ANTI-MONEY LAUNDERING: THE BASICS

Installment 2: A Risk-Based Approach

As part of a public interest profession, professional accountants play an important role in the fight against money laundering. To do this effectively, accountants need to understand the risks of money laundering across the countries they work with, the services they provide and the clients they serve. This installment explores the key foundations of a risk-based approach to fighting money laundering for professional accountants.

National Rules vs. Global Standards

The compliance requirements that professional accountants must follow derive from national laws and regulations. Many countries base their anti-money laundering requirements on global standards set by an international organization called the Financial Action Task Force (FATF).

This series will use the FATF standards as a starting point. Your professional accountancy organization is in the best position to provide you with details about the local requirements.

Even where the FATF standards haven't been brought into local law, they still represent best practices for all professional accountants.

What is a "risk-based approach"?

Professional accountants should follow a "risk-based approach" to mitigate their money laundering risks. It means that accountants must identify, assess and understand the money laundering risks to which they are exposed, and effectively mitigate them. It's about understanding the client, services and jurisdictions involved.

How do you apply a risk-based approach?

The general principle of a risk-based approach is that where there are higher risks, enhanced measures should be taken to manage and mitigate those risks. The range, degree, frequency or intensity of preventive measures and controls conducted should be stronger in higher risk scenarios.

STEP 1 | Identify the key money laundering risks your business faces from your clients, the services you provide, and the geographies you work with.

STEP 2 | Assess each identified risk by considering the likelihood of it occurring and the resulting impact if it occurs.

STEP 3 | Put in place appropriate processes and controls to mitigate the risks to an acceptable level. Ensure your staff are trained to apply these processes.

STEP 4 | For each client engagement, apply effective client due diligence procedures that are proportionate to the level of risk you have identified. Enhanced due diligence may be needed for client engagements you assess to be higher risk.

UNDERSTANDING THE RISKS

Professional accountants should understand three key risk areas when establishing new business relationships or otherwise providing client services:

- **Geographic**
- **Client**
- **Service**

GEOGRAPHIC RISK

Geographic risk is the increased level of risk that a jurisdiction poses in relation to money laundering. Factors to consider may include:

- **the perceived level of corruption;**
- **criminal activity; and**
- **the effectiveness of the anti-money laundering regime within the country.**

Professional accountants should make use of publicly available information when assessing the levels of money laundering risk of a particular country, e.g., information published by civil society organizations or FATF mutual evaluation reviews.

You should ask: *Are our clients established in countries that are known to be used by money launderers?*

CLIENT RISK

Client risk is the overall money-laundering risk posed by a client.

The client's risk profile may affect the extent of checks needed on associated parties, such as the client's beneficial owners.

Undue client secrecy and unnecessarily complex ownership structures can indicate heightened risk because company structures that disguise ownership and control are particularly attractive to people involved in money laundering.

A client whose business is in a sector with a high risk of money laundering may require enhanced due diligence.

If a client or beneficial owner of a client is identified as a Politically Exposed Person, an enhanced level of due diligence may be needed.

You should ask: *Does the client or its beneficial owners have attributes known to be frequently used by money launderers?*

Who is a beneficial owner?

The term beneficial ownership, along with similar terms such as control persons, has different legal definitions in different jurisdictions. A beneficial owner is a human being who ultimately has a controlling ownership interest in an entity or by other means. For more information, see *Approaches to Beneficial Ownership Transparency: The Global Framework and Views from the Accountancy Profession*.

SERVICE RISK

Service risk is the risk that certain products or services are more likely to be used for money laundering.

Professional accountants should consider carrying out additional checks when providing a product or service that has an increased level of money laundering vulnerability, or there is a serious risk that the professional accountant itself could commit a money laundering offence.

Before a professional accountant begins to offer a service significantly different from its existing range of products or services, the professional accountant should assess the associated money laundering risks and respond appropriately to any new or increased risks.

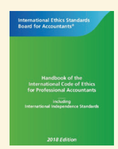
You should ask: *Do any of our products or services have attributes known to be used by money launderers? Does the nature and type of the engagements the business provides advice on have an inherently higher risk of money laundering?*

Spotlight on Service Risk

Subsequent installments of this series will look at each service up close.

Company Formation | **Asset Transfers** | **Tax Advice** | **Insolvency**

ADDITIONAL ASSISTANCE



For general anti-money laundering guidance, see the Financial Action Task Force's *Guidance for a Risk-Based Approach for the Accountancy Profession*. For ethics-related issues, see the *International Code of Ethics for Accountants*. For detailed local information, including applicable regulatory requirements, contact your professional accountancy organization.

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