ANTI-MONEY LAUNDERING: THE BASICS

Installment 9: Tools to Fight Back

Professional accountants (PAs) are a vital component of the anti-money laundering ecosystem. Criminals will always be on the cutting edge of innovating and taking risks for profit. And when they do, many will look to professional gatekeepers like accountants to help them launder these ill-gotten gains. Fortunately, professional accountants have tools to fight back. This installment will look at two of these tools: Enhanced Client Due Diligence and filing of effective and actionable Suspicious Activity Reports. These should not be viewed as compliance exercises but as essential elements of detecting money laundering and protecting a professional's or firm's reputation.

Enhanced client due diligence (EDD)

An important part of a professional accountant's (PA's) legal and professional obligations is to establish and verify the identity of their clients. PAs should adopt a risk-based approach, applying additional scrutiny of enhanced client due diligence in higher-risk situations. Enhanced due diligence is the process of investigating a higher-risk customer more thoroughly. It involves obtaining additional information and verification related to the nature of the specific risks identified. PAs and firms should have controls and processes in place to identify and mitigate these risks.

Carrying out EDD is vitally important for detecting money laundering and terrorist financing. It also protects the PA from being exploited for criminal activity and protects the reputation of the PA's firm. EDD will usually be required in the following high-risk situations:

- When you determine there is high risk through your risk-based systems and controls.
- Your client is (or has a beneficial owner who is) a politically exposed person.
- In any business relationship with a person established in a high-risk third country.
- The client has provided false or stolen documentation.
- Complex or unusual transactions with no apparent economic purpose.

Enhanced Due Diligence Checklist

- Obtain additional information on the client (e.g. occupation, volume of assets, information available through public databases, internet, etc.)
- Conduct additional searches (e.g. internet searches using independent sources) to better inform the client risk profile
- Obtain additional information and substantiating documentation on the intended nature of the business relationship
- Obtain information on the source of funds and source of wealth of the client and clearly evidencing this with documentation
- Obtain information on the reasons for intended or performed transactions
- Obtain approval from senior management to commence or continue the business relationship
- Conduct enhanced monitoring of the business relationship by increasing the number and timing of controls applied and selecting patterns of transactions that need further examination
- Monitor higher-risk clients and transactions across all departments with a business relationship with the client, including enhanced briefing with the responsible engagement teams

Suspicious Activity Reports (SARS)

PAs should file a SAR with their local Financial Intelligence Unit (FIU) if they suspect or have reasonable grounds to suspect that a client's funds are the proceeds of a criminal activity, or are related to terrorist financing. The FATF Standards require that jurisdictions make this a legal requirement. Just as important, filing SARs is a central part of how professional accountants can fight back and do their part to prevent and detect money laundering. But how should they go about this?

When to file: A PA should file a SAR promptly whenever they know or suspect that a person is engaged in money laundering or dealing with criminal property. In most jurisdictions, this is a regulatory requirement. Even if not, it is still best practice.

Content: PAs may not have complete information about the subjects of their reports. However, the more identifying information and clear explanation of suspicions that they are able to provide to law enforcement agencies, the more likely it is that these agencies will be able to match with other intelligence to maximise the value of any report submitted. Keep reasons for suspicion succinct. Focus on what has been observed and why it is considered unusual or suspicious.

Process: Check with your local Professional Accountancy Oorganization (PAO) or FIU. They may provide useful instructions on how to file in your jurisdictions, including forms or templates, and may provide a submission email address/portal.

Financial Intelligence Units (FIUs)

An FIU is a central national agency responsible for receiving, analyzing, and transmitting disclosures on suspicious transactions to the competent law enforcement authorities. Your local FIU will be the recipient of any SAR, so it is important that you are familiar with the relevant organization.

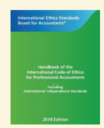
What the FIU looks like, and what it can do, will vary from jurisdiction to jurisdiction depending on the local legal framework. It may be a standalone entity or a single department within a larger governmental/administrative agency. Many have powers to freeze assets or take other law enforcement-like actions, and most seek to publish information on risks and trends, which can be a valuable source of information for professional accountants.

The global organization for FIUs is the Egmont Group. It is a good place to start to identify your local FIU and learn more about them.

SAR Checklist

- Follow a simple narrative structure of introduction, body and conclusion:
  - Intro: Who you are and 1-2 sentence summary of the suspicious activity.
  - Body: Full details (see below).
  - Conclusion: Detail your next steps and how the FIU can contact you.
- The body narrative should follow the 3 C's: clear, concise and chronological.
  - Who is conducting the criminal or suspicious activity, including the relationship between the accountant and the suspect, the length of the relationship, and any other employment or background information known about the suspect.
  - What the suspect is trying to / has done to cause suspicion, why you believe this is suspicious.
  - When the suspicious activity took place. For single occurrences, specify the date. If ongoing or over a period of time, describe the time period when the suspicious activity occurred.
  - Where the suspicious activity took place. Identify any geographies, assets, entities, and accounts (numbers and types) involved in or related to the suspicious activity.
- Do not use any firm-specific terminology, acronyms, or jargon.
- Do not include any supporting documentation at this time.
- Keep a record of the SAR for the time period required in your jurisdiction. If not stipulated in your local regulations, 5 years is a good practice.
- Do not notify the suspect that a SAR has been filed. Make sure to prevent unintended "tipping off." It is not only the right thing to do, but tipping off is also a criminal offense in many jurisdictions.

ADDITIONAL ASSISTANCE



For general guidance, see the FATF's *Guidance for a Risk-Based Approach for the Accountancy Profession*. For detailed local information, including applicable regulatory requirements, contact your Professional Accountancy Organization.

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