

Anti-money laundering and countering financing of terrorism coming to an accountant, lawyer, and real estate agent near you ...

Combatting money laundering and financing of terrorism is an increasingly big issue internationally. As part of the global community this also increasingly impacts New Zealand. Accordingly, our Ministry of Justice is proposing to implement phase two of the Anti-Money Laundering and Countering Financing of Terrorism Act regime.

So what's the issue, who will be impacted, and what will this mean in New Zealand?

The issue internationally

Money laundering, the process of allowing criminals to hide or "clean" the proceeds of their illegal activities, and terrorist financing are significant problems worldwide. Money laundering is a scourge on our society and includes the illegal proceeds of crime such as drug trafficking, illegal arms trading, fraud, bribery, extortion, alien smuggling, tax evasion, piracy, forgery, embezzlement etc.

To get an idea of the scale of the issue and looking just at money laundering; the International Monetary Fund (IMF) estimates that between 3 - 5% of global GDP is laundered annually. That equates to somewhere between US\$2.2 and US\$3.7 trillion – a staggering amount.

In New Zealand it has been estimated that money laundering involves somewhere in the region of \$1.5b annually. However, given the very nature of money laundering and our limited systems in place to control it this is just an estimate. It could be significantly more.

New Zealand is one of the 37 member countries of the Financial Action Task Force (FATF) which is an inter-governmental body established in 1989. It sets standards and promotes effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. As a result, most member countries now have AML/CFT legislation and regimes and this led to our initial AML/CFT legislation being put in place back in 2009.

The current situation in New Zealand

Amongst its peers New Zealand has been quite slow at coming to this particular party. Phase one of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 came into effect in 2013. Refer to our earlier article titled ['Anti-Money Laundering Legislation – Are you caught?'](#) This placed significant obligations over financial institutions and casinos and tasked various government agencies with overseeing and enforcing the regime and helping businesses comply with it. It also required independent annual auditing of some aspects of an entity's AML/CFT compliance regime – a service which RSM has expertise and provides services in.

What's now proposed?

New Zealand's Ministry of Justice (MoJ) is now proposing to implement phase two of the Act which will extend it to more businesses and professions. There also appears to be significant time pressure now being exerted to get this in place with a target of legislation in place by mid-2017.

Phase two will mean that many businesses will have to put AML/CFT policies and processes in place. These issues need to be taken seriously and as such there is also likely to be a regulatory oversight and monitoring regime put in place.

The entities covered by phase two widen the impact net considerably as it is proposed to include:

- Accountants
- Lawyers
- Real Estate agents,
- Conveyancers
- Some other parts of the gambling sector
- High value goods dealers including auctioneers, bullion dealers, jewellers, motor vehicle and boat dealers, antique and art dealers, pawnbrokers, and any other businesses that accepts or provides large amounts of cash.

The Act requires entities covered by it to carry out various measures to deter and detect money laundering and financing of terrorism. These measures are designed to significantly reduce the risk of being unwittingly drawn into criminal activity, and as such are generally regarded as good business practice. They include:

- Developing a risk assessment and compliance programme
- Undertaking customer due diligence – that is verifying their identification
- Vetting and training staff
- Monitoring accounts
- Monitoring compliance and audit
- Reporting suspicious transactions of customers to the Police Financial Intelligence Unit

However, while we concur with this being generally good business practice, the devil is usually in the detail with such requirements. At this stage the MoJ is still exploring exactly what the detailed requirements should be.

What's the impact likely to be?

Overseas experiences of similar regimes have shown that this can result in a reasonably considerable increase in compliance for some business activities. One of the biggest issues has been the “getting to know your customers” requirement and obtaining proof that they are who they say they are, as well as verifying the source of funds when conducting what are considered higher risk transactions, and needing to retain appropriate evidence.

A practical result can be the request for more information when carrying out business transactions as well as additional time to obtain and process this.

Training and internal monitoring of your AML/CFT systems if these apply to you should also not be underestimated.

Like any new compliance obligations, implementing this is also likely to equate to increased cost to the business. Our initial concern is that this could potentially be quite a large compliance burden and cost. However, until the phase two requirements are better defined and framed by the proposed legislation it is difficult to be able to estimate this cost impost.

Summary

We can all agree with the clear moral and ethical obligation to ensure appropriate measures are in place to deter and detect money laundering and financing of terrorism.

However, as accountants who will have to implement further systems and compliance, as will many of our client businesses and organisations, we also want to ensure that the compliance required is pragmatic, commensurate with the risk, and that the costs do not outweigh the benefits.

As such RSM have been feeding into the consultation process with the MoJ and we intend to continue to take an active interest in this area, as well as looking to inform our clients and contacts of developments.

Anti-money laundering and countering financing of terrorism is another new compliance hurdle coming for many New Zealand businesses and organisations. Best we ensure we implement a balanced and pragmatic regime.

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