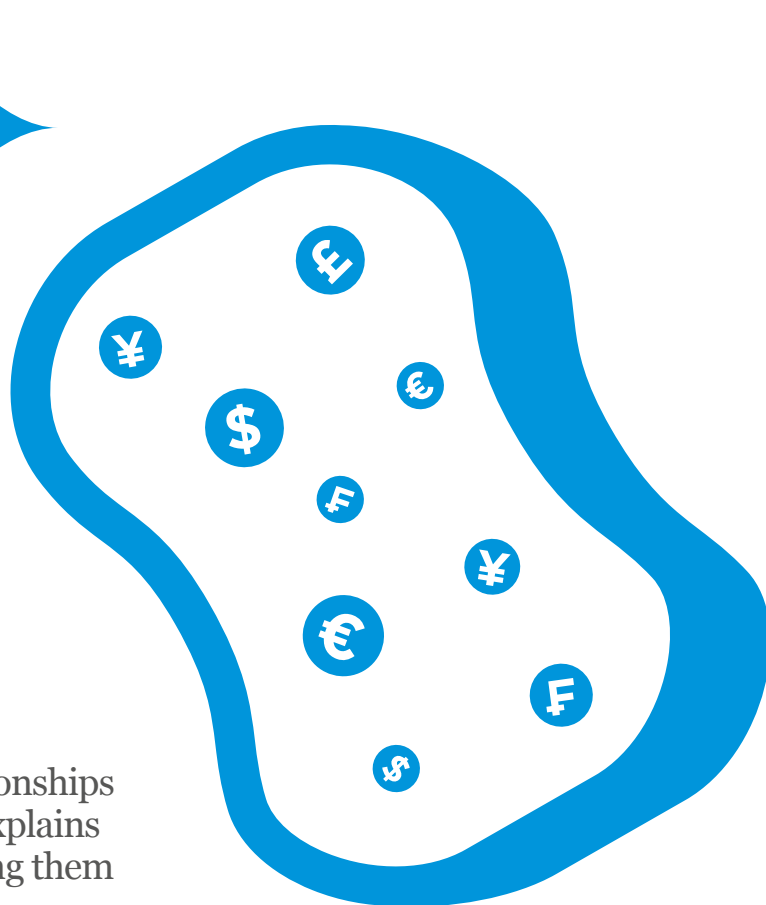


Squeaky clean

Money-laundering questions are an unavoidable part of corporates' relationships with their banks. Doug Williamson explains how to minimise the pain of answering them



For corporate treasurers, dealing with banks is an essential daily task. In turn, the bank's legal obligations include complying with strict regulations on money laundering, terrorism and sanctions. The bank has no discretion to waive these rules in our favour as an existing customer.

This means the bank has to ask difficult, and perhaps insulting-seeming, questions of all its customers, both new and old.

Compliance burden

Money obtained by criminal means is said to be 'laundered' when it is channelled through the legitimate financial system in such a way as to prevent it being traced back to criminal activity.

Legislation obliges banks and a wide range of other financial intermediaries, including casinos and estate agents, to have procedures in place to identify where money has come from and who benefits from it. This compliance burden is one that both banks and their customers have to shoulder.

For this reason, money-laundering regulations are very important for all corporate treasurers, even if we don't work in a bank. In particular, corporate treasuries need excellent information systems and to be adequately prepared to answer the banks' due diligence questions.

Banks' predictable questions

In simple terms, the bank's key questions will be:

- (1) Who are you and your associates?
- (2) You say that, but who are you really, and can you prove it?
- (3) Where did you get that money from?
- (4) Where are you going with that money?

The first of these two questions are know your customer (KYC) questions. Depending on our shareholder base, KYC questions can be particularly burdensome to answer. If we are unable to answer the bank's predictable questions, we may be denied essential banking services.

No deal

Not only are banks asking questions that corporates can't answer, they are also increasingly unwilling to carry out certain transactions, such as making payments to, or receiving payments from, certain sources.

The Treasurer, November 2014, page 18

ESSENTIAL PREPARATIONS FOR DEALING WITH BANKS AND GETTING QUALIFIED

| | Dealing with banks | Getting qualified |
|---|--|---|
| 1 | Corporate needs bank | Treasurer needs qualification |
| 2 | Bank has to comply with money-laundering rules | Examiner needs evidence of candidate's understanding of bank's position |
| 3 | Bank needs to ask questions | Examiner must ask questions |
| 4 | Well-prepared corporates are ready to answer | Well-prepared candidates are ready to answer |

Good relationships

Banks and their employees have legal obligations to provide information to the central authorities. If they don't, they can suffer reputational losses, be prosecuted, fined or even jailed. Understanding this can help to maintain our essential good relationships with our colleagues at the bank, even when they are asking us lots of awkward questions. If we have strong information systems in place, it will assist our banking colleagues to do their work speedily and efficiently.

On the other hand, unwitting or indirect non-compliance with the regulations can result in severe penalties. Even if we can answer all of the bank's questions, it will be a painful process unless we are well-prepared.

Prior knowledge saves time and money

We can save time and money by preparing and budgeting for our unavoidable compliance workloads. It is always easier to answer questions when we know why we are being asked. Answering the bank's compliance questions will be much easier when we understand why the bank has to ask them.

For this reason, understanding money laundering is an important part of the ACT's qualifications. It is often examined, and key aspects of the UK Money Laundering Regulations – applying to banks and other financial institutions – were recently explored in the exam hall.

Examiner's predictable question

Identify three key aspects of the UK Money Laundering Regulations 2007.

Business Law, April 2014, Q3

Suggested answer (any three aspects)

The key aspects of the 2007 Regulations include requiring banks and other financial intermediaries to:

- Have a risk assessment in place in respect of money laundering.
- Conduct their client due diligence on the basis of that assessment.
- Identify the beneficial owner of their client.
- Monitor, on an ongoing basis, their relationship with the client and have evidence of identity in place for all clients, even those who have been clients for many years.
- Monitor compliance with the money-laundering regulations.

MONEY-LAUNDERING GLOSSARY

Money laundering

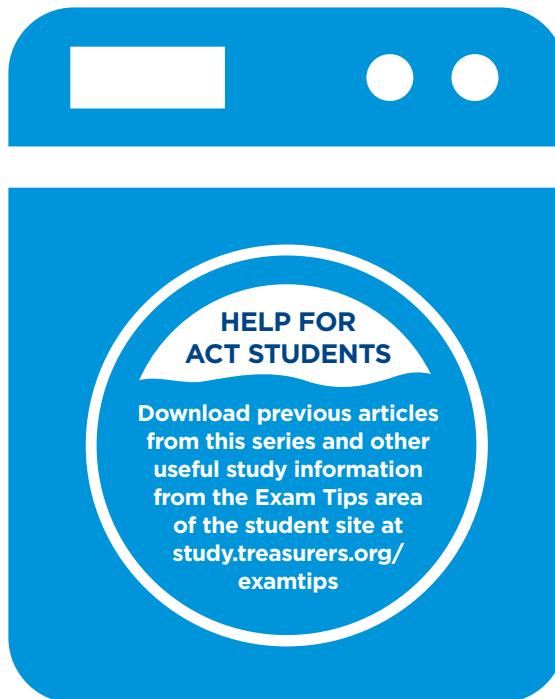
Money laundering includes channelling the proceeds of crime through the legitimate financial system, in order to disguise their illegal origin. Know your customer (KYC) KYC is the anti-money-laundering requirement on banks and other financial intermediaries to verify the identity and beneficial ownership of all their customers. This includes existing customers, as well as new ones.

Beneficial owner

The true owner on whose behalf a nominee holds an asset. Criminals commonly act through nominees, rather than disclosing their true ownership interests.

Due diligence

The rigorous checking of customers' beneficial ownership, and the nature of their business, for the purposes of preventing money laundering.



Why are there five points in the suggested answer?

This suggested answer contains more than the bare minimum response, in order to serve as a learning resource for future candidates.

The question only asks for three key aspects. Do you need to know and write all five of the points in the suggested answer? Could three points earn full marks?

It depends on the wording of the question. This one expressly asked for three aspects, so any three well-made points would be enough for this particular question, at this level.

If a question doesn't specify how many points are required in the answer, however, it's best to write as much as we can, within our allocated time for the particular question. Then move on ruthlessly to the next question when time is up.

One last question

As a gentle warm-up for your money-laundering studies, do you know what happens to worn-out banknotes returned to the Bank of England? The answer is below.¹

¹ Since 1990, they have been made into briquettes and processed into compost. Prior to 1990, they were burned, with the energy generated being used to help heat the Bank



Doug Williamson is a treasury tutor who has reported to the Bank of England on bank anti-money-laundering controls