

The Money Laundering Regulations 2007 (the Regulations), apply to a number of different businesses, which include the regulated sector. These regulations contain the detailed procedural requirements for these regulated sectors. The regulated sector includes (amongst others) accountants and auditors, tax advisers and dealers in high value goods.

HMRC have been given the responsibility for controlling High Value Dealers. We outline below the main requirements of the Regulations and the registration process.

Which businesses are affected?

Businesses that meet the definition of a High Value Dealer (HVD) are affected by the Regulations.

A business is defined as a HVD where it deals in goods and accepts cash equivalent to €15,000 or more in any currency. This applies whether the transaction is executed in as a single transaction or in several instalments which are linked.

Businesses that only occasionally accept such transactions are included. Businesses that do not accept large amounts of cash or deal in services are not affected.

It is anticipated that the businesses most affected will be those that deal in high value or luxury goods, works of art, cars, jewellery and yachts.

However, the regime applies to everyone who accepts sufficiently large amounts of cash for goods and any business could potentially be registerable.

If a business does not intend to accept HVDs they should consider having a written policy to this effect. This ensures that all employees will be made aware of this policy.

How will my business be affected?

If your business does deal in goods and does accept large cash payments then you are required to:

- put anti money laundering systems in place so that you can identify and prevent money laundering and report any suspicious transactions (see below)
- register with HMRC
- pay an annual registration fee based on the number of premises through which you trade
- report any changes through the registration year

If you are unsure whether you will sell goods for this amount and do not register, you will be obliged to refuse any payments in cash equivalent to €15,000 (or more) or insist upon payment by another means.

Background to the requirements

Why was this regime introduced?

The aim of the regime is to help protect society and to combat money laundering and the criminal activity which underlies it, including terrorism.

As money launderers have resorted to more sophisticated ways of disguising the source of their funds, new legislation and regulation aimed at catching those involved became necessary.

The primary legislation is predominantly contained within the Proceeds of Crime Act 2002 and the Terrorism Act 2000.

What is money laundering?

Money laundering is the process by which criminally obtained money or other assets (criminal property) are exchanged for 'clean' money or other assets with no obvious link to their criminal origins.

Criminal property

Criminal property represents the proceeds of criminal conduct. This includes any conduct wherever it takes place, which would constitute a criminal offence if committed in the UK. It not only includes, for example, drug trafficking, tax evasion, fraud, forgery and theft but also any other criminal offence committed for profit.

It is important therefore to remember that money laundering now includes the proceeds of any crime and not simply the more traditionally associated crimes such as drug trafficking and prostitution.

Under the legislation there are three principal money laundering offences covering criminal activity and two related money laundering offences:

- concealing, disguising, converting, transferring or removing (from the United Kingdom) criminal property
- making arrangements which facilitate the acquisition, retention, use or control of criminal property by or on behalf of another person
- acquiring, using or possessing criminal property
- failure to disclose knowing or suspecting or having reasonable grounds for knowing or suspecting that another person is engaged in money laundering or terrorist funding
- tipping off any person that a disclosure has been made, knowing or suspecting that doing so is likely to prejudice an enquiry.

HVDs must be aware of how these actions could affect their business, for example, as the proceeds of crime are spent (or laundered) within their business.

The importance of the regime

The law imposes very severe penalties on anyone involved in money laundering. The Regulations require HVDs to adopt anti money laundering procedures to protect themselves against abuse by money launderers and the risk of prosecution.

The registration process

HMRC form MLR100 must be completed. HMRC will then send a certificate showing an MLR number within 45 days.

Registration is required where a business:

- accepts the equivalent of €15,000 or more in cash for a single transaction or in instalments which are linked or
- takes a policy decision to carry out such transactions.

Every legal entity through which a HVD business is run must be registered. An annual fee of £110 is payable for each HVD trading premises that is required to be registered. The fee is reviewed annually by HMRC.

Businesses that fail to register could be liable to a civil penalty if they carry out a HVD transaction.

What anti money laundering policies and procedures are required?

Your business should establish and maintain policies and procedures relating to:

- customer due diligence
- reporting
- record keeping
- internal control
- risk assessment and management
- the monitoring and management of compliance
- the internal communication of these policies and procedures

Customer due diligence (CDD)

HVDs must establish the identity of any customer who makes a total cash payment equivalent to €15,000 or more for a single transaction or linked transactions.

Establishing identity requires you to be satisfied that your customer is who they claim to be by obtaining evidence of their name, address and date of birth. For further information on CDD procedures please refer to the Money Laundering and Proceeds of Crime factsheet.

Appoint a Money Laundering Nominated Officer (MLNO)

This is a very important role within a HVD business and should be performed by a suitably senior person. The main roles of the MLNO should be to:

- establish the necessary procedures to implement the requirements of the Regulations
- receive and review reports of possible money laundering from others involved in the business
- decide whether to report to the Serious Organised Crime Agency (SOCA).

SOCA

SOCA is the government body to which all suspicions of money laundering should be reported. Currently, there are two reporting templates available on their website (www.soca.gov.uk) upon which SOCA prefers reports to be made. It is also possible to report suspicious activity online through the SOCA Suspicious Activity Reports Online system. A link to this can be found on the Proceeds of Crime page of the SOCA web site.

There will be times when an internal report of suspected money laundering is received by the MLNO, where the transaction is not yet complete. Under these circumstances there are specific SOCA procedures to follow and you must wait until SOCA gives consent for the transaction to go ahead.

Training your staff

All customer facing staff in the business must be trained to be aware of:

- the law regarding money laundering offences and terrorist financing
- how to recognise and deal with suspicious transactions

Staff should be trained regularly on this subject and training should be repeated to ensure that staff knowledge is maintained and they are competent to apply CDD procedures. The ongoing training should ensure that staff are aware of changing money laundering practices.

Managing the risk

HVDs should:

- have a system in place to record all transactions of €15,000 or more on their accounting system and make them identifiable
- have policies and procedures in place concerning the acceptance of these large transactions.

Record keeping

Only records relating to cash payments equivalent to €15,000 or more, need to be kept. There are, however, several different types of records to maintain.

Information from the CDD:

- Legible copies of the forms of identification presented by customers should be retained
- CDD records should be kept for at least five years from the date that the relationship with the customer finishes.

The business records which need to be kept are

- Records of cash payments equivalent to €15,000 or more, must be kept and should include the name, address and date of birth of the customer.
- The transaction details should also be kept but in many cases where invoices are retained, a cross-reference to this will be sufficient.
- These records should be kept for five years.

Records of reports and other correspondence with SOCA should also be retained for at least five years.

Failure to comply

Businesses may be liable to a civil penalty for failing to comply with a registration requirement. There is no upper limit on the amount of penalty. Penalties will be for an amount that is considered appropriate for the purposes of being effective, proportionate and dissuasive.

Failing to comply with responsibilities under the Regulations could lead to either prosecution or a civil penalty. Conviction under the Regulations can incur up to two years imprisonment and / or an unlimited fine.

How we can help

The new regime brought about significant change for those businesses that deal in goods and are prepared to accept large cash payments.

If you would like to discuss any of the issues raised above please do contact us. We are able to provide comprehensive assistance with regulation and HMRC matters such as:

- HVD registration
- design and implementation of anti money laundering policies and procedures
- VAT registration and deregistration
- completion of VAT returns.