



CORNERSTONE GLOBAL COMMODITIES

Money Laundering Prevention Procedures

Contents

- 1. Introduction 1**
 - 1.1 A Risk Based Process..... 1
 - 1.2 The Risk Based Approach..... 1

- 2. Money Laundering Reporting Officer 2**

- 3. Customer Due Diligence 3**
 - 3.1 Timing of CDD Measures 3
 - 3.2 Simplified Due Diligence (SDD) 3
 - 3.3 Enhanced Due Diligence (EDD)..... 4

- 4. Monitoring Client Activity 4**

- 5. Suspicious Activity Reporting 5**
 - 5.1 'Knowledge' and 'Suspicion' 5
 - 5.2 'Reasonable Grounds to Know or Suspect' **Error! Bookmark not defined.**

- 6. Awareness and Staff Training 5**

- 7. Record Keeping 6**

- Appendix A: Client AML Due Diligence Checklist 7**



1. Introduction

The purpose of this procedures manual is to give guidance to outline what is expected of the firm, Cornerstone Global Commodities, LLC ('Cornerstone'), and its staff in relation to the prevention of money laundering.

There are three (3) broad groups of offences that Cornerstone must ensure that it avoids committing, namely:

- Knowingly assisting in concealing, or entering into arrangements for the acquisition; or use of criminal property;
- Failing to report knowledge or suspicion or reasonable grounds for knowing or suspecting money laundering; and
- Tipping off.

Additionally there is also a separate offence under the Money Laundering Regulations for failure to establish adequate and appropriate procedures to forestall or prevent potential money laundering.

Senior management of Cornerstone have a responsibility under the FSA's Senior Management Arrangements, Systems and Controls (SYSC) Sourcebook to ensure that the firm's control processes and procedures are appropriate and effectively implemented to counter the risk of the firm being used to further money laundering and financial crime. Senior management will be fully involved in the processes and take ownership of the risk-based approach.

Senior management of Cornerstone must allocate a director or senior manager to be the MLRO to have the overall responsibility for the establishment and maintenance of the firm's AML systems and controls; to act as a focal point within the firm relating to AML and to provide direction and oversight of the AML strategy.

The MLRO will provide an annual report to the directors on the operation and effectiveness of the firm's systems and controls to combat money laundering and financial crime. When the report is received senior management will consider the findings and take any action that is required.

The senior management will also produce and maintain a risk assessment of its money laundering risk as set out in SYSC 6.3.1.

1.1 A Risk Based Process

The SYSC Sourcebook outlines the high-level risk-based approach to the threat of money laundering and financial crime.

Being targeted for money laundering exposes firms to reputational, legal and regulatory risks. Senior management has a responsibility to ensure that AML control processes and procedures are not only appropriately designed and implemented, but are operated effectively in order to reduce the risks that they face.

The firm must implement effective systems of control that identify and mitigate its money laundering risk to reduce enforcement action against that firm.

1.2 The Risk Based Approach

A risk-based approach takes the firm through a number of discrete steps, assessing the most cost effective and proportionate way to manage and mitigate the money laundering and financial crime risks faced, namely to:



- Identify the money laundering risks that are relevant;
- Assess the risks presented;
- Design and implement controls to manage and mitigate the assessed risk;
- Monitor and improve the effectiveness of the controls; and
- Appropriately record what has been done, and why.

There are five (5) basic offences with the penalty for non-compliance ranging from six (6) months to 14 years imprisonment, a fine, or both.

Failing to report actual or suspicious money laundering activity

The duty is on the individual to prove that there were no grounds for suspicion. It is also an offence not to report suspicions promptly.

“Tipping-off”

It is an offence to alert a suspected money launderer or accomplice of the fact that an investigation or report has been made as to suspected money laundering.

Assistance

It is an offence to help others commit a crime. This offence can be committed if any person knowingly helps another person to launder the proceeds of criminal conduct. This includes obtaining, concealing, disguising, transferring, acquiring or using the proceeds of crime.

Acquiring, possessing or using criminal proceeds

If it is known that money is directly or indirectly the proceeds of a crime, it is an offence to receive, possess or use that money. “Money” has a wide definition including property.

Concealing or transferring money to avoid prosecution.

Attempts to convert the proceeds of crime into something appearing legitimate, or transferring money to avoid detection or confiscation, are an offence.

2. Money Laundering Reporting Officer

The firm has appointed a Money Laundering Reporting Officer (MLRO) who is the nominated officer responsible will have responsibility for the oversight of the firm's anti-money laundering activities and is the key person in implementing the firm's strategies and policies in relation to money laundering.

The MLRO of Cornerstone is Hope Webster.

The MLRO will monitor the day-to-day operation of Cornerstone’ AML policies to be able to respond promptly to any reasonable requests for information received from law enforcement.

The MLRO has the authority to act independently in carrying out his responsibilities.



3. Customer Due Diligence

Core obligations on the firm are:

- The prescribed CDD measures must be carried out for all customers not covered by exemptions;
- Systems must be in place for dealing with those who are unable to produce 'standard evidence';
- EDD must be applied in higher risk cases where the customer is not present and also in relation to Politically Exposed Persons (PEPs);
- Awareness that some persons/entities must not be dealt with; and
- Systems are in place for keeping information up to date.

CDD measures that must be carried out involve:

- Identifying the investor and verifying their identity;
- Identifying the beneficial owner, where relevant and verifying their identity; and
- Obtaining information on the purpose and intended nature of the business relationship

The firm will monitor and adapt this process as required.

Appendices A and B details the client AML due diligence should be completed for each client.

3.1 Timing of CDD Measures

The firm must apply CDD measures when it:

- Establishes a business relationship;
- Carries out an occasional transaction;
- Suspects money laundering; or
- Doubts the veracity of previously obtained data for identification or verification.

The verification of the identity of the investor and, where applicable, the beneficial owner should take place before the establishment of a business relationship or the carrying out of an occasional transaction. The suggested requirements that should be considered are contained in Appendices to this manual.

The investor is identified by obtaining a range of information about them. The verification takes place where the Cornerstone verifies the information given against documents, data or information obtained from a reliable and independent source.

The data required is dependent upon the type of investor in accordance with the relevant guidelines.

3.2 Simplified Due Diligence (SDD)

In practice, SDD means not having to apply CDD measures to identify or verify identity. It is however, necessary for Cornerstone to conduct ongoing monitoring of the business relationship and to maintain documentation as to why a customer qualifies for SDD. SDD can be applied to:

- Certain other regulated firms in the financial sector;
- Companies listed on a regulated market;



- Beneficial owners of pooled accounts held by notaries or legal professionals;
- UK public authorities;
- Community institutions;
- Certain life assurance and e-money products;
- Certain pension funds;
- Certain low risk products;
- Child trust funds.

3.3 Enhanced Due Diligence (EDD)

EDD measures must be applied on a risk-sensitive basis in any situation where there is a higher risk of money laundering.

How much additional information is obtained depends on each individual circumstance and on the customer and business involved.

The ML Regulations prescribe three (3) specific types of relationship where EDD must be applied:

- Where the customer has not been physically present for identification purposes;
- Where a correspondent banking relationship is being established or already exists; and
- In respect of a business relationship or occasional transaction with a PEP.

4. Monitoring Client Activity

Cornerstone must conduct ongoing monitoring of the business relationship with its investors.

Ongoing monitoring includes:

- Scrutiny of transactions undertaken throughout the course of the relationship to ensure they are consistent with what is known about the investor;
- Ensuring that documents, data and information held on investors is kept up to date.

The essentials of monitoring are that:

- it flags up transactions for further investigation;
- the reports are reviewed promptly by right person(s); and
- appropriate action is taken on any findings.

Monitoring can be done by reference to specific types of transactions, to the investor profile or by comparing their activity profile to that of similar investors or a combination. Effective monitoring is based on considered identification of transactions to highlight items such as:

- The unusual nature of the transaction;
- The nature of a series of transactions;
- The geographic distribution or origin of a payment; and
- The parties concerned.

Higher risk accounts and investor relationships will require enhanced ongoing monitoring.



5. Suspicious Activity Reporting

People and firms within the regulated sector are required to make reports when information comes to them during the course of their business where they:

- know; or
- suspect; or
- have reasonable grounds for knowing or suspecting;

that a person is engaged in money laundering or financial crime.

Cornerstone has a framework in place where reports may be raised and considered which is:

- any member of staff must report to the firm's MLRO on the above grounds;
- the MLRO considers each report and whether it gives grounds for knowledge or suspicion; and
- all staff are sufficiently trained in their obligations and requirements for making such reports.

5.1 'Knowledge' and 'Suspicion'

Knowledge generally means actually knowing something to be true, i.e. that an individual in fact knew that someone was engaged in money laundering or financial crime). Although knowledge can also be inferred from surrounding circumstances.

- The knowledge must, however, have come to the firm during the course of its business. Information that comes to the firm's knowledge in other circumstances does not come within the obligation to report.

Suspicion is a more subjective test and falls short of proof based on firm evidence but has been defined as being beyond mere speculation and based on some foundation.

- 'A degree of satisfaction not necessarily amounting to belief but at least extending beyond speculation as to whether an event has occurred or not'; and
- 'Although the creation of suspicion requires a lesser factual basis [than that of knowledge], it must nonetheless be built upon some foundation.'

6. Awareness and Staff Training

The key obligations on Cornerstone are as follows:

- Relevant employees should be:
 - Made aware of the risks of money laundering, the relevant legislation and their obligations under that legislation
 - Made aware of the identity of and responsibilities of the MLRO for the firm; and
 - Ongoing training will be given at appropriate intervals to all relevant employees. Such training will be provided at least every 24 months and records kept as an audit trail to monitor who has been trained and when, the nature of the training and its effectiveness.
- The MLRO is responsible for the oversight of the firm's compliance with its requirements in respect of training



7. Record Keeping

Record keeping is an essential requirement of the audit trail in order to assist in any financial investigation.

The precise nature of the records required is not specified, but the objective is to ensure that Cornerstone meets its obligations and that the firm can provide the authorities with any relevant information.

Records should cover:

- Customer information;
- Transactions;
- Internal and external suspicion reports (including reasons as to why reports were/were not submitted to SOCA);
- MLRO Annual reports (and others);
- Information *not* acted upon; and
- Training and compliance monitoring

Records of all evidence must be kept for at least five years after the business relationship has ended.

In terms of staff training, reporting and other items, records must be kept for five years from the date of the training or submission of the report.

Retention of records may be:

- by way of original documents;
- by way of photocopies of original documents;
- in scanned form; or
- in computerised or electronic form.

Records must be retrievable by the firm without undue delay.



Appendix A: Client AML Due Diligence Checklist

1. General Information for ALL customers:
Full name of client:
Company RegNo:
Registered Office Address:
Correspondence Address:
Telephone Number:
Fax Number:
E Mail:
Website:
Key contact(s) – Name and Position/Capacity:
Brief description of the activities of the client or reference to other attached documentation explaining the activities (e.g. credit report, accounts):
Sanctions List Check
PEP Check
Source of Assets
Risk Assessment (Low, Normal, High)
Rationale for Risk Assessment
2. Verification of Identity
<i>(you must complete one of the sections 1, 2 and 3 below and attach documentary evidence – tick relevant boxes where documents are attached).</i>
a. Listed companies
If customer is listed <input type="checkbox"/> Evidence of listing (e.g. Bloomberg)
b. Other corporate/partnerships – See Appendix B (Money Laundering and Client Identification Checklist)
ULTIMATE CONTROL <i>(if the owner of the customer is another corporate then we must look further to identify the ultimate shareholders behind the group)</i>



- Latest audited report and accounts (or written confirmation that these are not produced) which include details of ownership **or**
- Share register listing shareholders' names and addresses **or**
- Evidence that the company is listed on an exchange **or**
- Evidence that the entity is a Partnership
- Other evidence, please specify:

Where evidence of ownership cannot be identified or verified by an independent third party please consult with Compliance immediately for further guidance.

**c. VERIFICATION OF INDIVIDUAL DIRECTORS AND/OR SHAREHOLDERS OR PARTNERS:-
(Two individuals must be verified as set out below)**

Name of first individual

- Copy of passport or National ID* and Verification of address (e.g credit check, utility bill)

Name of Second Individual

- Copy of passport or National ID* and Verification of address (e.g credit check, utility bill)

*** A lawyer, public notary or representative of the firm (who has met the individual) must see the original documents and must sign, print name and date the file copy, stating that it is a true copy of the original.**

