



Baltic Exchange KYC Platform **Customer Due Diligence Explained**



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What is Customer Due Diligence?

Customer Due Diligence (CDD) refers to the measures that companies take to understand who their customers are, and extend to their customers' beneficial owners, where relevant. CDD can also include the process to acquire information on the intended nature and purpose of the transaction or business relationship with the customer, and measures to monitor the business relationship on an ongoing basis. The CDD process is an essential tool across all aspects of business, including the shipping industry, helping you to ensure that you know your customer or counterparty.

Why do we do CDD?

There are a number of valuable reasons why we do CDD:

1. To know who you are dealing with

A check of your counterparty can help ensure that your counterparty exists (see further 2 below), and is reputable. Where your counterparty is an individual, CDD will give you basic information on them; this can be supplemented with adverse media and other checks. Where your counterparty is a company or other legal entity, as is more common in the shipping industry, CDD will help you understand who the directors are, where they are based, how long the company has been in business, and who is the ultimate beneficial owner. This is all important information which you need to ensure that your counterparty is reputable and trustworthy, will pay what it owes, and won't cause you reputational damage in future. For the shipping industry, which often deals with high-value goods and operates across international borders, due diligence is a crucial tool.

2. To get paid

You wouldn't do business with a person who doesn't exist, but it is remarkable how often people do business with a company or other legal entity which doesn't exist! This might be as a result of fraud on the part of your counterparty (see 3 below), but it can often arise as a result of a simple mistake: for example, writing the brand name of the company (e.g. "X") on the contract, rather than the specific legal name of the company (e.g. "X Limited"). If the brand owner is part of a group, how do you know who your counterparty is – i.e. which group entity you have contracted with? An essential aspect of being able to enforce a contract in most jurisdictions is certainty. If the contract is with a counterparty that doesn't exist, you may not be able to enforce it. This means that you may not be able to enforce your right to get paid. There have been many cases around the world where this issue has been considered. One example is *Liberty Mercian Limited v Cuddy Civil Engineering Limited* (an English case). In this case, a limited company had a trading name; they mainly used that, and had additionally incorporated a dormant company with that trading name. The parties contracted using the dormant company's name rather than the trading company. The intention was clearly to contract with the trading company and not the dormant one. However, when a problem occurred the claimant could sue only the dormant company, which was worthless. The claimant looked for the English High Court to rectify the mistake, but it refused to do so.

3. To prevent fraud

Knowing who your customer is, and the purpose of the transaction with them, can be a very important aspect of preventing fraud. Just like in other industries, the shipping sector is not immune to fraud. A CDD check can help you identify that your counterparty is real and reputable. It can help you to check that the individual with whom you are dealing, who claims to represent the company who will be your counterparty, is actually authorised to do so. This can help prevent you being a victim of fraud.

4. To prevent money laundering and terrorist financing

While shipping might not seem like an obvious target for money laundering or terrorist financing, the industry can be used as a conduit for illicit funds. Vessels, for example, could be bought with illegal funds or used to transport illegal goods. Knowing the real owners and beneficiaries of a shipping transaction can help flag suspicious activities.

Money laundering takes many forms, including turning criminal proceeds into 'clean' money (classic money laundering), handling the benefit of acquisitive crimes such as theft, fraud and tax evasion, handling stolen goods, and being directly involved with any criminal or terrorist property. Money laundering and terrorist financing risks are closely related to the risks of other financial crime, such as fraud. Knowing who your customer is, and the purpose of the transaction with them, can be a very important aspect of preventing money laundering and terrorist financing.

In most jurisdictions around the world, money laundering and terrorist financing are criminal offences. There are various international standards which have been published to ensure alignment, such as the [FATF Recommendations](#). Although the FATF Recommendations apply specifically to financial institutions, they note that CDD measures are an important aspect of combatting money laundering and terrorist financing. Governments have taken differing approaches to exactly how CDD measures are imposed, but there are certain principles of CDD, which are discussed further below, which have been almost universally implemented around the world.

Failing to prevent money laundering can have very significant consequences. For example, in 2017, Deutsche Bank AG was fined £163m by the UK FCA and \$425 million by the New York State Department of Financial Services for failing to maintain appropriate anti-money laundering control policies between 2012 and 2015. The investigation revealed that the Deutsche Bank failed to properly identify their customers, which led to over \$10 billion of unknown origin being transferred from Russia to offshore bank accounts.

5. To check our counterparty isn't sanctioned

Various national and international bodies, such as the UN, the US, the EU and the UK, have sanctions in place to prevent transactions with a range of named individuals and organisations. Depending on your jurisdiction, entering into a transaction with a sanctioned person may be a criminal offence. A CDD check can help to ensure that your counterparty is not subject to relevant sanctions requirements. A CDD check can also tell if certain ships appear on any sanctions lists as long as it is registered as a company. Shipping companies need to ensure they are not inadvertently doing business with sanctioned parties. Without proper checks, a ship could be chartered by, or cargo could belong to, a sanctioned individual or entity. The US government believes the maritime industry is a key risk area for sanctions evasion. On May 14, 2020, U.S. authorities including the

Department of State, OFAC and the U.S. Coast Guard, issued new guidance on deceptive shipping practices and sanctions risks. This was followed in December 2020 by the United Kingdom with His Majesty's Treasury's Office of Financial Sanctions Implementation ("OFSI") issuing its own 'Maritime Guidance' with updated Guidance issued in March 2024 highlighting the need for KYC in the industry. The recent Russia-Ukraine conflict has resulted in a number of countries issuing sanctions against Russia and Russian individuals and companies, further increasing the risk for shipping companies. Commentators have [described](#) the lack of compliance capabilities in the shipping industry as a "compliance crisis". Proper CDD is an essential aspect of navigating this crisis.

6. To conduct effective risk management

Another advantage of CDD is to assist you in conducting effective risk management. Verifying customers and conducting secure transactions enables entities to mitigate financial risks. Certain persons and entities are more exposed to risks of corruption, fraud etc as a result of their status; for example, if they are located in a high-risk jurisdiction, or (for individuals), if they are a politically exposed person. Furthermore, without proper KYC checks, a shipping company might unknowingly transport illegal or restricted goods. This has been recognised by key NGOs, including the [International Chamber of Commerce and BASCAP](#). This could lead to legal liabilities, costly litigation and significant financial penalties. A CDD check will give you the information you need to make an informed decision as to the risk of entering into a business relationship with the proposed counterparty.

7. To protect your reputation

A shipping company's reputation is essential to it being trusted by its counterparties and customers. Associating with entities involved in illegal or unethical activities can harm a shipping company's reputation. Thorough KYC checks help in filtering out potentially problematic clients and counterparties.

8. To build trust & enhance transparency

As with many other industries, trust and transparency play crucial roles in the shipping industry. Proper CDD processes can help build trust between parties in shipping transactions, ensuring smoother operations and fewer disputes.

What are the key aspects of CDD?

There are four universally recognised aspects to CDD:

1. Identifying the customer and verifying that customer's identity using reliable, independent source documents, data or information;
2. Identifying the beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner;
3. Understanding and, as appropriate, obtaining information on the purpose and intended nature of the business relationship; and
4. Conducting ongoing due diligence on the business relationship.

What is the Baltic KYC Platform?

The Baltic KYC Platform will provide the shipping industry with a useful tool for conducting CDD procedures in an efficient and effective manner.

The due diligence engine makes it possible for the maritime industry to perform both CDD searches on companies and individuals, and due diligence scans. It can provide accurate information quickly and generate a complete report which will eventually be the go-to place when getting to know new customers.

The platform will help the shipping industry use accepted risk and compliance standards and practices. The Baltic's goal is to educate maritime companies across the globe in relation to risks present and the consequences of poor compliance practices.

How can the Baltic KYC Platform help?

The Baltic KYC Platform can provide you with the following information:

1. Company checks. information drawn from multiple trusted sources powered by Moody's extensive Orbis for Compliance database covering over 445+ million entities, both shipping and non-shipping, worldwide available at the tips of your fingers. This includes name, legal status, company registration number, registered office address, date of incorporation, names of directors and management.
2. Corporate ownership information: shareholdings and subsidiaries; premium features also include beneficial owners and financials (where available);
3. Relevant people within or connected to companies, such as: advisors, auditors, board members, senior managers, other contacts;
4. PEPs, sanctions and other watchlists - checking individuals, companies and corporate groups against PEPs, sanctions and other watchlists. Stay informed about any potential red flags associated with businesses or individuals with information from Moody's Global Regulatory Information Database (GRID) which is a 12 million-plus record, continuously updated risk data archive on known or suspected corrupt private-and public sector figures, fraudsters, illicit financiers, money launderers, organised crime figures and groups, terrorist figures and organisations, politically exposed persons, and dozens of other risk relevant categories of persons and organisations. Ensure your partners, suppliers, and customers are not involved in any sanctioned or other illegal activities or politically exposed, lowering compliance risks. Also a monitoring service to check for adverse media.
5. Real time alerts – receive timely updates on changes in a company's or individual's status or relevant news, ensuring you're always acting on the most recent information.

Is the Platform easy to use?

Designed with users in mind, our platform is intuitive and easy to navigate, making your due diligence process smooth and straightforward and saving time and money. Each scan is accompanied by a "risk priority", such as Critical, Valuable, Investigative or Probative, which will help you understand your risks and follow-up CDD required, as well as sources for each event. A unique tracking ID will be generated for each scan along with a PDF report which can be downloaded.

What about ongoing monitoring?

Ongoing monitoring can be purchased for 12 months after a due diligence scan is performed. Users will receive an email whenever an alert is issued in relation to a scan that they have performed. This enables users to be notified on a timely basis of any changes in adverse media, PEPs and sanctions affecting the specific company or person without needing to purchase another scan within that period.

All this will allow you to verify the identity of your customer, understand your customer's ownership structure and risk points, and conduct ongoing monitoring of your counterparty throughout your relationship.



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