

2024

MIDCLEAR



## **Anti-Money Laundering Policy**

In today's complex financial landscape, trust and security are paramount. The establishment of Midclear S.A.L demonstrates our commitment to fostering trust among Lebanese, Arab and international market players. We further reinforce this trust by providing a secure financial platform, empowering our clients/members to confidently hold and manage their securities.

Recognizing money laundering and terrorism financing as major and inherent risks to the financial market, Midclear S.A.L is committed to preventing these activities. As such, Midclear adheres to all local and international AML/CFT laws and regulations and follows best practices. This ensures the highest standards of market integrity.

Our AML policy is designed to ensure compliance with the relevant legal requirements and industry standards, and to ensure that Midclear has robust internal controls, comprehensive procedures and effective systems in place to prevent any risk of misuse of its services to facilitate financial crimes and other illegal acts. It is the cornerstone of our ongoing efforts to maintain integrity and protect our financial ecosystem from illicit activities.

Established in 1994, Midclear S.A.L, a Lebanese company incorporated as a joint stock company, is the Central Security Depository of Lebanon (CSD) (by virtue of law No. 139 issued October 1999) and the Central Registrar for all Lebanese banks's shares (by virtue of law No. 308 issued April 2000).

As a custodian and clearing center, Midclear provides settlement and safe-keeping services for domestic and cross-border securities. This includes the safekeeping of securities, immobilization of physical securities, as well as book-entry clearing and settlement of transactions. Additionally, Midclear maintains shareholder's registers and administers mutual funds; It is also the National Numbering Agency (NNA) for ISINs.

As a CSD, Midclear's customers are Lebanese banks and financial institutions, licensed and regulated by the Central Bank of Lebanon. Our accounts are beneficial owner and omnibus accounts for local ISINs and omnibus for foreign ISINs used to serve these customers for custody, settlement and clearing. As such, no individual is entitled to become a customer/member of Midclear.

Midclear operates under the Lebanese Commercial Code and complies with AML/CFT laws and standards such as the FATF recommendations. Additionally, it follows the international industry best practices, including those outlined by the International Securities Services Association (ISSA).

As a member of the Middle East and North Africa Financial Action Task Force against Money Laundering and Terrorist Financing (MENAFATF), Lebanon actively participates in the fight against money laundering and terrorism financing and adheres to international AML/CFT standards. In this respect, Lebanon enacted law No. 44 dated 24 November 2015 to prevent money laundering, terrorism financing and other financial crimes.

Furthermore, Midclear adheres to all the applicable laws and regulations in jurisdictions where it has established business relationships and conducts transactions.

In the spirit of transparency, the following definitions provide a foundation for understanding key AML compliance obligations:

**Customer Due Diligence (CDD):** The *Customer Due Diligence* is a process used by financial institutions and other regulated entities to perform checks and screening on customers. It builds upon the information gathered during the KYC to verify the identity of the customers, assess risk profile and understand the nature and purpose of the business relationship. The CDD is a key component of AML/CFT.

**High-Risk Jurisdictions:** The *high-risk jurisdictions* are jurisdictions identified as having significant strategic deficiencies in their AML/CFT regimes.

**Know Your Customer (KYC):** The *Know Your Customer* is a process used by financial institutions and other regulated entities to verify the identity of their customers and understand the nature of their activities. It is a crucial aspect of AML compliance and the very first step to understanding the customer.

**International Security Identification Number (ISIN):** The *International Security Identification Number* is a 12-digit alphanumeric code that uniquely identifies a specific security. The organization that allocates ISINs in any particular country is the country's respective National Numbering Agency (NNA).

**Politically Exposed Persons (PEPs):** A *Politically Exposed Person* (PEP) is an individual who is or has been entrusted with a prominent public function. This designation extends as well to their immediate family members and close associates; they are more susceptible to being involved in corruption or bribery. Due to their potential risk, PEPs are subject to higher scrutiny and enhanced due diligence measures to mitigate money laundering and terrorism financing risks and prevent such activities.

**Risk Based Approach (RBA):** A *risk-based approach* is a method used to identify, assess and classify risks of money laundering and terrorism financing. Based on this assessment, appropriate measures are taken to mitigate such risks effectively and proportionately to the level of risk identified.

Sanctions screening: The *sanctions screening* is the process of systematically checking individuals, entities and transactions against regularly updated lists of sanctioned parties maintained by regulatory authorities and/or international organizations. This helps mitigate the risks of doing business with sanctioned parties and/or in sanctioned jurisdictions and is a crucial part of AML/CFT screening processes.

Suspicious Activity Reporting: A *suspicious activity report (SAR)* is a report filed by a financial institution or any other regulated entity to the local regulator/financial intelligence unit (FIU) when it suspects or has reasonable grounds to suspect that funds are the proceeds of a criminal activity or are related to terrorism financing.

Having established key definitions and in line with our commitment to AML/CFT, Midclear strictly prohibits the following:

- The acceptance of assets that are known, or suspected, to be the proceeds of criminal activities.
- The opening and keeping of anonymous and fictitious named accounts.
- The opening and maintaining of accounts/relationships with shell banks; and prohibit dealing with shell banks.
- Engaging in financial transactions or establishing business relationships with individuals or entities listed on any international or local sanctions lists or dealing with persons or entities located in high-risk jurisdictions.
- The establishment or maintaining of accounts for clients whose primary business activity falls within prohibited/high-risk sectors.
- The holding of assets in Omnibus accounts or Fund Settle omnibus accounts that originate from or are held on behalf of parties active or involved in any of the prohibited sectors, such as precious metals, Money Service Business (MSBs), etc.

This AML Policy outlines the compliance standards we must adhere to. These standards include, at a minimum, the following key components:

**Know Your Customer (KYC)/Customer Identification:** Midclear has strong KYC procedures in place to identify and verify the identity of all customers, including final beneficial owners (where applicable), authorized representatives, and signatories. This includes obtaining all necessary identification documents and applying ongoing monitoring to ensure information is

accurate and up-to-date. This is crucial to establish a customer risk profile and effectively monitor all customer transactions for suspicious activity that might be indicative of money laundering.

For example, we monitor deposits and withdrawals of securities, including frequency, size, type of securities, and liquidity patterns (e.g., rapid selling of recently acquired securities). We also compare transactions against established customer profiles to identify deviations from normal activity, such as sudden increases in trading volume or transactions with unusual counterparties.

By focusing on both identification and ongoing monitoring, Midclear helps mitigate the risks of misuse of omnibus accounts and other potential financial crimes.

- **Risk Based Customer Due Diligence:** This involves conducting a risk assessment exercise to categorize and classify customers and transactions based on their risk factors. Based on the findings of such exercise, we apply simplified due diligence to low-risk customers and transactions while we apply enhanced due diligence to high-risk transactions and customers.
- **Settlement Monitoring:** Midclear adopts a multi-stage approach to monitor settlement for suspicious activity by screening all transactions during and after the release stage. This approach helps identify suspicious ML/TF activity. The monitoring process includes:  
*Pre-Settlement screening* to analyze transaction data against established red flags and customer profiles,  
*Failed settlement monitoring* to investigate delays in delivery of securities,  
*Trade validity checks* to ensure compliance with exchange/CSD rules,  
*Ongoing monitoring* to analyze patterns of settlement such as unmatched trades.
- **Sanctions Screening:** We are required to comply with sanctions laws and regulations in all the jurisdictions where we operate and ensure no funds or transactions conducted through, for or on behalf of Midclear, will benefit any sanctioned individual/entity, directly or indirectly.

All financial transactions and trades are screened before execution. This includes screening both customers and transactions at onboarding and regularly throughout the business relationship against all relevant sanctions lists such as those maintained by the UN, EU, OFAC, HMT (OFSI), Swiss and by the local authorities.

The screening consists of checking the issuer and the country of issue (ISIN Code), the counterparty, and its nationality and our member (the customer). We make sure that the ISIN Code is not sanctioned; and neither the Counterparty nor the Country of Incorporation of the counterparty is sanctioned.

We also have policies and procedures to ensure compliance with applicable sanctions regulations. This includes systematically excluding and/or blocking assets owned by a Sanctioned Party, blocking or restricting the settlement of assets issued by a Sanctioned Party and prohibiting the use of securities subject to sectoral sanctions.

We also have procedures in place to identify situations where an asset intended for deposit or already deposited, is ultimately owned by a Sanctioned Party.

Furthermore, we screen our transactions to make sure that all trades are non-Israel related as per the Lebanese Law.

- **Suspicious Activity Reporting (SAR)/ Reporting to Regulatory authority:** Midclear has effective systems in place to monitor customers' activities and transactions and identify potential ML/TF transactions. Therefore, we have established clear procedures for investigating suspicious activity and filing SARs with the designated regulatory authority, i.e. the Central Bank of Lebanon.

- **Record Retention:** This includes maintaining all necessary records of both domestic and international transactions and all records obtained through client identification and verification, (KYC information), CDD measures and any other trade related documents.

At a minimum, all records should be kept for a period of 5 years from the day the business relationship has ended, as per FATF recommendation.

Also, they should be kept for a period of 10 years according to the Lebanese Code of Commerce.

Midclear goes beyond the requirements and maintains records of all its transactions since its inception, with a daily back-up reflected to all its 3 business continuity sites, according to its own internal policy.

All our records also comply with data privacy and data protection laws.

- **Training and Awareness:** Midclear is committed to instilling the compliance culture, raising awareness and providing ongoing training. Training is mandatory and tailored to senior management, board members, and all employees, each depending on their job role and responsibilities. Training sessions are conducted regularly and are provided by the regulator or by independent external firms. They take the form of seminars, webinars, workshops and cover the latest techniques and developments related to AML/CFT, AFC, including sanctions.

In conclusion, adhering to this policy and the outlined components is not simply a regulatory requirement; it is the core of our commitment to financial integrity. By diligently following and implementing these proactive and comprehensive practices, we will continue to ensure a secure and robust environment for all stakeholders, mitigating potential ML/TF threats and safeguarding our reputation.