

Changes to UK Money Laundering Regulations

11 February 2020

On 10 January 2020, the UK Money Laundering Regulations changed to incorporate the EU's Fifth Money Laundering Directive. As a result, relevant persons (i.e., regulated entities required to comply with the UK Money Laundering Regulations) are obligated to comply with certain new requirements, including: (i) accounting for certain factors when assessing counterparties' risk profiles; (ii) documenting their process for understanding a counterparty's beneficial ownership and control structure; and (iii) reporting discrepancies regarding the ownership and control of legal entities to Companies House.

The [Money Laundering and Terrorist Financing \(Amendment\) Regulations 2019](#) (the "Regulations") contain amendments to the UK's Money Laundering Regulations 2017. This *Alert* summarises some of the key changes set forth in the Regulations, including changes that will be especially relevant to private equity sponsors.

High-Risk Counterparties and Enhanced Due Diligence

The Regulations amend regulation 33 and require relevant persons to take into account certain factors when assessing whether to conduct enhanced due diligence on a counterparty, including whether:

- the relevant person's counterparty – or any other party to a relevant transaction – is established in a "high-risk third party country";¹
- the relevant person and its counterparty have business relationships or transactions that do not involve face-to-face interactions, unless certain safeguards concerning electronic identification have been implemented;² or

- the relevant person and its counterparty are participating in a transaction related to oil, arms, precious metals, tobacco products, cultural artefacts, ivory or other items of archaeological, historical, cultural or religious significance or of rare scientific value.

Customer Due Diligence and Record Keeping

The Regulations amend regulation 28 to clarify that relevant persons must take reasonable steps to understand their legal entity customers' ownership and control structure. Pursuant to the UK's Money Laundering Regulations 2017, relevant persons have been required to identify natural persons who hold a more than 25% ownership interest in a legal entity customer. The Regulations expand this requirement by mandating that relevant persons document the measures they have taken to understand a legal entity customer's ownership and control structure. Where a relevant person has "exhausted all possible means of identifying the beneficial owner", a relevant person is now further required to identify and verify the senior person in the legal entity. In addition, the relevant person must keep written records of all actions they have taken and record "any difficulties" they have encountered during the process.

Reporting Discrepancies to Companies House

The Regulations include a new regulation 30A that requires relevant persons to report any "discrepancies" between information in its possession arising out of the KYC process regarding a legal entity and public information about that legal entity contained in the Companies House register.

[Guidance published on the Companies House website](#) explains that a "discrepancy" exists when a relevant person has information that is contrary to the PSC register with respect to a legal entity. More generally, the guidance states that relevant persons are required to report "**material**" differences between information in their possession and Companies House listings. The guidance also clarifies that the focus of the Regulations is correcting "clear factual errors, not typing mistakes". Further guidance is expected regarding the practicalities of how relevant persons will make such reports.

Training Agents for AML Purposes

The Regulations amend regulation 24 to require relevant persons to provide training to agents and consultants in the same way they would for their own "relevant employees". The requisite training includes how to recognise and respond to transactions that may be related to money laundering or terrorist financing.

JMLSG Guidance Update

The Joint Money Laundering Steering Group ("JMLSG") is expected to publish guidance related to these recent changes in mid- to late-February 2020.

FCA-Registered Firms

The FCA has provided a summary of key changes made by the Regulations applicable to FCA-registered firms. The FCA's summary can be found [here](#).

Further Changes

The Regulations include key changes with respect to electronic money and crypto-asset activities, and brings certain industries within the scope of their application, such as letting agents and art dealers.

1. The Regulations define a "high-risk third country" as one designated as such by the European Commission in accordance with the Fourth Money Laundering Directive. The European Commission's current methodology and country list can be accessed [here](#).

2. Including by using electronic identification means or by using a trust service within the meanings of the terms in Regulation (EU) No 910/2014.

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