

# KNOW YOUR CUSTOMER (KYC) & ANTI-MONEY LAUNDERING (AML) COMPLIANCE PROCEDURE

EU Emissions Trading System (EU ETS) & Certified Emission Reduction  
(CER)  
Carbon Certificate Trading Platform

## NIHAO CARBON CERTIFICATES

### Version 1.0

Effective Date: [INSERT DATE]

Classification: **CONFIDENTIAL**

*Prepared in accordance with:*

MiFID II (Directive 2014/65/EU) | EU AMLR (Regulation 2024/1624)  
AMLD6 (Directive 2024/1640) | FATF Recommendations  
Market Abuse Regulation (MAR) | EU ETS Directive 2003/87/EC

# Table of Contents

<b>1. Introduction and Regulatory Framework</b>	<b>3</b>
1.1 Regulatory Classification	3
1.2 Scope of Application	3
<b>2. Client Classification and Risk Assessment</b>	<b>4</b>
2.1 MiFID II Client Classification	4
2.2 Carbon Market Risk Categories	4
<b>3. Customer Due Diligence (CDD) Requirements</b>	<b>5</b>
3.1 Individual Clients (Natural Persons)	5
3.2 Corporate Clients (Legal Entities)	5
3.3 Ultimate Beneficial Owner (UBO) Identification	5
<b>4. Enhanced Due Diligence (EDD) Procedures</b>	<b>6</b>
4.1 EDD Trigger Criteria	6
4.2 EDD Measures	6
4.3 PEP-Specific Requirements	6
<b>5. Sanctions and Watchlist Screening</b>	<b>7</b>
5.1 Mandatory Screening Lists	7
5.2 Screening Procedures	7
5.3 Match Handling	7
<b>6. Transaction Monitoring and Surveillance</b>	<b>8</b>
6.1 Carbon Market Red Flag Indicators	8
6.2 Monitoring Thresholds	8
<b>7. Suspicious Activity Reporting (SAR)</b>	<b>9</b>
7.1 SAR Filing Obligations	9
7.2 SAR Content Requirements	9
7.3 Tipping-Off Prohibition	9
<b>8. Client Onboarding Workflow</b>	<b>9</b>
8.1 Onboarding Steps	9
<b>9. Record Keeping Requirements</b>	<b>10</b>
9.1 Retention Periods	10
9.2 Data Protection	10
<b>10. Governance and Compliance Framework</b>	<b>11</b>
10.1 Organizational Structure	11
10.2 Training Requirements	11
10.3 Policy Review and Updates	11
<b>Appendix A: Document Version Control</b>	<b>12</b>
<b>Appendix B: Regulatory References</b>	<b>12</b>
<b>Appendix C: Contact Information</b>	<b>12</b>
<b>Document Approval</b>	<b>13</b>

# 1. Introduction and Regulatory Framework

This document establishes comprehensive Know Your Customer (KYC) and Anti-Money Laundering (AML) procedures for Nihao Carbon Certificates, a trading platform facilitating transactions in European Union Emission Allowances (EUAs) under the EU Emissions Trading System (EU ETS) and Certified Emission Reductions (CERs) from the Clean Development Mechanism (CDM).

## 1.1 Regulatory Classification

Since January 2018, emission allowances are classified as **financial instruments** under MiFID II (Directive 2014/65/EU). This classification brings carbon trading within the scope of EU financial market regulations, including:

- **MiFID II/MiFIR** – Investment services authorization and market transparency
- **Market Abuse Regulation (MAR)** – Prohibition of insider trading and market manipulation
- **EU AML Regulation (2024/1624)** – Harmonized AML/CFT obligations effective from July 2027
- **AMLD6 (Directive 2024/1640)** – National AML/CFT framework requirements
- **FATF Recommendations** – International AML/CFT standards

## 1.2 Scope of Application

This procedure applies to all client onboarding, ongoing monitoring, and transaction surveillance activities related to:

- **EU Allowances (EUAs)** – Primary and secondary market trading
- **EU Aviation Allowances (EUAAAs)** – Aviation sector emissions
- **Certified Emission Reductions (CERs)** – CDM project credits (legacy vintages)
- **Derivatives** – Futures, forwards, options, and swaps on emission allowances

## 2. Client Classification and Risk Assessment

### 2.1 MiFID II Client Classification

All clients must be classified according to MiFID II requirements before trading commences:

Category	Criteria	Investor Protection
<b>Retail Client</b>	Default classification for natural persons not meeting professional criteria	Highest level – full suitability assessment required
<b>Professional Client</b>	Entities with MiFID authorization, large undertakings, or elective professionals	Reduced protection – appropriateness test only
<b>Eligible Counterparty</b>	Credit institutions, investment firms, insurance companies, UCITS, pension funds	Minimal protection – execution and best execution rules only

### 2.2 Carbon Market Risk Categories

Clients are assigned a risk category based on the following assessment criteria:

Risk Level	Client Profile	Geographic Risk	Due Diligence
<b>LOW</b>	EU-regulated entities with ETS compliance obligations	EU/EEA Member States	Standard CDD
<b>MEDIUM</b>	Non-regulated entities, voluntary buyers, traders	FATF-compliant non-EU jurisdictions	Standard CDD + additional verification
<b>HIGH</b>	Complex structures, PEPs, cash-intensive, high volumes	FATF grey-list or high-risk third countries	Enhanced Due Diligence (EDD)

## 3. Customer Due Diligence (CDD) Requirements

### 3.1 Individual Clients (Natural Persons)

#### Required Documentation:

1. **Valid Government-Issued Photo ID** – Passport, national ID card, or driver's license
2. **Proof of Address** – Utility bill, bank statement, or tax document (dated within 3 months)
3. **Tax Identification Number (TIN)** – Country of tax residence
4. **Source of Wealth Declaration** – Employment, business, inheritance, investments
5. **Purpose of Trading** – Compliance hedging, investment, voluntary offsetting
6. **PEP Declaration** – Self-certification of Politically Exposed Person status

### 3.2 Corporate Clients (Legal Entities)

#### Required Documentation:

1. **Certificate of Incorporation** – Or equivalent registration document
2. **Articles of Association / Memorandum** – Current constitutional documents
3. **Commercial Register Extract** – Dated within 3 months
4. **Director/Officer List** – Full names, dates of birth, nationalities
5. **Shareholder Register** – Full ownership structure to UBO level
6. **Board Resolution** – Authorizing account opening and appointing representatives
7. **Power of Attorney** – For all authorized signatories (if applicable)
8. **EU ETS Registry Account Details** – For compliance buyers
9. **LEI (Legal Entity Identifier)** – Mandatory for MiFID II reporting

### 3.3 Ultimate Beneficial Owner (UBO) Identification

Under EU AMLR (Regulation 2024/1624), UBO identification follows a two-tier test:

#### Tier 1 – Ownership Test:

- Natural persons holding **25% or more** of shares or voting rights (directly or indirectly)
- Threshold may be lowered to **15%** for high-risk entities (per Commission delegated acts)

#### Tier 2 – Control Test:

- Natural persons exercising control through other means:
  - Veto rights over material decisions
  - Power to appoint/remove directors
  - Contractual control arrangements
  - Trust arrangements or nominee holdings

#### Fallback Provision:

- If no UBO identified: Record **senior managing official(s)**
- Document all verification steps undertaken

## 4. Enhanced Due Diligence (EDD) Procedures

EDD is mandatory for all high-risk clients and situations, including:

### 4.1 EDD Trigger Criteria

- **Politically Exposed Persons (PEPs)** – Including family members and close associates
- **High-Risk Third Countries** – FATF grey/black list jurisdictions
- **Complex Ownership Structures** – Multi-layered entities, trusts, foundations
- **Unusual Transaction Patterns** – Large volumes, rapid transfers, unusual counterparties
- **Bearer Share Structures** – Entities with bearer shares or nominee arrangements
- **CER Traders with Non-EU Project Links** – CDM projects in high-risk jurisdictions

### 4.2 EDD Measures

1. **Senior Management Approval** – Board-level or Compliance Officer sign-off required
2. **Enhanced Source of Wealth/Funds Verification** – Documentary evidence required
3. **Third-Party Due Diligence Reports** – External verification providers
4. **Site Visits** – Physical presence verification where appropriate
5. **Increased Transaction Monitoring** – Real-time alerts and reduced thresholds
6. **Annual Relationship Review** – Mandatory reassessment

### 4.3 PEP-Specific Requirements

PEP Category	Definition	EDD Duration
Foreign PEP	Senior government, judicial, military, state enterprise officials in foreign countries	Permanent EDD while PEP status exists
Domestic PEP	Senior government, judicial, military officials in Nihao Carbon Certificates' home jurisdiction	Risk-based approach
International Org PEP	Senior officials of UN, EU, WTO, IMF, World Bank	EDD for 12 months post-departure
Family Member/Associate	Spouse, children, parents, in-laws, close business associates	Same as principal PEP

## 5. Sanctions and Watchlist Screening

### 5.1 Mandatory Screening Lists

All clients, beneficial owners, and counterparties must be screened against:

Sanctions List	Authority	Update Frequency
EU Consolidated Sanctions	European Commission	Real-time
UN Security Council	United Nations	Real-time
OFAC SDN/SSI	U.S. Treasury	Real-time
HM Treasury (UK)	UK Government	Real-time
FATF High-Risk Jurisdictions	Financial Action Task Force	Tri-annual (Feb/Jun/Oct)

### 5.2 Screening Procedures

1. **Onboarding Screening** – Before account activation
2. **Transaction Screening** – Real-time for all counterparties
3. **Batch Screening** – Daily against updated lists
4. **Event-Driven Screening** – Upon list updates or adverse media
5. **Beneficial Owner Screening** – All identified UBOs and controllers

### 5.3 Match Handling

- **True Match** – Immediate transaction block, senior management escalation, FIU notification
- **Potential Match** – Transaction hold, enhanced verification within 24 hours
- **False Positive** – Document resolution rationale, release with audit trail

## 6. Transaction Monitoring and Surveillance

### 6.1 Carbon Market Red Flag Indicators

The following indicators require enhanced scrutiny and potential SAR filing:

#### Volume/Value Red Flags:

- Trading volumes inconsistent with stated business profile or ETS obligations
- Sudden large purchases followed by immediate transfers to third parties
- Circular trading patterns between related entities
- Trading activity significantly above registered installation capacity

#### Behavioral Red Flags:

- Reluctance to provide information about source of funds
- Requests to transfer allowances to multiple unrelated registry accounts
- Unusual urgency in executing transactions
- Payments from/to unrelated third parties
- Frequent changes in beneficial ownership or authorized signatories

#### CER-Specific Red Flags:

- Trading in CERs from projects in high-risk jurisdictions
- CERs from HFC-23 or industrial gas destruction projects (restricted)
- Pre-2013 vintage CERs without clear compliance purpose
- CER serial numbers not matching UNFCCC CDM Registry records

### 6.2 Monitoring Thresholds

Activity Type	Alert Threshold	Action Required
Single transaction value	€15,000	CDD verification
Cumulative 24-hour trading	€50,000	Manual review
Monthly volume deviation	>200% of average	Enhanced monitoring
High-risk jurisdiction transfers	Any amount	Compliance review



## 7. Suspicious Activity Reporting (SAR)

### 7.1 SAR Filing Obligations

SARs/STRs must be filed with the national Financial Intelligence Unit (FIU) when there is knowledge, suspicion, or reasonable grounds to suspect that funds or assets are the proceeds of criminal activity or related to terrorist financing.

#### Filing Timelines:

- **Standard SAR:** Within 24 hours of suspicion crystallization
- **Terrorist Financing:** Immediately, with transaction freeze
- **Sanctions Match:** Immediately, with asset freeze notification

### 7.2 SAR Content Requirements

1. Client identification details (name, address, ID, account number)
2. Transaction details (date, amount, type, counterparties)
3. Registry account numbers and allowance serial numbers
4. Description of suspicious activity/indicators
5. Actions taken (transaction blocked, account restricted)
6. Supporting documentation references

### 7.3 Tipping-Off Prohibition

**CRITICAL:** It is a criminal offense to inform the client or any third party that a SAR has been or will be filed. Internal escalations must be handled with strict confidentiality.

## 8. Client Onboarding Workflow

### 8.1 Onboarding Steps

#### STAGE 1: Application Receipt

1. Receive completed application form
2. Perform initial sanctions screening
3. Check FATF high-risk jurisdiction lists
4. Assign preliminary risk rating

#### STAGE 2: Document Collection

1. Request appropriate documentation per client type
2. Verify document authenticity
3. Identify and document UBOs (25%+ ownership test)
4. Collect UBO identification documents

#### STAGE 3: Verification

1. Verify identity against government databases where available
2. Cross-reference with UBO registers (EU BORIS)
3. PEP and adverse media screening
4. Verify EU ETS registry account (for compliance buyers)

#### STAGE 4: Risk Assessment

1. Complete risk scoring matrix
2. Determine CDD level (Standard/Simplified/Enhanced)

3. Obtain senior management approval for high-risk clients
4. Set transaction monitoring parameters

#### **STAGE 5: Account Activation**

1. Final compliance sign-off
2. Create client file with all documentation
3. Set periodic review schedule (annual/bi-annual)
4. **Verify minimum account funding of EUR 10,000,000**
5. **Activate trading permissions upon confirmed receipt of minimum funding**

**IMPORTANT:** Trading permissions shall only be activated after the client's account has been funded with a minimum of EUR 10,000,000 (ten million euros). This threshold applies to all client categories. Partial funding below this threshold does not permit trading activation.

## 9. Record Keeping Requirements

### 9.1 Retention Periods

Record Type	Retention Period	Legal Basis
CDD documentation (ID copies, verification records)	5 years after relationship ends	AMLR Art. 56
Transaction records	5 years after transaction	AMLR Art. 56
SAR copies and supporting documentation	5 years after filing	AMLR Art. 56
Risk assessments and screening results	5 years after relationship ends	AMLR Art. 56
MiFID II transaction reports	5 years	MiFID II Art. 25
Training records	Duration of employment + 5 years	Best practice

### 9.2 Data Protection

All records must be maintained in compliance with GDPR requirements, including:

- Purpose limitation – data processed only for AML/KYC purposes
- Access controls – restricted to authorized compliance personnel
- Encryption – at rest and in transit
- Audit trails – complete logging of access and modifications
- Secure deletion – at end of retention period

## 10. Governance and Compliance Framework

### 10.1 Organizational Structure

- **Board of Directors** – Ultimate responsibility for AML/CFT framework
- **Money Laundering Reporting Officer (MLRO)** – Senior management member, reports to Board
- **Deputy MLRO** – Continuity provision
- **Compliance Team** – Day-to-day KYC/AML operations
- **Front Office Staff** – First line of defense, client interaction

### 10.2 Training Requirements

Staff Category	Training Type	Frequency	Assessment
All employees	AML awareness	Annual	Online quiz
Client-facing staff	CDD procedures	Semi-annual	Practical scenarios
Compliance team	Advanced AML + carbon markets	Quarterly	Certification
MLRO	Professional AML certification	Ongoing CPD	External certification

### 10.3 Policy Review and Updates

- **Annual Review:** Comprehensive policy review by MLRO and Board
- **Regulatory Updates:** Within 30 days of new guidance/legislation
- **Post-Incident Review:** Following any SAR filing or compliance breach
- **Audit Recommendations:** Within 60 days of internal/external audit findings

## Appendix A: Document Version Control

Version	Date	Author	Changes
1.0	[INSERT DATE]	[INSERT NAME]	Initial release

## Appendix B: Regulatory References

- Directive 2014/65/EU (MiFID II)
- Regulation (EU) 600/2014 (MiFIR)
- Regulation (EU) 596/2014 (MAR)
- Regulation (EU) 2024/1624 (EU AMLR)
- Directive (EU) 2024/1640 (AMLD6)
- Directive 2003/87/EC (EU ETS Directive)
- Kyoto Protocol – Clean Development Mechanism
- FATF Recommendations (2012, as amended)
- Regulation (EU) 2024/1620 (AMLA Regulation)

## Appendix C: Contact Information

### Money Laundering Reporting Officer (MLRO)

Name: [INSERT NAME]  
Email: [INSERT EMAIL]  
Phone: [INSERT PHONE]

### Compliance Hotline

Internal: [INSERT EXTENSION]  
External: [INSERT NUMBER]

### National FIU

Name: [INSERT FIU NAME]  
Portal: [INSERT REPORTING PORTAL URL]

## Document Approval

This KYC/AML Compliance Procedure for Nihao Carbon Certificates has been reviewed and approved by:

### MLRO Approval

Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

### Board Approval

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_