

ANTI- MONEY LAUNDERING

THE PILLARS OF AML COMPLIANCE

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What is Money Laundering?

Money Laundering

Money laundering is the process by which criminals try to hide the origins of the proceeds of their crimes, making it look like those proceeds were acquired legally.

Similar processes are often used by those seeking to disguise the source of terrorist funds.

It can take several forms:

- Handling the proceeds of crime
- Being directly involved with criminal or terrorist property
- Entering arrangements to facilitate the laundering of criminal or terrorist property
- Investing the proceeds of crime into other financial products, property purchase or other assets

The Three Stages of Money Laundering





Placement is the initial transformation of illegally obtained cash into other assets



Layering is a technique used by criminals to disguise the original source of the money



Integration is the return of cash from a seemingly legitimate source



What is Anti-Money Laundering?

Anti- Money Laundering (AML)

AML refers to the legislation that requires regulatory bodies to act against the financial crime of money laundering. In practice, this means organisations **MUST** have preventative practices in place that will help facilitate the fight against financial fraud.



AML regulations apply to a wide range of business sectors, including legal services, accountants and estate agents

You must as a business subject to AML, register with an appropriate supervisory authority.

Examples include the FCA, HMRC, ACCA ect

AML Regulations



UK

- The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017
- The Proceeds of Crime Act 2002
- The UK's Terrorism Legislation
- The Money Laundering and Terrorist Financing (Amendment) Regulations 2019

EU Directives

- The 5th AMLD is to come into effect January 2020.
- The 5th directive will require you to examine the background and purpose of a wider range of transactions. It proposes extra EDD measures for business relationships and transactions in relation to high risk 3rd countries.
- The 6th AMLD is to come into effect June 2021.
- Aims to tackle legislative discrepancies in order to more effectively and cooperatively fight money laundering. The aim is to create a harmonious legal definition of money laundering and its predicate offences between the member states.

Your Obligations

Customer Due Diligence (CDD)

This is the process of verifying the identity of your customer for Know your Customer (KYC) purposes. The objective is to prevent money laundering activities & protect organizations from entering into business with known criminals.

Customer Due Diligence should be carried out:

- When a new customer is acquired
- On purchasers as well as vendors of property
- When an occasional transaction is carried out
- If there is suspicion of money laundering or terrorist financing
- If there are doubts about previously obtained customer information
- When a risk assessment on an individual customer deems it necessary
- The results of checks should be kept for a period of 5 years from the end of any client relationship.

Enhanced Due Diligence (EDD)

Enhanced due diligence simply means the collection of additional data on an individual in order to mitigate risk.

Examples of when EDD is appropriate:

- Client flagged up as PEP
- Customer not physically present
- Client from high-risk country

Practical examples of EDD include:

- Establishing source of funds and wealth
- Enhanced monitoring of transactions
- Carrying out additional searches on the individual (such as an adverse media check)
- Establishing the intended purpose and nature of the business relationship

Client onboarding

The Risk Based Approach

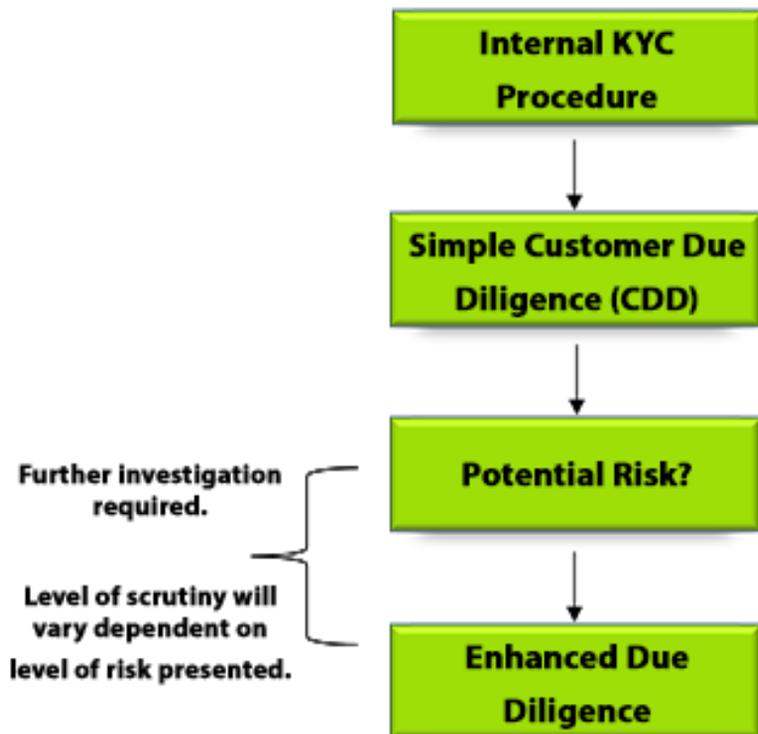
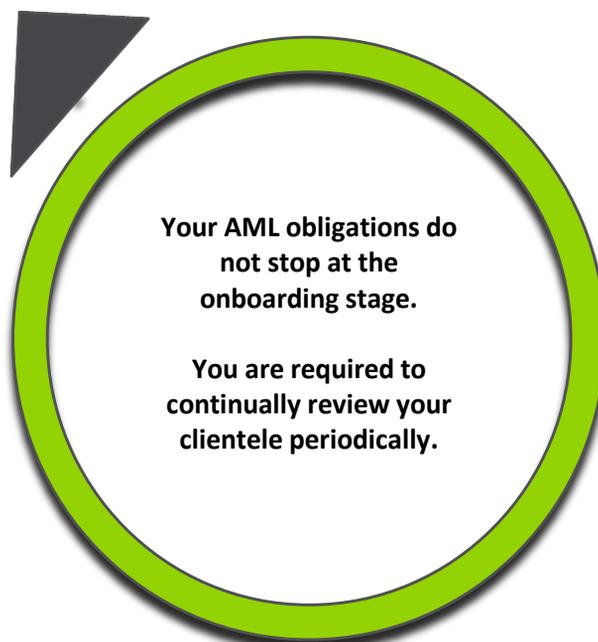


Figure 1: The Risk- based Approach to KYC



The 3 Pillars of AML Compliance



The Three Pillars is an approach to effectively satisfy your AML requirements.

Use the **Three Pillars of Compliance** to build the foundation of your firm's anti-money laundering approach.

1. AML Policy

Ensure your organisation has a written record of your internal AML procedure.

This should cover at the minimum how your firm will cover the **big 5** :

- *Customer due diligence*
- *Monitoring & control*
- *Record keeping*
- *Training*
- *Disclosure of suspicious activity*

2. AML Training

It is a legal requirement that staff undergo AML training and that your firm has a record of it.

3. AML Checks

A check, now usually electronic, on new clients and potential purchasers to **confirm their identity and address** as prescribed by the Money Laundering Regulations 2017 and related legislation.

AML Compliance Checklist

1. Identity Verification

ID verification is imperative for good AML practice. As the 5th EU Directive stipulates, electronic identity validation methods are essentially mandatory to fully satisfy your AML obligations.

2. PEP Check

A PEP (Political Exposed Person) is thought of as a high-risk individual due to their status and potential risk of corruption. PEPs are individuals with prominent public functions such as senior politicians, senior civil servants, or people holding high military rank. Due to this risk, further action is required.

If your client is flagged as a PEP, you simply need to conduct enhanced due diligence such as monitoring the client's financial transactions.

3. Watchlist Screening (Sanctions Check)

These screens are imperative to prevent your business from conducting any business or transactions with any person on the sanctions list.

4. Written AML Policy

Carrying out AML and KYC checks is only part of your money laundering obligations. You must also have a thorough policy in place which details your firm's AML policies and procedures.

5. Training

It is a legal requirement that all staff undergo anti-money laundering training and that this is recorded and on file. You must train employees on how to recognise suspicious activities and what to do in the event of suspicion.

6. Continuous Reviewing

AML compliance is a continuous process of verifying, monitoring and managing. The process does not stop after the client onboarding stage but rather carries on throughout the entirety of the client relationship.

For example, records of any AML check or ID verification need to be kept for a period of 5 years from the point of termination of a client relationship. High-frequency monitoring of the PEP & Sanctions list may be appropriate in certain cases.

Compliance as an Investment

Compliance: A Business Enabler

- Regulatory compliance is often thought of as a 'chore,' as a tick-box exercise - something you ought to do rather than want to do.
- At Veriphy, we want to shift this mode of thinking. Compliance is more than a risk management exercise grounded in fear; it is the basis of good business practice. It has the potential, when implemented correctly, to provide significant and positive secondary benefits for operational procedures.

The Central Contribution of Compliance - Improving Customer Experience

- Consumers hold the power to determine the performance of a business. It is therefore imperative that companies respond with innovative solutions to keep pace with customer requirements.
- Inefficient onboarding is costly. Research has shown that many UK consumers often abandon the application process as soon as they are asked to present ID face-to-face. Plagued by high application drop offs, many businesses have asked themselves how to provide a slicker on-boarding experience to generate client growth.
- This is why so many businesses have turned to Regtech solutions in order to adapt to the expectations of the digital consumer.

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