Insights into the SEC's KYC/CDD guidelines: Clear and robust requirements to strengthen crime prevention and suppression

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By the Securities and Exchange Commission, Thailand (SEC)

In May, the SEC issued the guidelines on **"Know Your Customer (KYC) for the identification of the Ultimate Beneficial Owner (UBO) and the monitoring and scrutiny of customer transactions"*** for securities business operators and derivatives business operators, which are "capital market business operators," *to enhance the standards and robustness of the* ***KYC, Customer Due Diligence (CDD)****, and* ***Enhanced CDD*** *processes, making them more comprehensive, well-rounded, and aligned with current circumstances.*

The guidelines contain considerable detail. This article therefore provides insights into the background and the actions required for business operators to comply with the guidelines.

- **Why are guidelines needed?**

At present, the SEC has already prescribed criteria on the standards of business operations and provision of services by business operators**, which have been revised continuously as appropriate and in line with circumstances at each period.

However, rapid developments in technology and financial innovation have made business operators' service models and customer transactions faster, more complex, and more diverse. This has increased the risk that the capital market may be exploited as a channel for misconduct, including money laundering and technology-related crimes.

Therefore, to ensure that business operators have appropriate measures and are able to screen, prevent, and suppress technology-related crimes more effectively and in a manner that keeps pace with current circumstances, the SEC has developed these guidelines in collaboration with relevant government agencies, namely the Central Investigation Bureau (CIB) and the Anti-Money Laundering Office (AMLO), as well as capital market business operators with practical understanding of actual operating processes. The guidelines are also aligned with the AMLO criteria so that business operators can comply with the criteria of both agencies in a consistent manner.

Collaboration among relevant agencies and the private sector in the capital market has made the SEC's criteria clearer, more comprehensive, well-rounded, and practical, thereby

strengthening efforts to prevent and suppress the exploitation of the Thai capital market as a channel for misconduct, including money laundering and technology-related crimes.

- **"Duties and responsibilities" of business operators**

These guidelines provide greater clarity on the KYC, CDD, and Enhanced CDD processes for the identification of the UBO, as well as the monitoring and scrutiny of customer transactions throughout the period of service provision. This begins with the "**management structure**" of business operators, for which the SEC has prescribed the scope of duties and responsibilities of the board of directors, senior management, and relevant departments and personnel, for example:

- **The board of directors** must participate in setting and approving policies and governance frameworks relating to the KYC, CDD, and Enhanced CDD processes, and must regularly review and update those policies and governance frameworks so that potential risks can be managed effectively. **Senior management** must ensure that the prescribed policies, strategic plans, and governance frameworks are implemented strictly and consistently across the organization.
- The roles and responsibilities of **relevant departments and personnel** in relation to the policies and governance frameworks must be clearly set out in writing. Business operators must also have an **organizational structure that places emphasis on operational review** in conducting KYC, CDD, and Enhanced CDD, and on regularly reviewing the quality of UBO identification.
- There must be **personnel readiness** in terms of both quantity and quality, commensurate with the performance of duties in the KYC, CDD, and Enhanced CDD processes and the monitoring and scrutiny of customer transactions, such as preparing operating manuals and providing continuous training to develop personnel knowledge in a manner that keeps pace with evolving changes.
- The board of directors and senior management must regularly monitor the overall KYC, CDD, and Enhanced CDD processes and the monitoring and scrutiny of customer transactions through reports from the business operator's relevant departments, whether in regular reporting cycles or upon the occurrence of a case that may constitute non-compliance with requirements or may have a material impact on the company or the overall capital market.

- **Robust processes from beginning to end**

The robustness of the KYC/CDD guidelines covers the process from account opening for the use of services with a business operator through to the monitoring and scrutiny of customer transactions throughout the period of service provision to customers on an ongoing basis, and the filing of Suspicious Transaction Reports (STRs) in accordance with the AMLO criteria.

Business operators must thoroughly assess the reasonableness and consistency of all information and accurately identify the UBO in order to prevent the use of nominees to hold assets on behalf of another person, or the establishment of a shell company to conceal the identity of the true owner for the purpose of conducting illicit financial transactions.

- <u>**Before account opening**: Conduct stringent KYC, CDD, and Enhanced CDD processes in line with the customer's risk profile</u>

In collecting customer information from the account opening stage for a securities trading account, business operators must collect and assess customer information to verify identity, classify customers, and assess their suitability and capability to conduct transactions, as well as assess the risk that customers may exploit securities trading accounts as a channel to facilitate misconduct. The information that business operators must collect includes, for example:

For individual customers, information must be obtained on the reasonableness of their occupation, financial status, source of income, and source of investment funds. For juristic person customers, information must be obtained on the shareholding structure, persons authorized to conduct transactions on their behalf, financial status, and investment or transaction objectives, including an examination of the reasonableness of business operations, such as registered capital, business model and nature, and business operating history.

Such information must be accurate, current, and reliable. If a business operator suspects that the information and evidence presented by a customer may be untrue or inconsistent, the business operator must conduct Enhanced CDD by requesting additional information and evidence from the customer **for further verification, or refuse to open an account for such customer** if there is insufficient information to complete the CDD process.

- **After account opening**: Monitor and scrutinize customer transactions throughout the period of service provision, and file STRs

After an account has been opened, business operators must continue to have processes to monitor and scrutinize customer transactions on an ongoing basis and in line with the customer's risk profile, including recording transaction information to provide a clear audit trail, to ensure that customers do not exhibit suspicious behavior or engage in misconduct.

If a business operator identifies behavior that is inconsistent with the customer's information, such as transaction size inconsistent with information previously provided, transfers of funds into and out of a securities trading account in a manner that differs from the customer's normal behavior, or transactions suspected to involve preparation for misconduct, the business operator must conduct Enhanced CDD on such customer to review the information and report to the board of directors, executives, or relevant responsible persons so that appropriate action can be considered in a timely manner.

At the same time, the business operator must monitor such customer's transactions more intensively than those of other customers. In addition, if, upon consideration, the transaction is found to be a suspicious transaction, the business operator must proceed in accordance with the AMLO criteria.

- **More stringent deposits, withdrawals, and share transfer processes to prevent mule accounts**

In addition, the guidelines also address **more stringent processes for customer deposits and withdrawals in conducting transactions, as well as share transfers, to prevent the exploitation of the capital market as a channel for misconduct relating to money laundering and technology-related crimes.** Business operators must prescribe methods for customer deposits and withdrawals that enable the depositor to be monitored and verified through a clear audit trail, including measures to respond if operations are found not to comply with the prescribed procedures.

The key principle for deposits and withdrawals from securities trading accounts is that they must be conducted only through bank accounts bearing the same name as the customer's securities trading account, with deposits and withdrawals made through the same account and the same bank. This is to prevent the use of mule accounts, as the transaction trail can be clearly reviewed and the source and destination of each fund transfer can be traced. If a customer wishes to withdraw funds to another bank account under the customer's name, the business operator must have measures to ensure that the use of securities accounts as a channel for misconduct can be prevented, such as delaying fund-related actions in a manner that helps prevent rapid withdrawals by mule accounts.

In addition, the SEC also requires customer share transfers to follow more stringent procedures in accordance with the criteria of the Association of Thai Securities Companies (ASCO). If complex share transfer transactions are identified, business operators must consider conducting further examination.

The SEC expects that enhancing the standards and robustness of the KYC, CDD, and Enhanced CDD processes, as well as the ongoing monitoring and scrutiny of customer transactions during the period of service provision and the filing of STRs, in a manner that is more comprehensive, well-rounded, clear, robust, effective, and aligned with current circumstances, will help strengthen the stability, credibility, and long-term sustainability of the Thai capital market.

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Notes:

* Guidelines on Know Your Customer (KYC) for the Identification of the Ultimate Beneficial Owner (UBO) and the Monitoring and Scrutiny of Customer Transactions, effective from 16 August 2026
https://publish.sec.or.th/nrs/11160s.pdf (available in Thai version)

** Relevant notifications

(1) Notification of the Capital Market Supervisory Board No. Tor Thor. 35/2556 Re: Standard Conduct of Business, Management Arrangement, Operating Systems, and Provision of Services to Clients of Securities Companies and Derivatives Intermediaries, dated 6 September 2013, as amended
https://publish.sec.or.th/nrs/6324se.pdf (available in Thai-English version)

(2) Notification of the Office of the Securities and Exchange Commission No. Sor Thor. 35/2557 Re: Detailed Rules on Communication with and Provision of Services to Clients of Securities Companies and Derivatives Intermediaries, dated 10 November 2014, as amended
https://publish.sec.or.th/nrs/6409se.pdf (available in Thai-English version)
(3) Notification of the Office of the Securities and Exchange Commission No. Sor Thor. 14/2562 Re: Detailed Rules on Providing Services to Clients of Securities Business Operators and Derivatives Business Operators, dated 12 February 2019, as amended
https://publish.sec.or.th/nrs/6797se.pdf (available in Thai-English version)
(4) Notification of the Association of Thai Securities Companies No. Kor Sor. 1/2559 Re: Rules, Conditions and Procedures for Securities Transfer, Withdrawal and Issuance of Securities Certificates, and Securities Deposit, dated 1 November 2016, as amended
https://www.asco.or.th/uploads/articles_attc/1627287757_attach1_th.pdf (available in Thai version)