INTERNAL RULES FOR CONTROL AND PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING

Arms Wide Open

Non-Profit Organization
Compliance Documentation

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Official Translation

This document is an official English translation of the Bulgarian Internal Rules for Control and Prevention of Money Laundering and Terrorist Financing adopted by Arms Wide Open (Association Arms Wide Open). These rules are implemented in full accordance with Bulgarian legislation and international standards.

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I. GENERAL PART

Article 1. Adoption of Rules

These Internal Rules for Control and Prevention of Money Laundering and Terrorist Financing have been adopted by the General Assembly of the Association 'Arms Wide Open' (Association Arms Wide Open), in accordance with Articles 101(1) second sentence, 101(6) second sentence, and 102(1) second sentence of the Anti-Money Laundering and Prevention Act (AMLPA).

Article 2. Control Authority

Direct control over the implementation of obligations under AMLPA, acts implementing it, and these rules is exercised by the Chairman of the Management Board. By special act, the latter may designate another person in a senior management position in the organization to exercise internal control as described in the previous sentence and who is a managing person within the meaning of these rules.

Article 3. Scope of Application

These internal rules have direct and effective application also with respect to branches of the organization, including those registered abroad, in compliance with the requirements of Article 17 of these rules.

Article 4. Definitions

The following terms are used in these internal rules with the meanings specified below, according to AMLPA and the Regulations for its implementation:

- **Business Relationship**: Economic, commercial, or professional relationship connected with the organization's professional activities and at the time of establishing contact is expected to have an element of duration.
- **Client**: Any natural or legal person or other legal entity that enters into business relationships or performs occasional transactions with the organization; includes donors, beneficiaries, and recipients of products and services from Arms Wide Open.
- **Occasional Transaction**: Any transaction related to the organization's activities performed outside the framework of established business relationships.
- **Managing Person**: A person holding a position and/or performing management functions who possesses sufficient knowledge regarding the organization's risk exposure in connection with money

laundering and terrorist financing and sufficient authority to make decisions affecting this risk exposure.

- **Official Identity Document**: Documents including Bulgarian personal documents, documents issued by foreign competent authorities with unique identification numbers, photographs, and personal information. Residence documents and foreign driver's licenses are NOT considered official identity documents.

- **Management Body**: The body responsible for disposing of the organization's property, determining procedures, and organizing the activities of the non-profit legal entity.

- **High-Risk Countries (FATF)**: Countries against which the Financial Action Task Force (FATF) has called for enhanced due diligence measures or countermeasures proportional to identified risks.

- **Origin of Funds**: The source of funds used within established business relationships or specific transactions.

- **Source of Wealth**: The sources of all wealth and assets of a given person, not limited to funds in specific transactions.

- **Virtual Asset**: Digital representation of value that can be digitally transferred or traded for payment or investment purposes, excluding financial instruments issued through distributed ledger technology.

II. MECHANISMS FOR COMPLIANCE AND CONTROL

Article 5. Compliance Measures

To fulfill obligations under AMLPA, Counter-Terrorist Financing Measures Act (CTFMA) and implementing regulations, Arms Wide Open undertakes the following measures:

- Monitoring of transactions with regard to fulfilling obligations under Arts. 47, 72, 76, and 98 of AMLPA and obligations under CTFMA
- Building a comprehensive system for internal control and reporting of suspicious transactions or operations
- Providing possibility for anonymous and independent submission of internal reports by employees and associated persons
- Guaranteeing security of technical means used by the organization (computers, software, databases)
- Creating conditions for independent audit and implementing good financial practices
- Organizing regular training programs for employees and management
- Conducting thorough risk assessment according to AMLPA requirements
- Implementing other measures based on results of conducted risk assessments

Article 6. Data Collection and Monitoring

Arms Wide Open shall ensure collection and maintenance of data and information about donors and beneficiaries, established relationships with them, and continuous monitoring of transactions to identify:

- Presence of any criteria for suspicious transactions or clients
- Complex or unusually large transactions performed according to unusual schemes
- Transactions without apparent economic or legal purpose
- Patterns suggesting structured transactions to avoid reporting thresholds

Article 7. Internal Control and Reporting System

Key Responsibility: The organization builds a comprehensive system for internal control and internal reporting upon identifying any criteria for suspicious transactions, clients, or emergence of risk of using the organization's activities for money laundering or terrorist financing.

7.1 Internal Control Functions

Internal control is exercised by the managing person responsible for implementing these rules and includes:

- Periodically informing employees about the possibility to directly notify the Financial Intelligence Directorate of the State Agency for National Security (FID-SANS) in case of suspicions of money laundering
- Monitoring for cash payments exceeding BGN 10,000 or equivalent in foreign currency made by or to clients
- Making decisions to conduct risk assessment when there is danger of using Arms Wide Open's activities for money laundering, terrorist financing, or concealing such activities
- Monitoring deadlines and conditions for reviewing and updating risk assessments
- Managing storage of information collected under AMLPA, designating authorized persons with access to the special logbook and related systems

7.2 Internal Reporting Procedures

The managing person is responsible for maintaining the internal reporting system, which includes:

- **Easy Submission:** Internal reports should be provided in an easy manner (orally, by email, secure form, or other suitable method for the employee)
- **Documentation:** Recording submitted signals in a special logbook (paper or electronic form) that is properly secured and maintained
- **Investigation:** Collecting additional information when deemed necessary and documenting the investigation process
- **Analysis:** Recording conclusions regarding purpose and nature of suspicious operations
- **Case Management:** Opening a file when suspicion arises, collecting all relevant documents in chronological order
- **Confidentiality:** Protecting the identity of reporting employees and ensuring non-retaliation

Article 8. Technical Security Measures

Arms Wide Open shall guarantee security of commonly used technical means (computers, software programs, databases, etc.) used for collecting, managing, and storing data. Security measures include:

- **Access Control:** Protection using strong passwords, multi-factor authentication, and restricted access based on job functions
- **Redundancy:** Independent access by at least two persons to the same information to enable independent reporting
- **Cybersecurity:** Virus protection, firewalls, encryption, and regular security updates
- **Compliance:** Adherence to quality, certification, and usage requirements for all technical systems
- **Backup:** Regular backup of critical data with secure off-site storage

Article 9. Financial Reporting Systems

Arms Wide Open maintains reliable financial reporting systems in accordance with Bulgarian legislation, including:

- ✓ Regular review of financial procedures and control mechanisms
- ✓ Detailed inventory list of movable and immovable assets of the organization
- ✓ Bank statements and cash receipts attached to all payment documents
- ✓ Comprehensive system for tracking and reconciling incoming and outgoing cash flows
- ✓ Bank accounts opened exclusively by authorized representatives with proper documentation
- ✓ Thorough background checks and verification of accountants and financial management personnel
- ✓ Strict prohibition on signing blank documents or checks that could be misused

Articles 10-11. Training and Awareness Programs

Training Commitment: Arms Wide Open is committed to maintaining a well-informed workforce through comprehensive training programs that ensure all employees understand their obligations and can recognize warning signs of money laundering and terrorist financing.

Training Requirements:

- **Annual Training Plan:** Prepared by February 15 each year by the managing person
- **Mandatory Annual Training:** All relevant employees receive training on AMLPA, CTFMA requirements and internal rules
- **Introductory Training:** New employees receive comprehensive training upon hiring
- **Updates:** Training materials updated when new regulations, guidelines, or risk assessments are published
- **Topics Covered:** Identification of suspicious activity, reporting procedures, confidentiality, legal obligations

Article 12. Independent Audit and Review

Independent audit may be conducted by decision of the management body. The managing person must review, check and evaluate these rules and related procedures when:

- Changes are adopted in AMLPA, CTFMA and related normative acts
- New or updated national/sectoral risk assessment relevant to the organization is adopted
- Instructions are received from the FID-SANS director
- The managing person establishes necessity for review in fulfilling obligations

Timeline: Review must be performed within 1 month of occurrence of triggering circumstances, with results documented in a written report.

III. CRITERIA FOR RECOGNIZING SUSPICIOUS TRANSACTIONS

Overview: Arms Wide Open maintains vigilance in identifying potentially suspicious transactions and clients. The following criteria serve as warning signs that require additional scrutiny and may necessitate reporting to authorities.

Article 13. Transaction-Based Criteria

Suspicious transactions may include:

- **Structured Donations:** Multiple donations below BGN 30,000 designed to avoid reporting thresholds
- **Disproportionate Amounts:** Incompatibly large amounts not consistent with donor profile or stated capacity
- **Unexplained Imports:** Duty-free imports without clear justification or proper documentation
- **High-Risk Destinations:** Transfers to conflict regions, sanctioned countries, or high-risk jurisdictions
- **Anonymous Contributions:** Donations without proper donor identification or through untraceable means
- **Crowdfunding Irregularities:** Campaigns with unclear purposes, vague goals, or suspicious beneficiaries
- **Virtual Assets:** Transactions involving cryptocurrency or virtual assets without proper documentation or explanation
- **Complex Schemes:** Unnecessarily complicated transaction structures without clear economic purpose
- **Rapid Movement:** Funds received and immediately transferred elsewhere without clear reason

Article 14. Client-Based Criteria

Suspicious clients may include:

- **High-Risk Jurisdictions:** Persons from FATF-designated high-risk countries or tax havens
- **Documentation Issues:** Refusal to provide required identification documents or providing incomplete information
- **False Documents:** Provision of false, fraudulent, or suspicious identification documents
- **Criminal Background:** Persons with known criminal backgrounds, particularly financial crimes

- **Sanctions Lists:** Persons appearing on UN, EU, or national terrorism sanctions lists
- **Evasive Behavior:** Clients showing unusual concern about reporting requirements or compliance procedures
- **Shell Entities:** Organizations that appear to have no legitimate business purpose or operations
- **Political Exposure:** Politically exposed persons (PEPs) without proper enhanced due diligence

Article 16. Reporting Procedures

Mandatory Action: Upon identifying suspicious activity, Arms Wide Open must immediately notify the Financial Intelligence Directorate of the State Agency for National Security (FID-SANS) using the approved form and established procedures. When possible, notification should occur BEFORE the transaction is executed.

Article 17. Prohibition on Tipping-Off

Critical Requirement: It is strictly prohibited to disclose to the client or any third party that a suspicious transaction report has been filed or that an investigation may be conducted. This prohibition prevents 'tipping-off' that could compromise law enforcement efforts and allow criminals to hide evidence or flee.

IV. RISK ASSESSMENT

Articles 18-19. Internal Risk Assessment Process

Arms Wide Open conducts comprehensive internal risk assessment performed by a designated team. The assessment process includes:

- **Frequency:** Updated every 2 years at minimum, or more frequently if circumstances change
- **Triggers for Review:** New regulations, organizational changes, emerging threats, or instructions from authorities
- **Communication:** Results communicated to all branches including foreign branches
- **Documentation:** Documented in writing with conclusions, identified risks, and action plans
- **Methodology:** Following national risk assessment and sector-specific guidelines

Articles 20-21. Client Identification Requirements

Arms Wide Open collects and verifies identification information for all donors, beneficiaries, and service recipients:

Natural Persons	Legal Entities
Required Information:	**Required Information:**
• Full legal name	• Official registered name
• Date of birth	• Company registration number (EIK/BULSTAT)
• National ID number (EGN)	• Tax identification number
• Citizenship	• Country of incorporation
• Current residential address	• Registered office address
• Official identity document (passport, ID card)	• Registration documents and certificates
• Contact information	• Management structure and representatives
• Purpose of relationship	• Beneficial owners identification
• Source of funds (if high-risk)	• Corporate structure and ownership

Article 23. Risk Classification Levels

Arms Wide Open classifies all clients and transactions into three risk categories, each requiring different levels of due diligence:

Risk Level	Due Diligence Requirements	Monitoring Frequency
LOW RISK **Standard donors** **Small transactions** **EU-based**	• Standard identification procedures • Basic documentation • Normal verification processes	• Review as needed • Update when changes occur • Standard monitoring
MEDIUM RISK **Large donations** **Non-EU jurisdictions** **Complex structures**	• Enhanced identification • Mandatory bank transfers only (no cash) • Additional documentation of funds origin • More thorough verification	• Review upon any changes • Annual monitoring • Enhanced transaction monitoring
HIGH RISK **Politically exposed** **High-risk countries** **Very large amounts**	• Maximum due diligence • Declaration of origin of funds REQUIRED • Beneficial owner identification REQUIRED • Senior management approval • Continuous monitoring • Source of wealth verification	• Review every 6 months MINIMUM • Ongoing transaction monitoring • Regular relationship reviews • Enhanced scrutiny of all activity

Article 24. Data Update Requirements

Data must be kept current according to risk classification: **Low risk** - update during normal course of business; **Medium risk** - update upon any changes to client circumstances; **High risk** - comprehensive review every 6 months minimum, with ongoing monitoring.

V. PERSONNEL AND DATA RETENTION

Articles 26-27. Employee Reliability and Vetting

Arms Wide Open implements thorough employee screening and ongoing evaluation procedures, particularly for positions involving:

- **Financial Management:** Cash handling, accounting, financial oversight
- **Client Relations:** Donor management, beneficiary services, partnership development
- **Governance:** Management, audit, supervisory, and compliance functions
- **Information Security:** Access to sensitive databases and confidential information

Vetting procedures include background checks, reference verification, criminal record checks (where permitted by law), and assessment of professional qualifications.

Article 28. Information Retention Period

5-Year Retention Requirement: All information, documents, and records collected under AMLPA requirements must be retained for a minimum period of 5 YEARS from: (1) Completion of the transaction, (2) Termination of business relationship, or (3) Filing of suspicious transaction report. Records must be readily accessible for inspection by competent authorities.

This includes all identification documents, transaction records, correspondence, internal reports, risk assessments, and any other materials related to compliance obligations.

Article 30. Personal Data Protection

All personal data processing activities under these rules are conducted in full compliance with:

- **EU GDPR:** General Data Protection Regulation (EU) 2016/679
- **Bulgarian Law:** Personal Data Protection Act
- **Legal Basis:** Public interest in preventing money laundering and terrorist financing as mandated by law
- **Data Subject Rights:** Rights of access, rectification, and erasure apply subject to legal retention obligations
- **Security Measures:** Appropriate technical and organizational measures to protect personal data

Commitment to Compliance

Arms Wide Open is fully committed to maintaining the highest standards of compliance with anti-money laundering and counter-terrorist financing regulations. These Internal Rules represent our dedication to operating with integrity, transparency, and in accordance with all applicable Bulgarian and international legal requirements.

All employees, volunteers, management, and associated persons are expected to familiarize themselves with these rules and adhere to them strictly in all organizational activities.

Arms Wide Open *(Association Arms Wide Open)*
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