Firms urged to tighten money laundering controls

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Asset management firms are being urged to tighten up measures to prevent money laundering in funds, amid new EU rules and increasing scrutiny from regulators.

The fourth version of the EU's Anti-Money Laundering Directive came into force in June, introducing stronger rules to combat money laundering and terrorism financing.

Asset managers face increased work and costs on the back of the new rules, which member states have to introduce over the next two years.

Rachel Sexton, a partner in the fraud investigations and dispute services division at EY, says: “[The new anti-money laundering rules] will add extra complexity [for asset managers].

Neal Dawson, UK head of AML and sanctions at KPMG, says: “There will be a need for [asset managers] to invest in more resources [to comply with the new rules].”

Mr Dawson says fund firms should be taking steps to get their houses in order, such as carrying out an assessment of their current AML measures “to understand where the gaps are”.

The new EU rules call for a risk-based approach, requiring firms to adjust measures to prevent money laundering based on the level of risk presented in specific jurisdictions and sectors.

“Asset managers should be working to get ready for the changes right now, especially around the risk-based approach,” says Ms Sexton.

The new rules also set out the point at which simplified customer due diligence is appropriate. Europe had previously argued that financial institutions were adopting simplified customer due diligence in circumstances where a more detailed one was required.

Zia Ullah, partner at law firm Eversheds, says: “[Asset managers] are going to have to do more work to know their customers.”

Ms Sexton says firms will have to undertake more due diligence around so-called politically exposed persons, as well as around beneficial ownership of companies and trusts – where an individual benefits from ownership even though the trust or company might be held in another name.

They will have to consider if their KYC, or know your customer, work is enough to comply with the EU rules, or whether they need to talk to third parties, such as banks and financial advisers, to gain a better understanding of investors, she says.

John Forbes, a consultant specialising in the real estate investment industry, says asset managers should prepare themselves for additional due diligence procedures over the next two years as more details are released.

“There may be managers who have investors or funds in jurisdictions that the [European] Commission decides over the next two years are higher risk and therefore fall into the requirements for increased due diligence,” he says.

“There have been cases [of] investment managers using administrators in overseas jurisdictions that have not been up to the task. Managers will need to think about their service providers.”

Mr Ullah says larger firms, especially those based in the UK, which already has strict AML rules, are likely to find complying with the new directive easier.

Regulators, including the UK's Financial Conduct Authority, have been looking more closely at the asset management industry when it comes to AML practices in recent years.

"Certainly we've seen with the FCA that it increasingly will ask senior management of a firm to provide an attestation to say there are adequate systems and controls to prevent money laundering," says Mr Dawson.

According to figures from the FCA, it requested 30 attestations from wholesale and investment management firms for the six months to March 2015, compared with six in the six months to September 2014. It is not clear what these attestations relate to.

A study by KPMG recently found that 86 per cent of asset managers say investment in AML measures has increased in recent years.

The average increase in the funds industry was around 46 per cent, compared with just 20 per cent in the insurance sector.

While firms have until 2016 to comply with the new EU rules, some countries could choose to introduce them earlier.

Mr Ullah says the lead-in time is expected to be truncated in the UK, with firms likely to have to be compliant with the rules in 2016.

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