

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



2019

## FORWARD

Money laundering is increasingly becoming a prevalent issue 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 (BT FEC) has come out with its Anti-Money Laundering and Countering of Financing of Terrorism Policy 2019. To better align with local and internal standards, the design of this policy involved a comprehensive review of existing AML/CFT policies including Bhutan AML/CFT Act 2018 and FATF and GCF standards.

I believe that the adoption and adherence to this policy will embed a compliance culture throughout BT FEC, provide solid and effective controls, and demonstrate that BT FEC 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 members, secretariat staff, and all those associated with BT FEC to exhaust your efforts to 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 director of BT FEC, 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.

Pema Choephyel (PhD)  
**Director**

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## **I. INTRODUCTION**

### **1. *The Bhutan Trust Fund for Environmental Conservation***

- a) The Bhutan Trust Fund for Environmental Conservation (BT FEC) 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 BT FEC, it was legally incorporated through a Royal Charter in 1996.
- b) As Bhutan's only conservation trust fund, BT FEC 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 2 decades or so, the BT FEC under the leadership of our visionary Monarchs 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).
- c) Led by the board and supported by the secretarial staff, BT FEC has played a pivotal role in protected areas management, capacity building, and supporting smart enterprises that have integrated conservation and social development targets. These efforts have resulted in Bhutan's conservation success as manifested in maintaining over 51% of the country under protected area system topped with over 72% of the country under forest cover, supported by an ever-growing pro-nature lifestyle.

### **2. *The Policy***

- a) This anti money laundering (AML) policy will be called the, "Bhutan Trust Fund Anti Money Laundering and Countering of Financing of Terrorism (AML/CFT) Policy 2019".
- b) BT FEC AML/CFT Policy was approved by the Management Board on 24<sup>th</sup> April 2020 during its 56<sup>th</sup> Board meeting.
- c) These policy standards shall apply to all covered individuals in accordance with their roles and responsibilities with respect to BT FEC. Certain categories of covered individuals may have specific obligations as determined in these standards.
- d) BT FEC AML/CFT policy is developed to implement the policy requirements set under Bhutan's anti money laundering and countering of financing of terrorism act 2018 and AML/CFT rules and regulations 2018. Experts from RMA were consulted.
- e) BT FEC AML/CFT sets the minimum standards to prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or predicate criminal offences and to control and manage related risks
- f) In order to meet the international AML/CFT expectations, reference to the standards of financial action task force (FATF) and global climate fund (GCF) on combating money laundering and terrorist financing (TF) has also been made to better align the policy with international standards. GCF specialists were also consulted.

## **II. MANAGEMENT OF MONEY LAUNDERING AND TERRORIST FINANCING RISKS**

6. BTFEC 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.
7. BTFEC 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, services, transaction modalities, and delivery channels.
8. BTFEC will tailor its responses in proportion to its perceptions of risk, which are comprised of evidence-based decision-making to enable BTFEC to concentrate resources on the greatest threats. BTFEC will document this risk assessment.
9. Keep the assessment up to date through periodic ML/TF compliance reviews to tests the effectiveness of the ML/TF controls and to formulate appropriate mitigatory actions to address identified control and compliance gaps.
10. Have an appropriate mechanism to provide up to date risk assessment information to its board.
11. Institute an annual ML/TF theme audit.
12. 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.

## **III.POLICY AND PROCEDURE ON DUE DILIGENCE**

13. BTFEC will undertake a whole-entity assessment and ensure that evidence of identity is obtained and retained as appropriate to that risk assessment for all clients.
14. Risks will be grouped into categories such as client risk, service risk, geographic risk, sector risk, delivery channel risk, etc.
15. All risks, including those not within a category, will be assessed in isolation and also when grouped together. These risks will be used to assess the customer (grantees, stocks holders, etc.) due diligence (CDD) process.
16. This evidence will be obtained before work is commenced on the client and when periodic reviews are undertaken (if more evidence is required then and when changes occur during the relationship with the customers).
17. In all cases where the evidence is not available, the matter will be referred to the anti-money laundering compliance officer (AMLCO).

## **IV.INTERNAL CONTROL**

BTFEC 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.

### ***18. Responsibilities of the board***

For the purpose of complying with the requirement of Bhutan's AML/CFT Act 2018 and the international standards, the board of directors shall discharge the following roles:

- a) Understand its role and responsibility in managing ML/TF risks faced by BTFEC;
- b) Be aware of the ML/TF risks associated with management strategies, delivery channels, and geographical coverage of BTFEC's products and services;
- c) Understand the ML/TF measures required by the law, subsidiary legislation, and instruments issued under the Bhutan's AML/CFT Act 2018, and the international standards and best practices as well as the importance of implementing ML/TF measures to prevent BTFEC from being abused by criminals, money launderers, and financiers of terrorism;
- d) Maintain accountability and oversight for establishing AML/CFT policy and minimum standards;
- e) Approve policies regarding BTFEC AML/CFT measures including those required for risk assessment, mitigation and profiling, record keeping, reporting of suspicious transactions, and combating the financing of terrorism;
- f) Establish appropriate mechanisms to ensure that the AML/CFT policy is periodically reviewed and assessed in line with changes and developments of BTFEC's products and services, technology as well as trends in ML/TF;
- g) Establish an effective internal control system for AML/CFT and maintain adequate oversight of the overall ML/TF measures undertaken by BTFEC;
- h) Define the lines of authority and responsibility for implementing the AML/CFT measures and ensure that there is a separation of duty between those implementing the policy and procedures and those enforcing the controls;
- i) Ensure effective internal audit function in assessing and evaluating the robustness and adequacy of controls implemented to prevent ML/TF;
- j) Assess the implementation of the approved AML/CFT policy through regular reporting and updates by the secretariat and the auditor;
- k) Establish a management information system that is reflective of the nature of BTFEC's operations, size of business, complexity of business operations and structure, risk profiles of products and services offered, and geographical coverage.

#### ***19. Responsibility of the BTFEC Secretariat***

To ensure effective implementation of BTFEC's AML/CFT policy, the secretariat shall:

- a) Oversee the implementation and management of AML/CFT compliance programs as specified in this policy which has been designed to be compliant with Bhutan's AML/CFT Act 2018, and allied policies and procedures, requirements of the law, rules and regulations, guidelines and the international standards and best practices;
- b) Be aware of and understand the ML/TF risks associated with management strategies, delivery channels, and geographical coverage of its business products and services offered and to be offered including new products, new delivery channels, and new geographical coverage;
- c) Establish appropriate mechanisms and formulate procedures to effectively implement AML/CFT policy and internal controls, including the mechanism and procedures to monitor and detect complex and unusual transactions;

- d) Undertake review and propose the necessary enhancements to the AML/CFT policy to reflect changes in BTFEC's risk profiles, institutional and group business structure, delivery channels, and geographical coverage;
- e) Ensure that timely periodic 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 and the latest development on ML/TF which may have an impact on BTFEC;
- f) Allocate adequate resources to effectively implement and administer AML/CFT compliance programs that are reflective of the size and complexity of the BTFEC operations and risk profiles;
- g) Appoint an anti-money laundering and compliance officer (AMLCO);
- h) Provide appropriate levels of AML/CFT training for its employees at all levels throughout the organization;
- i) 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;
- j) Ensure that ML/TF issues raised are addressed in a timely manner;
- k) Ensure the integrity of its employees by establishing appropriate employee assessment system.

**20. Responsibility of the Anti-Money Laundering Compliance Officer (AMLCO)**

- a) The AMLCO must be vested with full responsibility and authority to enforce BTFEC's AML/CFT program;
- b) The Officer 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 must also be well qualified by experience, knowledge, and training to effectively and efficiently discharge the functions of the AML/CFT program;
- d) The AMLCO will monitor BTFEC's compliance with AML/CFT obligations, overseeing communication and training for employees, and any other applicable requirements;
- e) The AMLCO will ensure that BTFEC maintains all of the required AML/CFT records and will ensure that suspicious transaction reports (STRs) are filed with the board and the secretariat.

**21. Audit**

- a) In accordance with Section 55(5) of Bhutan's AML/CFT Act 2018, the secretariat and the board (if applicable) of BTFEC will be responsible to ensure regular independent audits of the internal ML/TF measures to determine their effectiveness and compliance with BTFEC's AML/CFT Policy, Bhutan's AML/CFT Act 2018, its rules and regulations, subsidiary legislations, other international standards where applicable;
- b) The auditor must check and test compliance with Bhutan's AML/CFT Act 2018, its subsidiary legislation and instruments issued under the Act;
- c) Check and test compliance with BTFEC's internal AML/CFT policy and procedures;

- d) Check the adequacy and effectiveness of the AML/CFT compliance program;
- e) Test reliability, integrity, and timeliness of the internal and regulatory reporting and management of information systems;
- f) The auditor shall submit a written audit report to senior management to highlight the assessment on the effectiveness of ML/TF measures and any inadequacy in internal controls and procedures;
- g) BTFEC will ensure all audit findings, observations, and the necessary corrective measures undertaken are well documented and retained for reference and submission to competent authorities if required.

## **V. REPORTING RED FLAGS, SUSPICIOUS TRANSACTIONS, AND SUSPECTED ML/TF**

- 22. 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;
- 23. The AMLCO shall take appropriate measures to enable covered individuals, counterparties, and external parties to report red flags, suspicious transactions, or ML/TF activities directly to the immediate supervisor or the board (if there is a conflict of interest with the immediate supervisor);
- 24. 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;
- 25. The AMLCO shall notify the BTFEC 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.

## **VI. TRAINING AND AWARENESS**

- 26. BTFEC 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 money laundering, terrorist financing, and data protection, and receive regular training in how to recognize and deal with suspicious transactions that may be related to ML/TF;
- 27. Training will include, at a minimum: (i) how to identify red flags and signs of money laundering that arise during the course of the employees' duties; (ii) what to do once the risk is identified (including how, when and to whom to escalate unusual customer activity or other red flags for analysis and, where appropriate, the filing of STRs); (iii) what employees' roles are in the firm's compliance efforts and how to perform them; (iv) the firm's record retention policy; and (v) the disciplinary consequences (including civil and criminal penalties) for non-compliance with the BTFEC AML/CFT policy;
- 28. Methods of delivery of the training may include educational pamphlets, videos, intranet systems, in-person lectures and explanatory memos.

## **VII. RECORD RETENTION**

29. In compliance with Section 68(5) of Bhutan's AML/CFT Act 2018 and international standards, BTFEC 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;
30. BTFEC will maintain records of identification and consideration of money laundering issues for the entire period that BTFEC act for the client and for five years after BTFEC cease to act in accordance with the regulations. If BTFEC is required to retain them under statutory obligation, or to retain them for legal proceedings, or by client consent, the records will be retained for not more than 10 years after BTFEC cease to act;
31. The client will be asked to give permission for the retention of copies of the documentation, which will be maintained securely.

## **VIII. CONFIDENTIALITY AND PROTECTION OF INFORMATION**

32. Any data, information, and documents, whether in physical or electronic format, obtained during the course of due diligence or suspicious transaction monitoring shall be protected and kept confidential in accordance with BTFEC policies and procedures.
33. BTFEC board members and secretariat staff shall maintain confidentiality and secrecy of any matter, report and other information relating to the administration of BTFEC that becomes known to them or comes in their possession or under their control.
34. BTFEC board member and secretariat staff 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.
35. 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.

## **IX. REVIEW**

36. BTFEC shall conduct reviews on the AML/CFT programs that they develop on the basis of risk or whenever significant changes are made to BTFEC or when any previous review is out of date.
37. BTFEC AML/CFT compliance program review will include, at a minimum an evaluation of:
  - a) The overall integrity and effectiveness of AML/CFT compliance program;
  - b) The procedures for reporting and recordkeeping requirements;
  - c) The customer due diligence requirements;
  - d) The transactions, with an emphasis on high-risk areas;
  - e) The adequacy of your training and capacity building program;
  - f) The systems, whether automated or manual, for identifying and reporting suspicious activity;

- g) The responses to previously identified deficiencies.
38. BTFEC shall notify the board upon completing an assessment of their ML/TF risks or a review of any such assessment.

## X. DEFINITIONS

39. For the purpose of BTFEC 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 BTFEC. 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 BTFEC 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 BTFEC 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 BFTEC board member or BFTEC 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) **“Whistle blower”**  
A person, who could be either a BFTEC board member or BFTEC secretariat staff, disclosing information to the public or some higher authority about ML/TF and related predicate offences.

## **XI. ACRONYMS**

AML	Anti-Money Laundering
AMLCO	Anti-Money Laundering Compliance Officer
BTFFEC	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