MACQUARIE

A guide to Anti-Money Laundering and Counter-Terrorism Financing for advisers

We have prepared a short summary to help you discuss Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) obligations and risks with your clients.

What is the AML and CTF regime?

Australia's Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) regulatory regime focuses on the prevention, detection, and response to criminal abuse of the financial system to protect the community from serious and organised crime. It is enforced by the Australian Transaction Reports and Analysis Centre (AUSTRAC), a regulatory body that governs product issuers (such as Macquarie), dealer groups, advice firms and licensees, who provide a 'designated service' as outlined in the ***Anti-Money Laundering and Counter Terrorism Financing Act 2006*** (Cth) (AML/CTF Act).

Licensees and product issuers are also required to set their own standards and have policies, procedures, systems and controls in place to identify, assess and mitigate ML/TF risks.

Money laundering tends to be a cyclical process, where 'dirty' or illegally obtained money is placed into the financial system, and is then layered through transfers, loans, or false invoice payments to effectively become integrated as 'clean'. This money could be used to purchase luxury assets, or make commercial investments.

Terrorism financing is a little different: it is more likely to be linear, and the money involved may be coming from illicit activities, and/or legitimate sources – such as a charitable donation or business revenue.

Why this is relevant for advisers?

Financial advisers play a critical role as a gatekeeper to financial transactions, and their close client relationships allow them to identify potential money laundering or terrorist financing activities.

When they provide services such as guiding clients in opening bank accounts, buying or selling investments or enabling investment into a managed scheme, they need to:

- Enrol and register with AUSTRAC, and appoint an AML/CTF Compliance Officer. Your licensee may take care of this step. Check with your licensee to find out who your licensee's AML/CTF Compliance Officer is.
- Assess money laundering and counter terrorism risks
- Manage and monitor customer identification and verification requirements
- Keep records, and share information with enforcement agencies or product issuers if required
- Manage ongoing reporting. Your AML/CTF Compliance Officer will help with this.
- Ensure staff are properly trained in AML/CTF obligations and requirements
- Provide governance and oversight.

Law firm Minter Ellison says that AUSTRAC sees financial planning as a medium-risk sector, and would like to see it reporting more suspicious activities. AUSTRAC has also flagged it is looking to step up enforcement activities. As more dealings become virtual or remote, it can be increasingly difficult to manage the risks.

How can advisers protect their clients and their firm?

Know Your Customer (KYC) is a vital step, and involves collecting and verifying identity and other related information, based on the appropriate risk for that product or customer type. Ongoing customer due diligence assists in identifying unusual transactions and behaviour, allowing advisers to identify and manage high-risk customers and report suspicious matters (as applicable). Where a high-risk client is identified, such as a politically exposed person, advisers may also be required to undertake Enhanced Customer Due Diligence (ECDD).

Red flags could include, but are not limited to:

- Unexpectedly high value transactions – consider where that money is coming from
- Suspicious or fake identity documentation – ensure you are seeing a true copy
- Unusual or uneconomic investment requests
- Request for international funds transfer to a prescribed foreign country or region (such as a country or region subject to sanctions)
- Moving to a high-risk jurisdiction.

Based on past suspicious matter reports, financial advisers are more likely to report concerns about potential money laundering. However, they should also monitor for other unlawful activities – including tax evasion or the use of false documents.

What are the potential risks of ignoring warning signs?

Advisers are required to report suspicious matters to AUSTRAC under the AML/CTF Act.

If advisers simply accept the documentation they are provided, fail to look at it properly, or pass on copies without validating them, their firm could be at risk of a breach – or even be seen to be complicit in any potentially illicit activities. AUSTRAC could issue an infringement notice, fine, or seek a civil penalty in court.

There is a reputational risk as well – advisers want to avoid being associated with clients who do the wrong thing.

How can advisers report suspicious activity?

They should follow the internal procedures that are in place, which may include submitting a report to the AML/ CTF Compliance Officer within the dealer group or licensee, or submitting a Suspicious Matter Report directly to AUSTRAC, and then allow law enforcement to proceed.

It's important to avoid 'tipping off' the client or the financial institution as this can also carry penalties. Instead, advisers should manage their clients' business as usual. In some cases, a law enforcement authority (such as the Australian Federal Police) may want the transaction to continue so they can identify any associated parties.

Need more information?
Visit **austrac.gov.au**

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