Good practices

Customer tax integrity risk management for banks

DeNederlandscheBank

EUROSYSTEEM

Contents

1 Introduction

1.1 Rationale behind this guidance document

The Panama Papers, Paradise Papers and other data leaks have exposed in a very public manner that all over the world individuals and companies use financial constructions to obscure their visibility to state bodies, including tax authorities. Financial institutions want to avoid involvement in tax evasion through the services they offer. This means that they have to actively assess whether this risk might occur with their customers and that they must take adequate measures where needed. Moreover, tax avoidance is raising more and more questions these days. Social tolerance for tax avoidance is decreasing and international developments have led to the introduction of stricter regulations to curb such practices. Governments, companies and supervisory authorities are being called upon to effectively implement these regulations. De Nederlandsche Bank (DNB) wants banks not to view tax integrity risks as a separate category of risk, but rather as part of prevailing requirements for conducting due diligence on customer-related integrity risks and for monitoring such risks.

As gatekeepers of the Dutch financial system, financial institutions, including banks, have an important role to play in combating tax evasion[1]. Banks have a statutory obligation to take measures to ensure sound, controlled business operations and to prevent involvement in financial and economic crime, including money laundering in conjunction with tax evasion. Ensuing from this obligation, the bank will have to investigate the various tax-driven and other motives of their customers with respect to the banking services they wish to use in order to ascertain whether the bank faces potential risks related to tax evasion. If a bank fails to assess these factors thoroughly, it may unwittingly facilitate tax evasion and consequently also money laundering.

A bank must understand which areas of its customer portfolio run an increased risk of tax evasion in order to ensure ongoing, risk-based monitoring of such practices. In practice, it may not be immediately clear to a bank whether its customers are engaging in tax avoidance or tax evasion. The bank will have to conduct ongoing due diligence to make this distinction among its customers and customer categories.

In providing services to their customers, financial institutions seek to uphold their reputation and confidence in the Dutch financial sector. As a result of this, banks also wish to gain insight into tax avoidance measures taken by their customers. While tax avoidance is not illegal, its harmful effects could certainly damage a bank's reputation as well as overall confidence in the Dutch financial sector.[2] In the context of risks of tax avoidance, it is therefore important for banks to determine an individual risk appetite that corresponds to the interests of all of their stakeholders.

1 Section 3:10(1), under b, of the Financial Supervision Act *(Wet op het financieel toezicht, Wft)*

2 Section 3:10(1), under c, of the Financial Supervision Act

De Nederlandsche Bank has prepared this guidance document to provide you with practical tools for implementing risk management as it relates to tax avoidance and tax evasion in order to safeguard controlled and sound business operations. Tax avoidance and tax evasion fall within the definition of tax integrity risks to which the good practices described in this guidance document apply. This document is not legally binding. Banks are free to make use of the good practices as they see fit. They are not obligated to do so, however. These good practices are specifically aimed at tax integrity risks among banking customers. Potential tax integrity risks vis-à-vis the bank's own operations fall outside the scope of these good practices.

This guidance document provides good practices that will show you how you as a bank can structure your internal processes and measures, including the Systematic Integrity Risk Analysis (SIRA), so as to enable you to identify and manage customer-related tax integrity risks. The focus areas and examples in this document are supplementary to the legislation and regulations in force and to previously published guidelines on this subject, such as:

- DNB's Guidelines on the Anti-Money Laundering and Anti-Terrorist Financing Act *(Wet ter voorkoming van witwassen en financieren van terrorisme – Wwft)* and the Sanctions Act *(Sanctiewet 1977 – Sw)*, version 3.0; April 2015[3]
- Post-event transaction monitoring process for banks[4];
- Integrity risk analysis: "more where necessary, less where possible".[5]
- Q&A Assessment of Ongoing Due Diligence Process (*Wwft* and *Sw*) of December 2013[6] and
- Good Practice, Integrity Risk Appetite[7]

Anti-money laundering legislation has been in force for more than a decade. Investigations into risks of tax evasion among customers as a manifestation of money laundering is therefore not a new or additional legislative obligation. The obligation to assess the risk of tax evasion is principle-based, as is supervision of compliance with this obligation. This means that the practical implementation has not been prescribed in detail by the supervisory authority or in legislation and regulations. As a bank, you have the freedom to choose how you interpret this obligation. The supervisory authority assesses the outcome.

3 www.toezicht.dnb.nl/en/binaries/51-212353.pdf
4 www.toezicht.dnb.nl/en/binaries/51-236416.pdf
5 www.toezicht.dnb.nl/binaries/50-234068.pdf
6 https://www.toezicht.dnb.nl/3/50-229616.jsp
7 www.toezicht.dnb.nl/binaries/50-236706.pdf

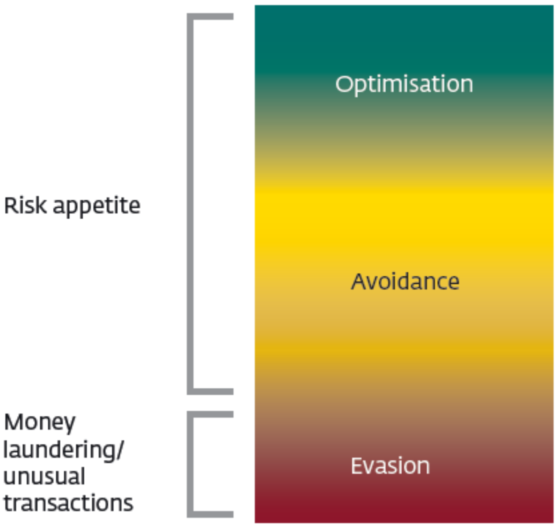
1.2 Reader's guide

In preparing this guidance document, DNB has utilised the main findings of the thematic examination into "Aggressive tax planning and customer anonymity", conducted in 2017, along with good practices gleaned from various initiatives studied during supervisory activities in this area. We have also incorporated consultation responses received both from banks and from the Dutch Banking Association *(Nederlandse Vereniging van Banken)* in this final good practices document. This guidance document provides examples of how you can identify tax integrity risks in your customer portfolio and how this is related to your integrity risk appetite. The good practices also show the consequences of these results for conducting due diligence on individual customers with an increased risk profile and their transactions.

2 Legal context and scope

2.1 Scope of tax integrity risks

Figure 1 Diagram of tax-driven motives and the associated integrity risks



The diagram above shows that customers can have various tax-driven motives with various potential associated tax integrity risks. A bank will have to first assess a customer's tax-driven motives to avoid its involvement in tax evasion. The bank will also have to assess whether or not a customer's tax integrity risks are acceptable if motives of tax avoidance are present. If the bank has ascertained that no tax avoidance or tax evasion has taken place, but the assessment has revealed a tax optimisation strategy, the risks will generally be limited.

2.2 How do these good practices fit within international legislation and regulations?

Tax integrity risks specifically occur in cross-border transactions and among customers with a complex international company structure. This is why international organisations such as the G20, OECD and FATF have established that fighting tax evasion and tax avoidance effectively requires international measures and principles, with the aim of then also incorporating these measures and principles into national legislation and regulations. This has led to the development of the OECD's Common Reporting Standard (CRS) and the Base Erosion and Profit Shifting (BEPS)[8] action points, as well as the FATF's recommendations on tax integrity risks.[9] The EU has also converted these international regulations into relevant European legislation and regulations in this area.

The European legislation and regulations are first and foremost relevant to banks, as they explicitly refer to tax integrity risks as a form of money laundering. The Fourth Anti-Money Laundering Directive states among other things: "It is important expressly to highlight that 'tax crimes' relating to direct and indirect taxes are included in the broad definition of 'criminal activity' in this Directive, in line with the revised FATF Recommendations."[10] The FATF Recommendations 2012 define tax evasion

8 http://www.oecd.org/tax/beps/

9 http://www.oecd.org/tax/automatic-exchange/common-reporting-standard/

10 Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32015L0849&from=EN

as constituting a predicate offence for money-laundering.[11] The implementation of the European Fourth Anti-Money Laundering Directive in national legislation and regulations throughout the EU also promotes a level playing field in this area.

The European legislation and regulations pertaining to combating tax evasion are also relevant to banks if their customers use such structures. Based on the revised EU Directive on Administration Cooperation[12] (DAC 6), which was definitively adopted in 2018 and will enter into force as of 2020, banks – to the degree that they function as intermediaries – are expected to report to the relevant tax authorities cross-border tax structures of customers that meet the essential features established in the Directive.[13]

2.3 Dutch legal framework

Banks have a statutory obligation to take measures to ensure ethical operational management and to prevent involvement in money laundering. These measures should also be geared towards addressing tax integrity risks. The statutory obligations are enshrined in the Financial Supervision Act *(Wet op het financieel toezicht – Wft)*, the Decree on Prudential Rules for Financial Undertakings *(Besluit prudentiële regels Wft – Bpr)* and the Anti-Money Laundering and Anti-Terrorist Financing Act *(Wet ter voorkoming van witwassen en financieren van terrorisme – Wwft)*.

Section 3(10) of the Financial Supervision Act states with regard to ethical operational management that:

b) the financial institution is to endeavour to prevent itself or its employees from committing criminal offences or other breaches of the law that may damage confidence in the financial institution or the financial markets in general;
c) the financial institution is to endeavour to prevent damage to the financial institution or the financial markets resulting from the activities of its customers;
d) the financial institution is to prevent other acts from being committed by the institution or its employees which conflict to such an extent with commonly accepted practices that they may cause serious damage to confidence in the institution or in the financial markets.

Considering the fact that the *Wft* and *Bpr* and the *Wwft* have a similar objective (ethical operational management), the measures taken by a bank under the *Wft* and *Wwft* can to a large degree be integrated, and your bank can implement the requirements of the *Wft* and *Wwft* in the same manner. In this regard, we refer to the DNB Guidelines on the Anti-Money Laundering and

11 FATF Recommendations 2012, p.114: http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf

12 https://ec.europa.eu/taxation_customs/business/tax-cooperation-control/administrative-cooperation/enhanced-administrative-cooperation-field-direct-taxation_en

13 DIRECTIVE 2011/16/EU on administrative cooperation in the field of taxation: http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32011L0016&from=en

Terrorist Financing Act (*Wwft*) and Sanctions Act (Sw)[14]. It is important that a bank knows who it is doing business with and the purpose of the business relationship. In case of insufficient transparency towards the bank or tax authorities as regards structures, financial flows and/or tax-driven motives of a prospective customer, a bank is not allowed to accept the customer,[15] as this would otherwise entail an unacceptable risk of the bank becoming involved in facilitating tax evasion by the customer.

In order to gain adequate insight into the type of integrity risks that may occur with banking customers, as a bank you must first of all conduct a SIRA pursuant to Section 10 of the *Bpr* and Section 2(b) of the *Wwft*.[16] Integrity risks are defined in that context as "the danger of harming the reputation of a financial institution, or an existing or future threat to the assets or result of a financial institution as a result of insufficient compliance with that which is prescribed under or pursuant to any legal provision." This also includes tax integrity risks. If a bank identifies tax integrity risks upon conducting the analysis, it must formulate policy, establish procedures and take adequate measures. Effective implementation will require a bank to embed specific measures in its existing framework for integrity risk management, including customer due diligence and transaction monitoring.

Based on the statutory requirements regarding safeguarding ethical and sound operational management, banks are also expected to state, on the basis of their SIRA, whether or not they deem certain structures as acceptable or will continue to deem them as acceptable. The bank is to check the outcome of the SIRA against its own integrity risk appetite.[17]

Specifically regarding the risks of involvement in money laundering, the *Wwft* requires that a bank takes measures to establish and assess its risks of money laundering and the financing of terrorism, with the measures being proportional to the nature and size of the institution.[18] The *Wwft* also determines that, upon acceptance, a bank must assess its customers and afterwards conduct regular checks of its customers and their transactions. Customer due diligence assessments enable the bank to gain insight into the tax-driven motives of its customers, thus exposing potential tax integrity risks. The bank must also identify the purpose and intended nature of the business relationship, take adequate measures to gain insight into the customer's ownership and control structure, and furthermore must also conduct regular checks.[19] This allows banks to ensure that the customer's transactions correspond with the knowledge the bank has on the customer's tax structure as well as

14 DNB's Guidelines on the *Wwft* and *Sw*, version 3.0; April 2015: http://www.toezicht.dnb.nl/en/binaries/51-212353.pdf
15 Section 5(1) of the *Wwft*
16 www.toezicht.dnb.nl/binaries/50-234068.pdf
17 www.toezicht.dnb.nl/binaries/50-236706.pdf
18 Section 2b (1 and 2) of the *Wwft*
19 Section 3(2), under b, c and d, of the *Wwft*

the customer's risk profile and, if needed, conduct an assessment into the source of the means used in the business relationship or the transaction. Banks are also expected to conduct adequate assessments when customers amend their structures due to amended or newly introduced legislation and regulations.

The *Wft* and *Wwft* prescribe a risk-based approach. In this context, a risk-based approach means that a bank intensifies its assessments as the risks identified increase. A bank must also be able to substantiate this at any time based on its SIRA. A bank is expected to receive sufficient transparency from its customer as regards their structure, financial flows and tax-driven motives. Any tax integrity risks identified by the bank are to be investigated further, whereby the bank is to determine whether they fit within its risk appetite.

It is possible that branches of foreign banks in the Netherlands do not follow these good practices as part of the entire group's integrity policy. Nevertheless, these good practices are a valuable resource that the bank branch can use to achieve compliance with Dutch legislation and regulations, depending on the tax integrity risks of its Dutch customer portfolio.

We are aware that the risk of tax evasion is different for each customer or group of customers. This means that tax integrity risk assessments cannot take place uniformly for all customers.

In order to carry out customer due diligence in a practical and risk-based manner, a bank may categorise its business relationships based on a tax-risk profile. This involves defining its own indicators based on several customer features which may indicate increased tax integrity risks, for instance the complexity of the structure, the customer’s activities, the countries involved, type of transactions etc. A bank can carry out a screening of its customer portfolio on the basis of these indicators.

In order to safeguard its procedures and measures, the bank must ensure that its employees, in so far as relevant to the performance of their duties, are sufficiently able to identity tax integrity risks, determine what this means for customer due diligence and receive regular training in this area. This should enable them to conduct a proper and full customer due diligence assessment, identify tax integrity risks in the course of such an assessment and pinpoint and report any related unusual transactions.

2.4 Legal status of these good practices

This is not a legally binding document nor a DNB policy rule within the meaning of Section 3(4) Book 1 of the General Administrative Law Act, and it has no legal effect. It does not replace any legislation or any policy, nor any supervisory or other regulation on this topic. The examples presented in this document are not exhaustive and cannot cover every eventuality. Following these good practices will not per se result in compliance with legislation and regulations. Rather, these good practices have been drawn up to help institutions interpret and implement the statutory requirements.

2.5 Scope of the guidance document

This guidance document pertains to:

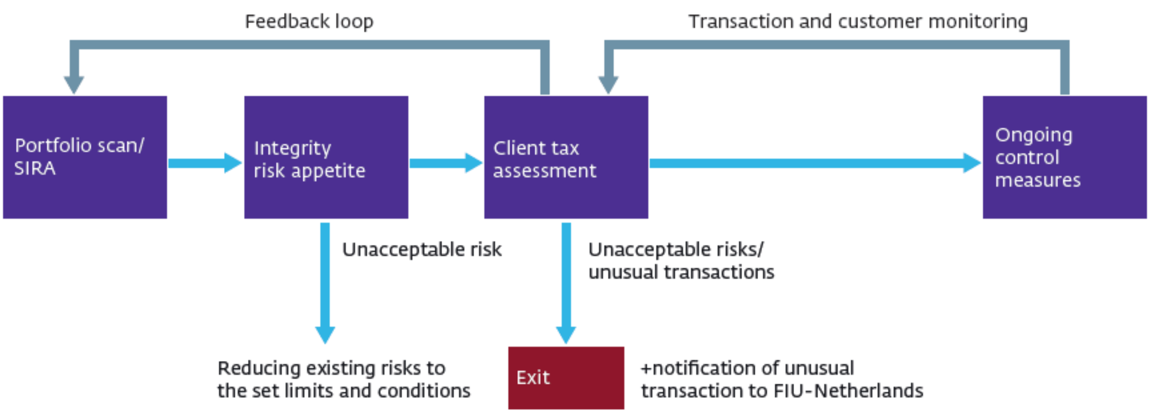
- Banks established in the Netherlands, as defined in Section 1(1) of the Anti-Money Laundering and Terrorist Financing Act (*Wwft*)
- Branch offices of foreign banks established in the Netherlands, as defined in Section 1(1) of the *Wwft*
- Internationally operating banks, within the meaning of Section 2(1) of the *Wwft*. This means that if banks have branch offices or subsidiaries in a non-EU/EEA Member State, the branch office or subsidiary concerned must set up its customer due diligence in such a way as to ensure compliance with the Anti-Money Laundering and Anti-Terrorist Financing Act.
- Internationally operating banks, within the meaning of Section 2(1) of the *Wwft*. In other words, these banks apply codes of conduct and procedures at the group level, which are then effectively implemented by branch offices or subsidiaries in a Member State.[20]

2.6 Process of investigation of tax integrity risks

Below, we present a flowchart of the process banks follow in the continuous assessment of tax integrity risks of their customers.

In the following sectors we describe several good practices showing how banks have incorporated these process steps in their operational management. For each example, we provide a short explanation of why DNB considers the example a good practice.

Figure 2 Process of investigation of tax integrity risks



20 Also see Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012.

3 Customer portfolio scan

3.1 Risk-based approach to existing customer portfolio

In this chapter, we present good practices of banks that, as part of their SIRA process, have conducted a scan of the inherent tax integrity risks in their customer portfolio. The banks have used the outcome of these scans to conduct impact analyses of the tax integrity risks in the various components of their customer portfolio. These impact analyses make it clear to the banks which customers and transactions need further assessment, and which do not.

Good practice: Scan the customer portfolio for tax integrity risks

A bank conducts a regular scan of its entire customer portfolio to assess the customer groups that present inherent increased tax integrity risks. For this scan, the bank has defined a series of tax risk indicators based on customer characteristics, such as structure complexity, the customer's activities, the countries involved, the banks involved, the supply channels and the transactions.

- Structure complexity

The bank has defined the following risk indicators for the structure of the customer:

- the customer is a non-resident natural person or legal entity in the Netherlands
- multiple layers in the customer's ownership structure
- ownership structure contains entities in offshore jurisdictions
- presence of an object company
- presence of special purpose vehicles (SPVs)
- presence of a trust
- foreign legal entities, including foundations, trusts, LLPs
- presence of a trust office
- presence of a limited partnership
- presence of investment and fund structures
- amendments to the customer's ownership structure, recent or otherwise

The bank has also defined indicators that point to unacceptable risks for a customer or group of customers. With regard to the structure indicators,these are:

- the presence of nominee shareholders in the structure
- the presence of bearer shares in the structure

The bank has developed similar risk indicators for customer activities, the countries involved, supply channels, the banks involved and customers' transactions. The bank applies the principle that when a combination of risk indicators applies to a customer or group of customers, a higher risk assessment generally results.

- Type of activities of the customer and group

The bank has also developed risk indicators based on certain sectors which may present increased tax and other integrity risks such as trade, commodities, oil and gas, transport, pharmaceuticals, sports, real estate, intellectual property and consultancy services. These risk indicators apply to the customer's activities and to the group to which the customer belongs.

- Countries involved
The bank has defined risk indicators based on the countries involved and the jurisdictions. These are the jurisdictions where the customer is established, the customer's place of business for tax purposes, the countries where the group is operational and the jurisdictions where the companies or holding companies are established. This also includes the countries where the ultimate beneficial owners (UBOs) are established.

The bank also makes a selection based on the countries where the companies are established with which a customer regularly conducts transactions. An important element is the principle that financial transactions with low tax and/or low transparency countries can be tax-driven, such as is often the case with offshore jurisdictions. Activities in offshore jurisdictions and/or in combination with UBOs from high-risk countries generally point to increased tax integrity risks.

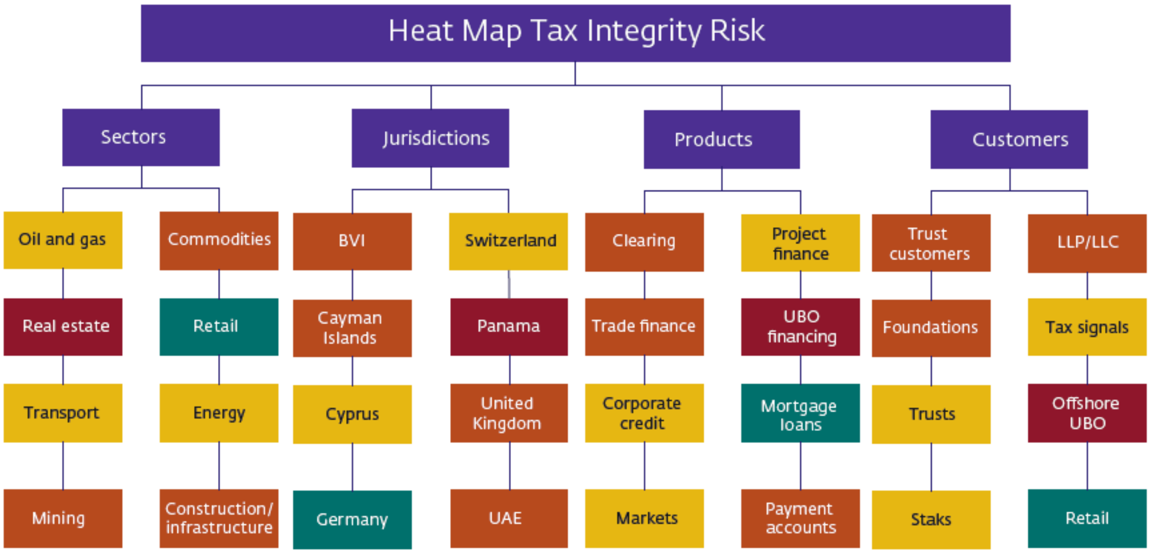
- Supply channels
The bank determines risk indicators based on customers' supply channels. The bank has drawn up a list of trust offices and certain tax consultants who have introduced customers to the bank or who have represented them as a service provider or feeder and who pose an increased risk. International publications on money laundering show that unethical consultants often set up a similar structure and/or transaction for different customers. By screening the entire customer portfolio for involvement of these consultants, the bank will gain insight into the tax integrity risks that might be more widespread in the customer portfolio.

- Banks involved
The bank also establishes risk indicators based on the banks involved. The banks involved have been selected on the basis of the customer's foreign or domestic bank accounts or the bank accounts of the key counterparties to the transactions. The banks involved are established in countries that currently have or previously had banking secrecy, such as Monaco, Liechtenstein and Switzerland, and thus carry increased risk. The bank has also identified foreign branch offices of banks in countries with increased AML risks, including countries in the Middle East or the former Soviet Union, as risk indicators.

- Consulting public sources and internal signs
The bank furthermore makes use of the information available in the customer file, which includes an open source intelligence investigation. Thanks to the automated process, the bank can verify whether or not a customer has been linked to tax evasion and/or tax avoidance practices. This also involves the screening results of other customer data, such as the name of the company, business address, UBOs, representatives, etc. in public databases, such as the Panama Papers and the Paradise Papers databases. The bank may also include internally available information on the customer as an additional indicator, in the form of signals received, incidents, inquiries from other banks and from the tax authorities or investigative authorities.

This is a good practice in the eyes of DNB, as the scan is based on knowledge of the sectors, customer characteristics and the presence of tax risk indicators. As a result, the bank is able to prepare a substantiated risk assessment of the tax integrity risks in its customer portfolio.

Figure 3 Heat map



(The values presented in this example are fictitious, only serving to provide structure to the heat map)

Good practice: Impact analysis

A bank has transformed the results of the scan into an impact analysis that indicates the sectors, products and customer groups where tax integrity risks are highest for the bank. The bank has verified the results of the scan on the basis of the knowledge that account managers and the compliance department have about a certain sector. The bank has included the tax integrity risks associated with specific products in the Product Approval and Review Process (PARP). In order to make the impact analysis accessible and comprehensible, the bank has created a heat map of its various business lines and the sectors in which it operates. This heat map gives the bank an insight into the likelihood of tax integrity risks arising in a sector or customer group and into the number of customers potentially at risk.

We view this as a good practice, as in addition to gathering and analysing the relevant data, the bank has visualised the outcome of the impact analysis in the form of a heat map. This heat map provides insight into the customer groups where there is a concentration of increased tax integrity risks to the bank. It is up to the management board to determine whether or not these risks are in line with the established integrity risk appetite. The board can then provide guidance in ascertaining for which sectors and customers further risk-mitigating measures are required.

The bank has identified its most relevant risk areas on the basis of its risk indicators and the outcome of the impact analysis. The gross risk assessment per sector, jurisdiction, product, etc. likely differs per bank, depending on the customer population in a particular segment or sector. For example: A bank with a real estate portfolio which predominantly consists of customers involved in real estate development with complex offshore financing constructions will generally yield a higher gross risk. However, a bank with primarily customers involved in leasing existing or future Dutch real estate, which may or may not involve financing exclusively by a Dutch private limited company, will present a relatively lower tax risk assessment.

4 Integrity risk appetite

In this chapter, we present good practices on how banks establish an integrity risk appetite aimed at tax integrity risks. These good practices are in line with the Good Practice, Integrity Risk Appetite document we published in 2017. This document contains a methodology and general principles you can use to implement an integrity risk appetite. While the scan and impact analysis provide insight into the tax integrity risks in your customer portfolio, the integrity risk appetite indicates the limits to the risks you as a bank are willing to accept.

The bank may choose to publish (on its website for instance) the tax integrity risk appetite to inform all relevant stakeholders. This is how the management board provides transparency on its strategy and risk appetite.

This is a good practice in the eyes of DNB, as the bank's management board considers the integrity risk appetite to be its responsibility. By doing this, the management board ensures that the integrity aspects are embedded in the formulation of the bank's vision and strategy.

Good practice: Tax integrity risk appetite: Responsibility of the management board

In a bank, the management board holds final responsibility for the bank's risk profile and therefore also for the bank's integrity risk appetite. It is the management board that makes a balanced choice to accept, reject, avoid or manage certain risks. In actual practice, the management board has the following responsibilities[21]:

- Ensuring congruence between the integrity risk appetite and the bank's strategic goals in the short term, mid-term and long term.
- Ensuring a sound implementation of the integrity risk appetite within the entire organisation and clear internal and external communication on the integrity risk appetite.
- The management board reports on the effectiveness of the integrity risk appetite to the supervisory board and stakeholders. This provides insight into how the identified risks relate to the risk limits, in how many cases within a predefined period activities fell outside the risk appetite and how the situations falling outside the risk appetite were handled.

Good practice: Tax integrity risk appetite methodology

A bank has established a tax integrity risk appetite according to the methodology it also uses to determine credit risk:

- The bank has a policy and procedures in place for drawing up and recording the tax integrity risk appetite.
- The bank conducts a regular review on the integrity risk appetite as regards the bank's actual risk profile, including independent verification.
- The bank ensures that it tests and monitors the effectiveness of control measures and effectuates any measures when operating outside the integrity risk appetite.
- The bank makes a proper distinction between different risk appetite levels, for instance bank-wide, per business line, per sector and per country.
- The bank sets objective limits per subsector or per country where the bank operates.
- The bank monitors the risk limits and the application of the conditions at the various sublevels.

21 Also see Financial Stability Board – Thematic Review on Corporate Governance, 28 April 2017, p. 26.

This is a good practice in the eyes of DNB, as the bank has stipulated in its integrity risk appetite which risks are relevant and what the appropriate risk appetite is per activity, business unit and product. The bank has used its SIRA to identify different scenarios of structures per customer group that indicate increased tax integrity risks. With the integrity risk appetite as an assessment framework and based on defined key risk indicators (KRIs) and risk limits, the bank determines to what extent the identified tax integrity risks are acceptable and under which conditions. A good practice of a bank that has elaborated these key risk indicators and risk limits is given below.

Good practice: Key risk indicators and risk limits

A bank has made the integrity risk appetite practicable by translating the established risk appetite regarding customers' tax integrity risks into key risk indicators (KRIs) and risk limits. The KRIs and risk limits are a combination of quantitative and qualitative elements, with which the bank can continuously check whether operational management is still operating within the confines of the integrity risk appetite. If this is not the case, the outcome also enables the management board to take targeted and effective measures to reduce the risks.

It does so by applying the following quantitative risk limit: the bank has set a maximum percentage per sector of the number of customers with increased tax integrity risks (i.e. one or more risk indicators are present) that the bank wishes to have in its customer portfolio.

The bank has also formulated several qualitative KRIs, including identifying KRIs of customers who are not acceptable to the bank in accordance with its risk appetite: for instance, offshore customers in high-risk sectors or structures with bearer shares, or nominee shareholders or back-to-back loans.

This is a good practice in the eyes of DNB, as the bank has made its integrity risk appetite measurable and practicable. The management board is able to clarify which risks it is willing to accept and demonstrate how it will mitigate them, if and when necessary. The bank and its management board can give their employees clarity regarding the acceptable range of risk.

This includes not only the assessment of an individual customer, but also the assessment of the bank's risk appetite with regard to customer and product groups in the portfolio most prone to tax integrity risks. When it comes to cases of tax avoidance (but not tax evasion), it is up to each bank to decide whether to serve these types of customers and structures, and if they do, to set a limit to how many such customers they are willing to take on. This quantity must be in accordance with the bank's risk appetite, and the risk mitigation measures must be proportionate to the risk posed in order to safeguard the bank's reputation and the interests of its stakeholders.

The table below shows how a bank may structure its integrity risk appetite by applying KRIs and tailor-made conditions per customer group.[22]

22 The values and conditions presented in this model/example are fictitious and in support of the integrity risk appetite's structure.

Figure 4 Example of tax integrity risk appetite

Customer group/sector	Risk appetite	Risk limits and conditions	KRIs unacceptable risk
Real estate	Medium	Max. X% of customers with increased tax integrity risks and only acceptable if: no offshore companies are involved and an independent tax opinion is present.	Offshore customers, bearer shares or nominee shareholders or back-to-back loans.
Transport	Low	Max. X% of customers with increased tax integrity risks and only acceptable if: no offshore companies are involved and an external tax opinion is present.	ditto
Oil and gas	Low	Max. X% of customers with increased tax integrity risks and only acceptable if: there is an external tax opinion present and the financial flows run via countries where the company actually carries out operational activities	ditto
Commodities	Medium	Max. X% customers with increased tax integrity risks and only acceptable if the bank also provides trade finance transactions and documentation, and if there is insight into the company's main financial flows.	ditto

4.1 The need for an integrity risk appetite

A key element of your risk management is that you continuously make well-considered choices on tax and other integrity risks: which risks are you as a bank willing to accept and which risks should be avoided or reduced by taking control measures? Your institution will be best equipped to make such choices if you have formulated an appropriate integrity risk appetite.

By checking the outcome of the SIRA against your integrity risk appetite, you can determine on an ongoing basis whether or not you are willing to accept, limit or avoid the risks you have identified, in compliance with legal obligations as the minimum requirements.

DNB is well aware that in actual practice you will encounter various forms of tax integrity risks in your customer portfolio. This may vary from risks of tax avoidance to tax evasion. Depending on the risks, various measures may be necessary.

You can explicitly state in your integrity risk appetite in advance which types of customers and structures are unacceptable to you as a bank. You may do this because you do not want to become involved in the tax integrity risks that are inherently associated with these customers and structures. Another possibility is that your bank does not have the tax expertise to adequately assess such risks, or you may not be prepared to bear the high costs required for effective risk control. In such cases you can adjust your integrity risk appetite accordingly.

In actual practice, there will be a learning process: for example due to developments in relationships with customers, amendments to tax law or expectations of external stakeholders and/or society. Based on this, you can regularly update your institution's integrity risk appetite and SIRA if applicable. The assessment of tax integrity risks of customers and their transactions also gives your bank improved insight into which structures are vulnerable to abuse. You may use this knowledge to tighten the risk appetite and update it where needed (feedback loop).

You can lay down in your risk appetite under which conditions and within which limits your bank is willing to accept these risks. The basic premise here is that a high risk appetite will require your bank to exercise a high level of control and accept the associated costs. Your integrity risk appetite for tax integrity risks can also be included in the Supervisory Review and Evaluation Process (SREP). DNB maps out all risks, including the reputation risk[23] of a bank in the SREP. This is used as the basis for setting a bank's capital and liquidity requirements. A high risk appetite for tax integrity risks may therefore also lead to additional prudential requirements for your bank, such as additional capital buffers.

23 Also see Section 6.4.3. of the EBA Guidelines on common procedures and methodologies for the Supervisory Review and Evaluation Process (SREP).

5 Assessment of individual customers

Based on the scan of the portfolio and the impact analysis, the bank has determined which customer groups present increased risks. The integrity risk appetite then indicates whether or not the extent of the risk is acceptable or if measures should be taken to reduce the risks. Individual customers with increased risks require further assessment to determine whether or not the estimated risks will actually materialise. This also gives the bank direct feedback on whether its risk indicators are performing properly or if they need to be recalibrated.

This section presents good practices for an assessment of tax integrity risks in individual customers. Such an assessment may be conducted as part of the customer acceptance or review process, or specifically in response to the SIRA outcome.

Good practice: Tax risk profile

When assessing an existing or a new customer, the default procedure of a bank is to establish a tax risk profile or to adjust the existing profile. Part of the procedure is for the bank to add various customer details taken from computer systems to this tax risk profile. The tax risk profile is part of the customer's CDD risk profile.

The account manager fills in the rest of the form with information from the customer file and based on his or her own knowledge of the customer. No fields on the form may be left empty. The risk profile focuses on a set of relevant tax risk indicators: customer activities, structure, transactions, countries involved, banks involved and supply channels.

If the risk profile indicates increased tax integrity risks, the account manager (with the assistance of Compliance and tax experts) initiates a more in-depth analysis of the customer's tax integrity risks. Based on the outcome, the bank's Compliance or Acceptance department determines whether the risk is acceptable. Compliance then regularly monitors whether the risk analyses are sufficient for arriving at a sound decision.

This is a good practice in the eyes of DNB, as this bank has chosen to apply a risk-based management structure to control tax integrity risks. This means that the bank structurally applies the legally required measures in accordance with the risks of its customers, products and services or countries. The framework of the *Wft* and *Wwft* assumes that institutions divide customers into risk categories according to the nature and extent of the risk.
In order to establish a customer's tax risk profile, a bank may make use of a set of relevant tax risk indicators of its own choosing for assessing the customer. Some components of these tax risk indicators may be equal to the criteria the bank uses when scanning its customer portfolio.

The account manager also has a key role to play in this process, as his or her knowledge of the customer's characteristics enables him or her to draw up a tax risk profile at an early stage without the need for in-depth tax expertise.

5.1 Further investigation into tax integrity risks

Individual customers with increased risks (as identified in the customer portfolio scan or based on the customer's individual tax risk profile) will require further assessment to determine whether or not the estimated risks will actually materialise. The basic premise here is that not every customer will require further investigation, but only those customers whose risk profiles warrant additional due diligence. Below, we present a good practice for conducting this further investigation.

Good practice: Step-by-step plan for assessing tax integrity risks

A bank has established a simple five-step plan for assessing the tax integrity risks of individual customers.

Step 1: Gain insight into all relevant elements of the customer's structure
The account manager requests the customer to submit an updated structure diagram of all relevant companies of the customer, including an explanation regarding the role of these companies. The account manager may also ask the customer to provide the bank with a statement regarding the tax consequences of the organisation structure.

Subsequently, the account manager assesses whether the information provided (including tax motivation) is logical and appropriate. The bank records this information by including the structure diagram with the customer's current ownership and control structure in the customer file, including the associated explanation. The bank substantiates this structure diagram with a schematic overview of the relevant financial flows between the companies involved, the flow of funds diagram, which is included in the file.

Step 2: Substantiate the structure with a tax opinion
If deemed necessary, the account manager asks the customer for a tax opinion to substantiate the entire structure as chosen and as a further substantiation of the customer's explanation of the structure as provided in step 1. In many cases, internationally operating companies have tax advisers who consult with them on their company structure. These customers are then able to submit their adviser's tax opinion to the bank. The account manager, working with Compliance and/or the tax manager, assesses whether the tax opinion is sufficient for establishing the purpose and intended nature of the business relationship.

Step 3: Check the transactions against the structure
The account manager subsequently checks whether the customer's transactions correspond to the knowledge acquired regarding the structure. The bank makes this assessment based on the structure diagram, the flow of funds diagram, the transaction profile (current or anticipated) and the tax opinion. The account manager subsequently includes relevant internal and other documents, according to the nature of the customer's tax integrity risks and the bank's relationship with the customer. Depending on the severity and extent of the risk and the products and services the bank offers, the bank assesses the following documentation: credit information, trade financing documentation, annual accounts (whether audited or not), audit reports, alert files and transaction documents, rulings from tax authorities, CRS/FATCA information, transfer pricing analyses, country-by-country reports, overview of effective tax burden of the group/UBOs.

Step 4: Assessment of open source information
In addition to the information the bank receives from the customer, it also utilises information from open sources. The bank screens UBOs, business relationships, companies and counterparties in public sources to find information on potentially unethical tax-related conduct (open source intelligence). This also concerns the screening results of customer data, such as the name of the company, business address, UBOs, representatives, etc. in public databases such as the Panama Papers and the Paradise Papers. In addition, the bank includes internally available relevant information in its assessment. This includes signals received, incidents, questions from other banks, questions from the tax authorities or investigative authorities. The bank then records how it has weighted this information in its risk assessment.

Step 5: Benchmark: compare to similar cases
When assessing a customer, the bank compares the customer with previous cases featuring similar structures in order to identify risks more swiftly. This benchmark serves as a further substantiation of the bank's analysis and may also provide quicker insight into the relevant risk. If in the course of its assessment, the bank has identified a customer with unacceptable tax integrity risks, then the bank will also apply this knowledge in a reassessment of similar customers in the portfolio. The characteristics and indicators from these cases can be shared with the bank's account managers and included in the tax risk profile.

Finally, the bank may decide that in certain, clearly defined cases it will be necessary to gain more insight into the extent of the actual taxes a customer pays. In these cases, the bank will request the tax return from the individual customer or from the entire group with which the customer is affiliated for further substantiation. The bank's risk analysis is dependent to a great degree on the customer's (or group's) cooperation and transparency.

The bank records the outcome of the five-step process in a fully substantiated customer tax assessment, which can be appended to the customer's general CDD risk analysis.

This is a good practice in the eyes of DNB, as the bank has detailed the more in-depth assessment of individual customers in a clear step-by-step plan. Depending on the identified risks, the implementation of these various steps might differ per customer, but the bank sets out a clear process for its staff, indicating the actions the bank requires of them when conducting an assessment.

Below, we present several good practices of a bank that has identified high-risk factors to be assessed more thoroughly. These high-risk factors concern: a) the structure and the countries involved, b) the operational and other activities of the customer, and c) the transactions.

5.1.1 Structure and countries involved

Good practice: Determine the high risk tax jurisdictions

To determine the tax risk indicators, a bank has drawn up a risk-based list of countries in jurisdictions that have increased tax integrity risks. The bank's basic assumption is that a country with a low tax rate and/or extensive exemptions and/or low transparency or cooperation with international authorities is a high-risk country. The bank supports this assumption with published lists of countries such as the IMF OFC list[24], the OECD list[25], the EU Black and Grey list of tax havens, the Financial Secrecy Index[26] and the 'Regulation on low-tax states and non-cooperative jurisdictions for tax purposes'[27] to create its own list of countries. The bank regularly reviews this list.

The bank is not only interested in the country of establishment or tax domicile of the customer, the group and the UBOs, but also checks countries which are the source or destination of substantial and regular financial flows. Again, transactions from and to countries with a low tax rate and low transparency or cooperation indicate increased risks.

This is a good practice in the eyes of DNB, as the bank also includes the jurisdictions where activities and/or financial flows take place in its assessment in addition to the structure's legal forms. However, there is no internationally accepted definition of tax havens or offshore jurisdictions. Moreover, lists of countries published by international organisations change constantly due to various factors, including changing trends in frequently used tax routes and tax legislation. It is a good practice that the bank has drafted a list of countries based on risk and substantiated with international publications.

Good practice: Focus on high-risk structures

When it comes to assessing structures, the bank has identified which company structures are most likely to indicate increased tax integrity risks. The bank sees shielded properties or split-off or hybrid structures as criteria for raising a customer's tax integrity risk.

Shielding of property
This is the case if one or more of the following indicators is present:

- nominee shareholders are present
- bearer shares are present
- the presence of any other structure that hampers transparency of the ownership and/or actual control structure.

Split-off structures
Splitting off certain business units into separate sister companies may indicate tax risks. In such cases, the bank will wish to attain transparency on the tax motives and the possible tax integrity risks, especially if such a sister structure contains offshore companies and/or if there is limited insight into and supervision of a customer's financial records. Such controlled foreign company (CFC) structures indicate increased tax integrity risks.

24 Background Paper: Offshore Financial Centers, IMF, (2000)
25 Brief on the State of Play on the international tax transparency standards, OECD, September 2017
26 Financial Secrecy Index, Tax Justice Network (2018)
27 https://zoek.officielebekendmakingen.nl/stcrt-2018-72064.html

Hybrid structures
The use of hybrid entities or financial or other instruments may also be an indication of tax-driven motives. Structures that have been set up with a view to tax evasion are referred to as hybrid mismatches. In a hybrid mismatch, the tax qualification of an entity or funding differs in the various countries involved due to differences between national tax laws. This can give rise to a situation of double nontaxation. The bank wishes to know if its customers have such mismatches and how the tax consequences fit in with the bank's risk appetite.

This is a good practice in the eyes of DNB, as the bank has identified characteristic elements in the customer's structure which may indicate increased tax integrity risks. In actual practice, this also means that the bank not only maps out the formal and informal control structure, but also focuses attention on other intra-group or other entities with which the customer conducts transactions and the associated tax integrity risks.

5.1.2 Customer activities

Good practice: focus on customer and group activities

In its risk-based acceptance and review process, a bank has laid down that the activities of current and new customers, and the group to which they belong, must be clearly mapped out. Furthermore, the customer file must clearly indicate the customer's economic position within the group. The bank substantiates this assessment with relevant documents, such as the annual accounts, the profit and loss statement and business reports. The bank substantiates any tax-driven motives underlying the customer's activities. It states not only the group's general operational and other activities, but also indicates for what purpose the customer uses the bank's services.

DNB views this as a good practice, as the bank first gains insight into the customer's activities and the activities of the group to which the customer belongs. A bank can only proceed with assessing the customer's tax and other integrity risks once this aspect has been sufficiently investigated.

Good practice: Example of unacceptable risks involving the customer's operational activities

A bank provides services to a customer who indicates being engaged in operations in a sector with increased tax and other integrity risks such as trade, commodities, energy, transport, pharmaceuticals, real estate or consultancy services. The bank has also specified the inherently increased tax risks in these sectors in its SIRA. As a result, the bank investigated whether or not the customer actually carried out the operational activities as stated. Based on the information requested from the customer, it became clear that the customer had provided insufficient substantiation for its operational activities. It appeared that the customer was only used by the group for offshore re-invoicing. The consequence was that the bank was not sufficiently able to assess the tax integrity risks of the customer's transactions.

In the end, the bank terminated its relationship with the customer, as it no longer corresponded to its integrity risk appetite. The bank also reported the unusual transactions to FIU-the Netherlands, as the bank suspected the customer of tax evasion due to the illegitimate shifting of profits and costs.

This is a good practice in the eyes of DNB, as the bank conducted a more in-depth investigation into the tax integrity risks in a specific group of customers based on the SIRA. On the basis of the outcome of the assessment, the bank was able to substantiate why the risks of tax evasion were unacceptable. With respect to operational companies, the customer's activities are also assessed in conjunction with other risk indicators, e.g. if the operational company is also established in an offshore jurisdiction.

5.1.3 Transactions

In addition to insight into the formal ownership structure, it is important that the bank gains transparency into where revenue is generated in the structure, and what the role of the customer is or will be in these flows of funds. The actual ownership structure and flow of funds that are thus uncovered may deviate from the formal ownership structure, and this may provide insight into the risks of split-off structures, for example.

Good practice: Transaction profile

At the beginning of the customer relationship, the bank draws up a suitable transaction profile for the customer. This transaction profile, in combination with a flow of funds diagram, gives the bank insight into the expected financial flows and the customer's counterparties. The bank also clearly indicates whether the transactions involve third parties or whether they are intra-group transactions. Transactions that deviate from the customer's transaction profile prompt the bank to request further information from the customer about the objective and nature of the transactions.[28]

28 See the guidance document on Post-event transaction monitoring process for banks, Section 5.1.1 'Risk profile: expected transaction pattern'

DNB views this as a good practice, as a transaction profile gives the bank insight into the current and anticipated financial flows of the customer and of the group to which the customer belongs. Transactions that deviate from the expected pattern are detected and investigated at an earlier stage and result in more effective transaction monitoring by the bank.

Good practice: Insight into relevant financial flows

When assessing a new prospect, a bank discovered that the customer formed part of a group. The customer had its key current accounts with a foreign, non-EEA bank. The group to which the customer belonged also used the services of this foreign bank. This prompted the bank to inform the customer that they could only do business if the bank received more information about the customer's and the group's financial flows. The bank requested this information to be sure the information it had on the customer was accurate and in line with its risk profile.

DNB views this as a good practice, as the bank sets insight into the customer's and group's financial flows as a condition for acceptance as a new customer. For this bank, the limited transparency and/or insight into the group and its financial flows formed a tax risk indicator. As a result, the bank formulated conditions to mitigate this risk.

Good practice: focus on intangible assets transactions

Customers who conduct or receive transactions based on intangible assets pose an elevated risk to the bank. The bank has determined that this includes property rights, patents and licences, among other things. The associated royalty payments might be tax-driven, and various characteristics could indicate illicit activities. The bank demands insight into the economic rationale behind these transactions and a substantiation that they are in line with market conditions and rates as part of the customer acceptance process. Similar information may be required even from current customers if they initiate new transactions or if the transaction monitoring system generates an alert.

This is a good practice in the eyes of DNB, as the bank has designated transactions involving intangible assets as an inherently increased risk, and because the bank has set clear conditions regarding the desired substantiation and transparency prior to accepting the customer.

Good practice: Intra-group transactions and external financing

Intra-group transactions
A customer states the intention to mainly conduct intra-group transactions, including financing. The bank requests documents from the customer with the aim of answering the following questions:
- how do these transactions fit in the group structure?
- have market rates and conditions been applied?
- are there tax-driven motives?

The regular payments are established in the customer acceptance phase. Thereafter, the bank can use the answers to the questions to identify transactions that deviate from the standard. Intra-group transactions are usually not isolated transactions, but rather a series of connected transactions. The bank assesses these transactions in coherence, with a focus on significant value jumps in the transfer of shares, option rights, assets or other factors.

External financing
A bank focuses closely on the financial flows when a customer receives external financing. As a result, the bank expects the customer to indicate how this external financing fits in the company profile and whether tax-driven motives are involved. This is for example the case with deduction of interest on loans. The bank also carries out a more in-depth assessment of back-to-back loans or guarantees issued to the customer by third parties that do not form part of the customer's structure.

DNB views this as a good practice, as the bank sets insight into the customer's and group's financial flows as a condition for acceptance of a new customer.

5.2 Assessment of identified risks

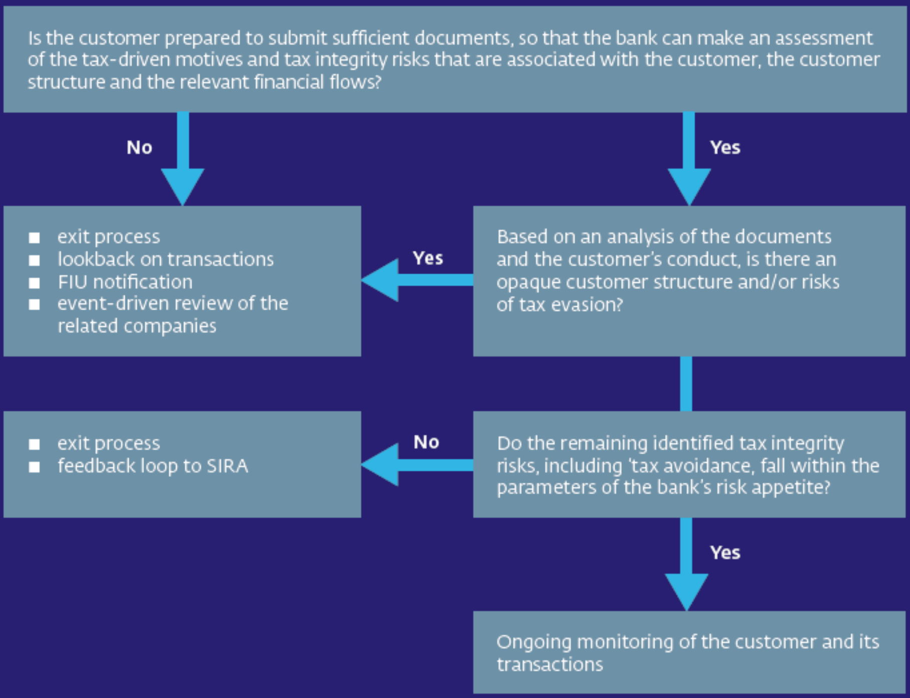
Thanks to the bank's more in-depth investigation into individual customers, it can determine whether there are legitimate tax-driven motives or if there are risks of tax evasion and its facilitation. The investigation also gives the bank insight into structures with potential legal consequences (tax avoidance) that may be unfavourable for the bank. The bank can determine whether or not these structures fall within the scope of its risk appetite.

This is a good practice in the eyes of DNB, as the bank uses a clearly defined process to determine which actions are in line with the identified risks. The bank takes customer transparency as a key starting point to arrive at an adequate assessment. The bank maintains an internal list of signals that may point to a lack of transparency, including:
- the customer refuses to give relevant tax and other information to the bank
- the customer provides contradictory statements
- the customer fails to provide sufficient substantiation of its tax-driven motives

Good practice: Tax integrity risks decision tree

A bank uses a decision tree for its decision-making process on tax integrity risks. The account manager, Compliance and Tax departments go through the decision tree step-by-step, substantiating their decisions in a customer tax assessment.

Figure 5 Tax integrity risks decision tree



The manner in which your bank structures the assessment of the tax integrity risks of an individual customer or customer group depends on the structure of your organisation and the relevant risks of the customers concerned. In certain cases, you may not have the internal tax expertise required to be able to adequately assess the risks. In such cases, you may choose to seek external expertise. Another option may be to no longer do business with this type of customer if your current organisation is unable to sufficiently assess and control the risks.

The bank uses the following good practice to analyse the documentation and customer activities and to assess whether the customer structure lacks transparency and/or whether the customer might be engaged in tax evasion.

Good practice: Substantive assessment of individual customer

A bank has defined the following substantive assessment criteria to gauge whether its customers' tax integrity risks fit the bank's risk appetite.

- Domicile or registered office: for customers that are legal entities, the bank assesses where the management has its registered offices. For natural persons, the bank assesses where the customer spends most of their time.
- Objective and economic rationale
- Transparency: customer transparency toward the bank and toward the tax authorities
- Coherence: Customer requests and/or proposed transactions must be in line with the customer's activities, structure and management.

6 Transaction monitoring

The previous chapters describe good practices for the portfolio scan, the integrity risk appetite and customer due diligence assessments. Your bank undoubtedly has specific, related procedures and measures which you would like to use for mitigating tax integrity risks. This could include transaction monitoring, training and awareness among personnel. In this and the following chapter, we give two good practices in the area of transaction monitoring, training and awareness.

Good practice: Tax integrity risks and transaction monitoring

A bank's internal audit department has established that the existing money laundering scenarios and business rules are insufficient for detecting tax integrity risks. As a result, the bank has developed specific scenarios and business rules as regards tax integrity risks for detecting unusual transactions in the transaction monitoring system.

The bank has established these scenarios of tax evasion and tax avoidance on the basis of its existing customer portfolio and backtesting of previously assessed files. The bank made use of cases that resulted in FIU notifications due to the risks of tax evasion. The characteristics of these unusual transactions were essential input for establishing the scenarios.

For instance, the bank has developed the following scenarios for offshore and other companies that result in an alert:

Transactions involving offshore companies
- The customer is an offshore company and effects transactions
- The customer is an offshore company and effects transactions related to operational costs/activities, for instance via re-invoicing
- The customer receives funds from an offshore company, such as in the form of a loan, capital contribution, share premium, current account etc.
- The customer pays funds to an offshore company
- The customer is an offshore company that effects transactions with high frequency or a high volume.

Transactions from and to bank accounts in high-risk countries
- The customer pays funds to or receives funds from companies with bank accounts at banks established in high-risk countries
- The customer pays funds to or receives funds from their own bank accounts at banks established in high-risk countries

Transactions with vague descriptions or an obscure counterparty
The customer pays funds to or receives funds from what appear to be third parties, stating in the description 'intra-group loan' or 'dividend pay-out'.
The customer pays funds to or receives funds from what appear to be third parties, which are not stated in the transaction profile.

The bank has drawn up clear procedures and instructions for the further assessment of alerts generated by personnel in order to determine which actions are necessary. This includes a description of situations which require the sourcing of additional tax expertise in order to adequately investigate such alerts.

DNB views this as a good practice, as the bank was able to detect independently that the existing scenarios and business rules were not suitable for detecting unusual transactions associated with tax integrity risks. As a result of this analysis, the bank has adjusted its transaction monitoring accordingly.

7 Education and training

Good practice: Education and training

A bank is aware that not every employee at the bank has specialist knowledge of national and international tax law and regulations. However, the bank considers it imperative that the customer relationship managers and other relevant employees receive sufficient education and training so that they are able to identify signs of tax integrity risks among the bank's customers.

For Compliance personnel, who conduct a more in-depth assessment of individual customers, the bank has adopted a specialist training programme so that they can gain more in-depth knowledge of international tax evasion cases, misuse of offshore companies and international developments in the area of tax evasion. The bank also engages its tax department to give its personnel additional tax-related training. The bank's tax department can also contribute to education and awareness in this area by drawing up scenarios for transaction monitoring.

In cases where specific expertise is not available in-house, the bank engages external parties. The bank may also use external expertise to make a well-considered decision about certain high-risk customers and customer groups.

In its education and training programmes, the bank emphasises tax evasion and tax avoidance techniques, the misuse of offshore companies, the international context and standards and new developments in this area. The bank also uses investigation files from its own practice to interpret tax integrity risks. In order to stay updated on the latest developments and to promote awareness in a more sustainable manner, the bank regularly provides its personnel with tailor-made training programmes that are suited to their position and duties.

DNB views this as a good practice, as the effectiveness of the procedures and measures geared towards tax integrity risks strongly depend on the knowledge and expertise of personnel. The bank acknowledges this by offering its personnel adequate training. The education and training of personnel are important ways for the bank to safeguard its expertise in the area of tax integrity risk and to continually refine its own integrity risk appetite.

2 July 2019

DISCLAIMER
De Nederlandsche Bank N.V. (DNB) has prepared this guidance document to present our findings regarding the good practices we have identified or expect in supervisory practice, which in our opinion constitute a sound application of the legal framework regarding tax integrity risks management. This document also contains case examples.
It must always be read in conjunction with the regulations and DNB's Guidelines on the Anti-Money Laundering and Anti-Terrorist Financing Act and Sanctions Act, April 2015 edition. You can incorporate the good practices from this brochure in managing your customers' tax integrity risks, taking account of your own circumstances. Some cases may require a stricter application of the underlying rules.

This is not a legally binding document nor a DNB policy rule within the meaning of Section 3(4) Book 1 of the General Administrative Law Act, and it has no legal effect. This document does not replace any legislation and regulations, or policy or supervisory regulations in this area. The examples presented in this document are not exhaustive and cannot cover every eventuality. Following these good practices will not per se result in compliance with legislation and regulations. Rather, these good practices have been drawn up to help institutions interpret and implement the statutory requirements.

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