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# MONEY LAUNDERING REGULATIONS – DECEPTIVELY SIMPLE.

## HEADLINE CHANGES.

The recent publication of revised guidance drafted by the Joint Money Laundering Steering Group has been endorsed by the FSA. It has become the new bible for the financial sector in the UK. It is intended to get away from the "one size fits all" approach where client identification procedures were standardised and uniform. Two pieces of identification and a tick box approach had produced a steam of complaints from unhappy customers.

The new initiative/guidance has changed this approach. It has adopted the current fashion for a more risk based approach. This has been linked to a clear message – anti-money laundering procedures are important and the most senior management group have to acknowledge their role in complying with the new guidance. Their role here is vital to the firm's success in this area.

Equally, they have to accept the blame for failure, including failure to provide adequate resource.

Client identification has been revised and one suitable document is now acceptable. It will include being able to accept verification by another authorised person. As part of the trade-off in this area, it has been decided that as part of the risk – based approach, more enquiries will be needed in the higher risk transactions including monitoring of any on-going business in this category.

## SENIOR MANAGEMENT.

In a professional firm, the partnership has the over-riding responsibility for the running of the business. In larger firms, a smaller group is often charged with the management role. Within this group, key players can include the cashroom partner and the money laundering reporting officer. This may not be the same person. The role of MLRO is now even more important because of the need to make consistent decisions within the practice. It will involve more judgement calls.

Resources, including financial budgets and trained personnel, must be adequate for the business. Investment in IT systems and a good case management system can be invaluable in monitoring for compliance. The partners should expect to see evidence that these resources have been provided and are in current use. This means that regular reviews are carried out and the results are reported to the partnership meeting for noting or action, as required.
Delegated responsibility for anti-money laundering systems is common. Supervision of the delegated task is important. There should be a two way flow of information between the general partnership and the delegated group/person.

- If you are a sole partner, all of this formal reporting mechanism is inappropriate.
- If your staff are involved in the money laundering systems then written guidance for the staff is needed to let them take informed decisions under the risk based approach. This is to protect both partner and staff in case of some retrospective investigation.

Take time to think through the partnership situation. As senior management you will be called to account in the event of a money laundering problem in the firm. Don't make assumptions that it's not going to happen to your firm or come to your door via one of your clients. THIS IS AN IMPORTANT STEP IN CONTROLLING THE RISKS.

## CLIENT IDENTIFICATION SYSTEMS.

Up till now it has been standard practice to use two sources of ID and a client ID form to set up the basic record for each client as they came through the door. The new guidance has changed the approach and only one suitable source of ID is required. Ideally it should have both photo and address details. The new driving licence is a good example. The emphasis has moved from verifying the client name and address to considering what the transaction is about and is it normal for this client. The check now has to look at the client background and try to set "normal" parameters for each client. There is also the need to sort the business being done into risk categories.

Risk decisions are now to be taken based on both the client's situation and the nature of the work being instructed. If the client has an unusual background for the work being discussed or comes from a remote address then more care is needed. Again there are more/less risks associated with particular geographic areas or types of work.

It is recommended that a review of your business by departments be carried out to focus on any particular risks and identify less risky types of work. If your firm is not organised along departmental lines then identifying the various categories of work by partner would be an alternative way of tackling the task. Once the range of work and client types have been sorted out a formal review of risk factors should be carried out by a group who can cover the whole range of work handled by the firm.

The result of this work is to produce a standard template which allows particular classes of clients/business to be assessed on a scale so that high/medium/low risks are identified. The results can be applied to similar cases as they come to the firm. Try to keep the categories reasonably simple and consistent and give some thought to any sources work which could be seen as high. Anything which is high risk needs to be discussed within the partnership to decide why the risk should be taken on.

It may be agreed that certain types of work would be declined at the outset. Once such a decision has been taken, every effort must be made to apply these criteria on a consistent basis within the firm.

When the template is in play, and staff and partners have been trained in its use, the next step is to carry out some kind of audit to verify compliance throughout the firm.

## REPORTING SYSTEMS.

All of this effort is only worth while if an ongoing reporting system is put in place too. The reports could cover a number of different aspects and be available at regular partnership meetings.

The first level of report should cover the results of any audit of the system which has been carried out. The frequency is a matter for the partnership and is better done on the basis of a small sample checked regularly rather than a big effort made once a year. If the report identifies an area of weakness then interim checks should be carried out until the standard is being complied with. This manages the risk and confirms the partners are on the ball.

The second level of report should review the risk categories and confirm that nothing has been added or changed. Once a year is adequate. If a decision is taken to launch a new service then the decision must include an assessment of the money laundering risk prior to the service being set up.

The last group of reports would cover the need to refer a suspicious transaction to the authorities. Given the confidential nature of this report only the fact that a report was made and any reaction from the authorities should be disclosed. If there is a positive hit and the disclosure is followed up by a visit from the local investigation team (FIU) then further reports on the matter can be made under guidance from the police. If you are in any doubt about this course of action, then help can be given by the Law Society of Scotland. Contact details – 0131 476 8124 and ask for Bruce Ritchie or James Ness.

## CONCLUSION

The decision to simplify the client ID routine is a good thing but one which relies on adequately trained staff being able to reach the right decisions. Work should be put in hand now to improve the identification of client business background in order to get the right result from the screening checks.

Whatever is done now should be followed up to make sure that new staff are properly inducted into this area of work and standards are maintained over a period of years not weeks.

THIS WILL REDUCE THE RISK TO PARTNERS FROM SERIOUS FINANCIAL AND REPUTATIONAL DAMAGE and will amount to a good use of senior time within the firm. Now is the moment to take action if you have not already done so – don't leave it any longer.


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