

SIMPLIFIED DUE DILIGENCE

FATF Standards • Antigua & Barbuda Framework • Practical Application

A risk-based approach to doing enough CDD — without doing too little.

Learning Objectives

- Explain what Simplified Due Diligence (SDD) is — and what it is not.
- Connect SDD to FATF Recommendation 1 and Recommendation 10.
- Identify when lower-risk treatment may be appropriate and when SDD must not be used.
- Apply the Antigua & Barbuda legal and supervisory framework, including the 2025 ECCB SDD Guidelines for licensed financial institutions.
- Work through a practical case study and identify the controls that should remain in place.

What Is Simplified Due Diligence?

SDD

A proportionate set of CDD measures applied where the ML/TF risk is demonstrably lower.

Not an exemption

SDD does not mean “no KYC,” “no verification,” or “no monitoring.”

Risk-based

The level and intensity of controls should correspond to the identified risk.

- FATF’s 2025 amendments to Recommendation 1 explicitly require countries to allow and encourage simplified measures in lower-risk scenarios.
- FATF Recommendation 10 permits simplified CDD where ML/TF risks are lower, with measures commensurate/proportionate to that lower risk.
- SDD should be supported by a documented risk assessment and remain subject to ongoing review.

FATF: The Core Principles

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FATF standard	What it means for SDD
Recommendation 1	Use a risk-based approach; lower-risk areas should receive proportionate/simplified measures.
Recommendation 10	CDD remains required, but simplified measures may be used where risk is lower.
Recommendation 10 — ongoing due diligence	Monitoring may be less frequent/intensive where justified by risk, but it does not disappear.
Recommendation 10 — exceptions	SDD is not acceptable where there is suspicion of ML/TF or a specific higher-risk scenario.
Recommendation 6/7	Targeted financial sanctions obligations remain relevant; SDD cannot override sanctions screening/freezing duties.

What Can Actually Be Simplified?

Onboarding

Certain verification or documentation steps may be calibrated to the lower-risk product/customer profile, where permitted by law.

Updating

The frequency of customer information reviews may be reduced where the risk remains low.

Monitoring

Transaction monitoring may be less frequent/intensive, using reasonable thresholds and risk indicators.

- FATF examples include reducing the frequency of identification updates, reducing the intensity of ongoing monitoring, or using thresholds to trigger additional verification.
- Any simplification should be tied to a defined lower-risk rationale — not simply convenience or customer preference.
- The institution should be able to explain: Why is this customer/product lower risk? What has been simplified? What safeguards remain?

When SDD Must NOT Be Used

Suspicion exists

If there is suspicion of ML/TF, simplified measures are not appropriate.

Higher-risk scenario

If a specific higher-risk factor applies, enhanced measures take priority.

PEP / relevant risk factors

PEP status and other risk factors must be assessed under applicable requirements; low-risk assumptions do not override them.

Sanctions / PF exposure

SDD cannot reduce or bypass targeted financial sanctions or proliferation-financing controls.

- Examples that may move a relationship out of SDD: unexplained unusual activity, adverse information, opaque ownership, high-risk geography, sanctions concerns, unexplained third-party funding, or rapid material changes in activity.
- Escalation should be immediate when risk changes.

A Practical SDD Decision Process



- Key question: “What evidence supports the lower-risk conclusion, and what would cause us to revisit it?”

Examples: Where SDD May Be Considered

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Scenario	Possible approach	Safeguard
Basic, low-value retail account with tightly defined limits	Simplified updating/monitoring may be considered	Transaction/value limits; automated monitoring; trigger-based review
Customer with stable, transparent salary income and straightforward activity	Lower frequency of periodic refresh may be appropriate	Income/activity remains consistent; sanctions screening continues
Low-risk product designed for financial inclusion	Basic CDD may be calibrated to product risk	Documented product limits; escalation when thresholds are exceeded
Simple domestic relationship with transparent ownership	Less intensive ongoing review may be possible	Beneficial ownership remains established and current

Examples: When the Customer Should Be Escalated

Trigger	Why it matters	Action
Unusual transaction pattern	Activity no longer matches expected profile	Investigate; consider STR/SAR obligations where applicable
Opaque or changing ownership	Beneficial ownership risk may increase	Obtain/update BO information; reassess risk
High-risk jurisdiction exposure	Geographic risk may materially change	Apply relevant enhanced measures and sanctions/risk controls
PEP or other higher-risk factor	Additional risk-based measures may be required	Apply applicable EDD/PEP requirements
Sanctions / PF concern	Potential targeted financial sanctions exposure	Stop/escalate as required; apply legal sanctions controls
Rapid increase in account activity	Risk profile has materially changed	Re-risk and move out of SDD if warranted

Case Study: “The Community Saver”

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Customer profile

A licensed financial institution onboards a local individual for a basic savings account. The customer is salaried, has a transparent employer, simple ownership/no business activity, and expects modest domestic deposits.

Initial risk picture

No obvious adverse information; low transaction limits; domestic activity expected; no identified higher-risk factor at onboarding.

SDD design

The institution proposes less frequent profile refreshes and monitoring calibrated to the account’s low limits, while retaining identity/BO requirements, sanctions screening, transaction monitoring and escalation triggers.

Six months later

Monthly credits suddenly rise from about EC\$2,000 to EC\$25,000, including multiple third-party deposits. The customer cannot readily explain the source or purpose.

- Discussion: Does the original SDD treatment still make sense? What should happen next?

Case Study: Applying the Risk-Based Approach

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Question	Expected compliance response
Does SDD continue?	Not automatically. The material change in activity requires reassessment of the customer's ML/TF risk.
What should be reviewed?	Source of funds; purpose of transactions; third-party depositors; expected activity; customer profile; adverse information; sanctions screening; transaction pattern.
What controls may change?	Move to standard or enhanced measures; increase monitoring; obtain additional information/documentation as warranted.
What if suspicion arises?	Follow applicable internal escalation and suspicious transaction/activity reporting procedures. SDD is not appropriate where suspicion exists.
What is the lesson?	SDD is dynamic. A customer can qualify today and require stronger measures tomorrow.

Minimum Controls for an SDD Framework

- Written SDD policy and eligibility criteria.
- Documented risk assessment supporting the lower-risk classification.
- Clear definition of what is simplified — and what is not.
- Automated/manual sanctions and relevant targeted-financial-sanctions screening.
- Transaction monitoring with thresholds and escalation triggers.
- Periodic and event-driven review of the customer risk profile.
- Recordkeeping sufficient to demonstrate the basis for the SDD decision.
- Management information and independent testing to confirm that SDD is being applied consistently.

Golden rule

Simplify the process — never simplify the risk assessment.

SDD Compliance Checklist

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Control question	Yes / No
Is there documented evidence that the customer/product is lower risk?	☐
Are all mandatory CDD elements still addressed under applicable law?	☐
Are beneficial ownership requirements satisfied where applicable?	☐
Are sanctions and other applicable screening controls operating?	☐
Are transaction monitoring and escalation thresholds defined?	☐
Are there triggers for moving out of SDD?	☐
Is the SDD decision and rationale recorded?	☐
Is the framework tested and periodically reviewed?	☐

KEY TAKEAWAYS

- SDD is a risk-based tool, not a waiver from AML/CFT/CPF obligations.
- Lower risk must be demonstrated, documented and periodically reassessed.
- FATF now explicitly emphasizes simplified measures in lower-risk areas.
- When access changes, the level of due diligence must change with it.
- When risk changes, the level of due diligence must change with it.