
(b) Undertake review and propose the necessary enhancements to the AML/CFT policy to reflect changes in BTF's risk profiles;
(c) Ensure that reports are provided to the board on the level of ML/TF risks facing BTFEC, strength and adequacy of risk management and internal controls implemented to manage the risks;
(d) Appoint an anti-money laundering and compliance officer (AMLCO);
(e) Ensure that there is a proper channel of communication in place to effectively communicate the AML/CFT policy and procedures to all levels of employees;

6.3 Responsibility of the Anti-Money Laundering Compliance Officer (AMLCO)

(a) The AMLCO must be vested with full responsibility and authority to enforce BTF's AML/CFT policy;
(b) The AMLCO should have a working knowledge of the Bhutan's AML/CFT Act, Rules and regulations, national laws well as those of international standards;
(c) The AMLCO shall ensure the effective implementation of BTF's MAL/CFT Policy and monitor its compliance with AML/CFT policy;
(d) The AMLCO shall ensure that all reports of red flags, suspicious transactions, and suspected ML/TF activities reports are documented, attended, and investigated in a prompt and professional manner;

7. AML/CFT RISK MANAGEMENT

7.1 To effectively prevent money laundering and combat the financing of terrorism, an assessment mechanism that adopts risk-based approach will be established to carry out overall assessment of money laundering and terrorist financing (ML/TF) risks to effectively develop control measures.

(a) BTF will undertake assessment of ML/TF risks it faces and make proportionate responses to control and manage risks to avoid exposure to reputational, financial, and legal risks, as well as to protect its operational and the integrity of its resources and activities.
(b) BTF will take appropriate steps to identify, assess, and understand its specific ML/TF risks in relation to its customers, the countries or geographical areas in which it operates and its products and services and formulate control measures to address the identified gaps.
(c) Have an appropriate mechanism to provide up to date risk assessment information to its board.
(d) Any observations of any risk or deficiencies of the risk assessments, reviews of the effectiveness of risk control and mitigation measures and, audits should be reported to the board and the secretariat.

7.2 The detailed risk assessment process is described in Annexure 2

8. REPORTING RED FLAGS, SUSPICIOUS TRANSACTIONS/SUSPECTED ML/FT

8.1 Covered individuals shall report any suspicious transaction, red flag (indicators of a suspicious transactions), or ML/TF activity which they identify or suspect in the course of performing their duties, to the AMLCO for investigation. Failure to report may leave the covered individual and BTFEC open to serious reputational damages or legal liability;

8.2 The AMLCO shall ensure that all reports of red flags, suspicious transactions, and suspected ML/TF activities reports are documented, attended, and investigated in a prompt and professional manner;

8.3 The AMLCO shall notify the BTF secretariat when a suspicious transaction or suspected ML/TF activity has been substantiated pursuant to an investigation. The secretariat shall determine to disclose that suspicious transaction or suspected ML/TF activity to the board.

8.4 Under the guidance of the Board, the BTF shall submit a report to the Financial Intelligence Department of the Royal Monetary Authority (RMA), of any suspicion relating to money laundering and financing of terrorism activities by its customers for information and further instructions and investigation by the Royal Monetary Authority of Bhutan.

9. TRAINING AND AWARENESS

BTF will ensure that all partners and relevant employees including asset managing committee have access to adequate training to ensure that they have the necessary knowledge of the law relating to anti- money laundering and countering the terrorist financing;

10. RECORD RETENTION

10.1 In compliance with Section 68(5) of Bhutan's AML/CFT Act 2018 and international standards, BTF 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/TF, and to ensure that sufficient information or documentation may be provided when requested by competent authorities in any ML/TF investigation;

10.2 BTF will maintain records of identification and consideration of money laundering issues for the entire period that BTF act for the customers and for five years after BTF cease to act in accordance with the regulations.

11. CONFIDENTIALITY AND PROTECTION OF INFORMATION

11.1 Any data, information, and documents, whether in physical or electronic format, obtained during the course of due diligence or suspicious activities monitoring shall be protected and kept confidential in accordance with BTF policies and procedures.

11.2 BFT Board and secretariat shall maintain confidentiality and secrecy of any matter, report and other information relating to the administration of BFT that becomes known to them or comes in their possession or under their control.

11.3 BFT Board and secretariat shall be prohibited from tipping off any staff. Any person tipping off shall be liable for criminal, civil, administrative or any other related proceedings provided that the act is established.

11.4 The identity of the whistle blower shall not be disclosed. The whistle blower shall be immune from criminal, civil, administrative or any other related proceedings provided the information is credible and made in good faith.

12. REVIEW

BTF shall conduct reviews on the AML/CFT policy that they develop on the basis of risk or whenever significant changes are made to BTF or when any previous review is out of date.

13. DEFINITIONS

For the purpose of BTF AML/CFT Policy standards, the following definitions which are adapted from Bhutan's AML/CFT Act 2018 and other international standards shall apply:

(a) **AML/CFT Program** is short for an anti-money laundering and countering the financing of terrorism program;

(b) *"***Competent Authorities"** refers to all public authorities, (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 of the Royal Monetary Authority (RMA) of Bhutan, the Anti-Corruption Commission (ACC), and the Royal Bhutan Police (RBP); 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;

(c) **“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 BTF. Counterparties include an applicant or contracted contributor, Investors, Asset Manager, Accredited Entity, delivery partner, fiscal agent, financial intermediary, vendor, and any entity within or to which the Secretariat directly disburses BTFEC resources;

(d) **“Covered Individual (CI)”** means Chairs of the Board, Board Members, Advisers, Technical Advisory Committee (TAC), Asset Management Committee Members, Board- appointed Officials, External Members, and BTF staff;

(e) **“Customer Due Diligence (CDD)**” is a KYC process of doing background checks on your clients to assess the risk they pose, before dealing with them. Risks may stem from financial crime, corruption, and money laundering.

(f) **“Know Your Customer (KYC)”** is a process of obtaining information about your customers/grantees for identification purposes.

(g) **“Money Laundering (ML)”** is generally defined as engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the proceeds appear to have derived from legitimate origins or constitute legitimate assets. AML can happen in a variety of forms.

(h) **“Suspicious Activity”** refers to any activities conducted by Counterparties, whether with monetary value or not, with connection to BTF 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;

(i) **“Suspicious Transaction Report (STR)”** means a report concerning a Suspicious Transactions which is made to AMLCO for investigation and/or disclosure to Competent Authorities;

(j) **“Terrorism Financing (TF)”** refers to acts of willful collection of funds directly or indirectly to be used to facilitate or carry out terrorist activities;

(k) **“Tipping-off”** Improper or illegal act of notifying a suspect by BFT Board member or BFT secretariat staff that he or she is the subject of a suspicious transaction report or is otherwise being investigated or pursued by the authorities;

(l)

(m) **“Whistle blower** A person, who could be either a BFT Board member or BFT secretariat staff, disclosing information to the public or some higher authority about ML/TF and related predicate offences.

Annexure 1

CUSTOMER DUE DILIGENCE FORM

No.	Particulars	Details
1	**Full Name of the Customer**	
2	**Legal Status**	Please tick ( ) Individual ( ) Company ( ) Others ______________________
3	**Permanent Address**	
4	**Business Address**	
5	**CID/Business Registration No.**	
7	**In case of Individual**	
(i)	*Nationality*	
(ii)	*Occupation or Profession*	
(iii)	*Name of the Employer*	
(iv)	*Location of the activity*	
8	**In case on Company**	
(i)	*Country of incorporation*	
(ii)	*Date of incorporation*	
(iii)	*Principal business/activity of the customer*	
9	**Is the customer acting on behalf of another person?** **If yes:**	Please tick ( ) Yes ( ) No
(i)	*Name of the Beneficial Owner*	
(ii)	*CID/Business Registration No.*	

(iii)	*Domicile Country*	
(iv)	*Nationality if Beneficial Owner is an individual*	
10.	**Contact Details of the Customer**	
(i)	*Contact Person*	
(ii)	*Phone No*	
(iii)	*E-mail address*	

11.	**Copies of Customer Identification Documents** *Please submit the documents and tick ( ) against the documents attached* **(i) Individual**: - ( ) CID copy ( ) Proof of Domicile Country **(ii) Company**: - ( ) Company Registration ( ) List of Board Directors **(iii) Any other documents**: - please list down the documents

Declaration:

I/We hereby confirm that the above information provided to you is true and correct to the best of my/our knowledge. I/We acknowledge that if the information provided is found to be false or misleading then the business relationship may be annulled anytime at your discretion. I/We hereby agree to provide any additional information/documentation that may be required.

Date: ____________________ Signature: ______________________________

Annexure 2

AML/CFT RISK MANAGEMENT

The AML/CFT risk assessment is intended to ensure that the BTF is able to identify, assess and understand the ML/TF risks to which it is exposed to and take the necessary AML/CFT control measures to mitigate them.

1. Risk Identification

Based on the nature and size of the BTFEC, the following has been identified as the main ML/FT risks.:

(a) Country or geographical risk:

Country or geographical risk may arise because of the location of a customer, the origin of destination of transactions of the customer, its location and the location of its organizational units. Country or geographical risk, combined with other risk categories, provides useful information on potential exposure to money laundering and terrorism financing. Categories of country or geographical risk that may indicate a higher risk are:

i. Countries or geographic areas subject to sanctions by the United Nations;
ii. Countries or geographic areas identified by credible sources as providing funding for or otherwise supporting terrorist activities.

(b) Customer risk

For the purpose of the ML/TF risk assessment, the BTF shall assess if a type of customer carries an increased ML/TF risk. Based on the BTF assessment, it shall determine whether a customer poses a higher risk. Categories of customers that may indicate a higher risk are:

i. Customers where the structure or characteristics of the entity or relationship make it difficult to identify the true owner or controlling interests, or customer that use nominees, trusts, family members or third parties, etc.
ii. Customer who are in sanction list (UN and MoHA).
iii. Customers who are Politically Exposed Persons (PEPs).

(c) Any other risk

Depending on the specificity of operations of an BTF, other categories could be considered to identify all segments in which ML/TF risk may emerge. For example:

Product and service risk:

ML/TF risk assessment shall take into account the potential risks arising from the products and services that the BTF offers to its customers and the way these products and services are delivered to the customer.

2. Risk Assessment (Likelihood and Impact)

(a) The BTF shall make an estimate of the likelihood that the customers will misuse for money laundering or terrorism financing. This likelihood of the risk are as follows:

Frequency	Likelihood of an ML/TF risk
Very likely	Almost certain: it will probably occur several times a year
Likely	High probability it will happen once a year
Unlikely	Unlikely, but not impossible

(b) In assessing the impact, the BTF shall look at the seriousness of the damage (or otherwise) which could occur should the event (risk) happen. The impact can vary from **minor** if there are only short term or low-cost consequences to **(very) major** when there are very costly and long-term consequences that affect the proper functioning of the entity. The impact of the risk are as follows:

Consequence	Impact of an ML/TF risk
Major	Huge consequences – major damage or effect. Serious terrorist act or large-scale money laundering.
Moderate	Moderate level of money laundering or terrorism financing impact.
Minor	Minor or negligible consequences or effects.

2.1 Risk Matrix

The risk matrix will be used by combining the likelihood and impact to obtain a risk score. The risk score shall be used to help decision making and in deciding what action to take in view of the overall risk. The risk matrix and risk score are described below:

What is the chance it will happen	**Impact of ML/FT risks**		
Likelihood	**Minor (1)**	**Moderate (2)**	**Major (3)**
Very likely (3)	Medium (2)	High (3)	Extreme (4)
Likely (2)	Low (1)	Medium (2)	High (3)
Unlikely (1)	Low (1)	Low (1)	Medium (2)

2.2 Risk score

The risk score rating of ML/TF are as follows:

Rating	Impact of an ML/TF risk
3 High	Risk almost sure to happen and/or to have very dire consequences.
2 Medium	Possible this could happen and/or have moderate consequences.
1 Low	Unlikely to happen and/or have minor or negligible consequences.

2.3 Risk Categories

Based on the above risk management framework, the BTF calculate risk score by blending likelihood and impact, the risk matrix and risk score related to AML/CFT risks.

Risks	**Likelihood**	**Impact**	**Risk score**	**Treatment/Action**
Customers				
Country or geographical risk				
Any other risk (specify)				
Overall Risk (Average Score)				

Based on the combined analysis of ML/CF likelihood and impact, the overall risk level is determined to be *LOW/MEDIUM/HIGH

3. Risk Control Measures

The BTF shall come with mitigation measures and controls to mitigate the ML/CF risks of the organization. Some of the control measures are as follows:

(a) Verification of customer identity.
(b) Record keeping.
(c) Reporting of suspicious activities and/or transactions.
(d) Appointment of a compliance officer at the management level to take charge of AML/CFT compliance matters.
(e) Ongoing employee training plan.
(f) Regular review of procedures implemente