UK anti-money laundering legislation is complex and wide-ranging, and has implications for many professions and sectors. This guide provides a general overview of the legislation for those who are new to the subject.

Money laundering and the proceeds of crime

WHAT IS MONEY LAUNDERING?
The term ‘money laundering’ refers to the process by which money or other assets that have been acquired through criminal activity are exchanged for, or disguised as, legitimate (or ‘clean’) money or other assets.1

Money laundering is traditionally associated with serious criminality, for example the proceeds of fraud or drug dealing. However, money or property obtained through any form of criminality (including tax fraud and corruption) can still be considered to have been laundered.

OVERVIEW OF THE LEGISLATION


POCA 2002 sets out the main money laundering offences and provides for the confiscation and civil recovery of the proceeds of crime. The Act has effect in England, Northern Ireland, Scotland and Wales.

The regulations cover:
◆ internal controls (including the appointment of a nominated officer);
◆ client due diligence procedures (including those relating to beneficial ownership);
◆ monitoring;
◆ recognition of suspicious transactions and reporting procedures;
◆ education and training of partners and staff; and
◆ record-keeping procedures.

It is a criminal offence to be in breach of some regulations.

Revised Money Laundering Regulations are expected to come into force in 2017.2

WHO DOES IT APPLY TO?
The principal offences in POCA 2002 (ss327 - 329 and 342) apply to conduct committed by any person (individuals or corporates) in the UK. POCA 2002 also provides for confiscation orders and civil recovery of the proceeds of crime, which can apply to anyone in possession of criminal property or benefits obtained from criminal activity.

The remainder of the legislation applies to a number of professions and sectors which are collectively known as ‘relevant persons’ or the ‘regulated sector’. These can include:
◆ credit institutions
◆ financial institutions (including internet banks)
◆ auditors
◆ insolvency practitioners
◆ external accountants
◆ tax advisers
◆ independent legal professionals (including solicitors and barristers)
◆ trust or company service providers
◆ estate agents
◆ high value dealers (defined as a firm or trader dealing in any transaction of €15,000 or more)
◆ casinos.

These individuals and businesses should follow the anti-money laundering guidance issued by their trade or professional body and/or regulator, including the Financial Conduct Authority (FCA) and Her Majesty’s Revenue and Customs (HMRC).

WHEN IS AN OFFENCE COMMITTED?

A money laundering offence is committed in the following circumstances.
◆ When a person conceals, disguises, converts, transfers or removes from the jurisdiction any criminal property. This includes the actions of an individual carrying out transactions in the course of their employment or business (s327, POCA 2002).
◆ When a person becomes concerned in an arrangement that they know or suspect facilitates the acquisition, retention, use, or control of, criminal property by, or on behalf of, another person (s328, POCA 2002).

When a person acquires, uses, or has possession of, criminal property without adequate consideration (s329, POCA 2002).

All of the above offences require the individual to have either knowledge or suspicion that the property being laundered is criminal property.

Criminal property includes property obtained as a result of criminal conduct committed anywhere in the world, provided that the criminal conduct would also be an offence if it were committed in the UK (subject to certain exemptions). This is a change from the original law and resolves the ‘Spanish bullfighter’ problem, which required regulated persons in the UK to report funds obtained legitimately in another jurisdiction if the method under which they were obtained would have been illegal in the UK.

There is a further offence that can be committed when a person prejudices an investigation into money laundering by telling someone else that they know or suspect that an investigation has, or will be, commenced, or by interfering with material likely to be relevant to the investigation (s342, POCA 2002).

If you are ever in doubt about whether conduct falls within the scope of the legislation, always seek appropriate legal advice.
INTERNATIONAL CONSIDERATIONS

The Financial Action Task Force on Money Laundering (FATF) is an inter-governmental body which aims to combat money laundering and terrorist financing. It maintains a list of high risk and non-cooperative jurisdictions which have deficiencies in their anti-money laundering systems or a demonstrated unwillingness to cooperate in anti-money laundering efforts (the FATF list). It also publishes guidance for regulated sectors on anti-money laundering.

REPORTING CONCERNS

The regulated sector is required to disclose suspicions of money laundering and to avoid ‘ tipping off’ the suspect. Authorised disclosures (called a ‘suspicous activity report’ or SAR) are made to the National Crime Agency (NCA). Failure to make an appropriate disclosure and tipping off the suspected launderer, are both criminal offences under POCA 2002.

There are no limits on the amount of money that can be laundered, with the exception of deposit-taking bodies. Reports should therefore be made to the nominated officer (NO) even for low value concerns.

A report should be made in the following circumstances.

◆ Any person employed in a regulated business must report knowledge or suspicion of money laundering when such knowledge or suspicion arises during the course of their business. A failure to do so could lead to a prosecution under s330, POCA 2002 (see the risks of non-compliance below).

◆ Third parties outside the regulated sector can make voluntary reports as a matter of public interest. This is called a protected disclosure and does not breach any restriction an individual may have on the disclosure of information (for example, confidentiality) (s337, POCA 2002).

The nominated officer

The nominated officer (NO) is an individual nominated to receive disclosures under s330, POCA 2002. The NO is required to consider any disclosures made and either give consent to the person making the disclosure to proceed, or make a SAR to the NCA. Failure to make a report is an offence under s331, POCA 2002.

A NO is often described as a money laundering reporting officer or MLRO. In practice a MLRO will normally act as a firm’s NO, but also have other duties, such as developing a firm’s anti-money laundering policies and providing training.

Persons employed in the regulated sector and NOs are guilty of an offence if they fail to report matters of knowledge or suspicion. An offence is committed if they know or suspect, or they have reasonable grounds for knowing or suspecting, that another person is engaged in money laundering.

A person can consequently commit an offence if there were reasonable grounds for knowing or suspecting, even if they did not personally know or suspect. This means that a person can commit a criminal offence for negligently failing to make a report.

Tipping off

An offence is committed under s333A, POCA 2002 if a person, having made an authorised or protected disclosure, makes a further disclosure that is likely to prejudice a money laundering investigation being carried out by law enforcement authorities. For example, they inform a client that a transaction cannot be progressed because they are waiting for consent from the NCA.

A person has a defence to a charge of tipping off if:

◆ they did not know or suspect that the disclosure was likely to prejudice an investigation;
◆ the disclosure was made in connection with a function relating to law enforcement; or
◆ the information was passed on in circumstances that amount to legal privilege.

It is an offence to both continue a business arrangement without consent and to inform a person associated with the transaction that the report has been made. A person working within the regulated sector can avoid any criminal liability by following a simple rule – if you know or suspect money laundering, make a report to the NO and do not tell anyone else.

WHEN SHOULD A PERSON BE SUSPICIOUS?

There are a number of circumstances that may cause suspicion, which will vary between industries and sectors. Some common situations that should raise suspicions include:

◆ transactions with no obvious commercial purpose;
◆ transactions that are inconsistent with the party’s known resources;
◆ transactions where the source of the funds is unknown or hidden; and
◆ large cash deposits.

Persons working in the regulated sector should consider the guidance published by their trade or professional body and/or regulator.

THE RISKS OF NON-COMPLIANCE

Failure to report suspicions of money laundering can result in criminal or regulatory penalties which may include a term of imprisonment, a fine or both. However, a person has a defence to such a charge if:

◆ they make an authorised disclosure;
◆ they intended to make an authorised disclosure but have a reasonable excuse for not having done so; or
◆ the information received is subject to legal professional privilege.

FURTHER INFORMATION

Available from the resources section of our website:

◆ Criminal fraud in Scotland
◆ Criminal fraud in England and Wales
◆ The criminal and civil justice systems in England and Wales.

Other resources

◆ Financial Action Task Force on Money Laundering
◆ Financial Conduct Authority
◆ Joint Money Laundering Steering Group
◆ HM Revenue and Customs
◆ Legislation.gov.uk
◆ National Crime Agency

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NOTES

1 The technical definition of money laundering is much wider.
2 A fourth European anti-money laundering directive (4AMLD) was agreed in June 2015. It will have to be implemented into national law by June 2017.