

# FS Insights

The implications of the Economic  
Crime and Corporate Transparency  
Act 2023 for Anti-Money  
Laundering compliance



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# Introduction

The Economic Crime and Corporate Transparency Act 2023 (The Act) became law on 26 October 2023. The Act has a focus on enhancing the services provided by Companies House which in turn aims to enrich Anti-Money Laundering (AML) decision-making through improved data reliability and integrity. The Act amends existing legislation relating to AML and promotes effective information sharing among financial institutions.

The Act has three key objectives:

1. Prevent organised criminals, fraudsters, kleptocrats and terrorists from using companies and other corporate entities to abuse the UK's open economy.
2. Strengthen the UK's broader response to economic crime, by giving law enforcement agencies new powers to seize crypto asset and enabling businesses in the financial sector to share information more effectively to prevent and detect economic crime.
3. Support enterprise by enabling Companies House to deliver a better service for over four million UK companies, and improving the reliability of its data to inform business transactions and lending decisions across the economy.

## Timelines

The reforms introduced by the Act will require secondary legislation, as well as the enhancement of Companies House systems to implement the changes. As such, it is anticipated that these provisions will be in force in piecemeal. As at the time of publishing this article, the below had come into force:

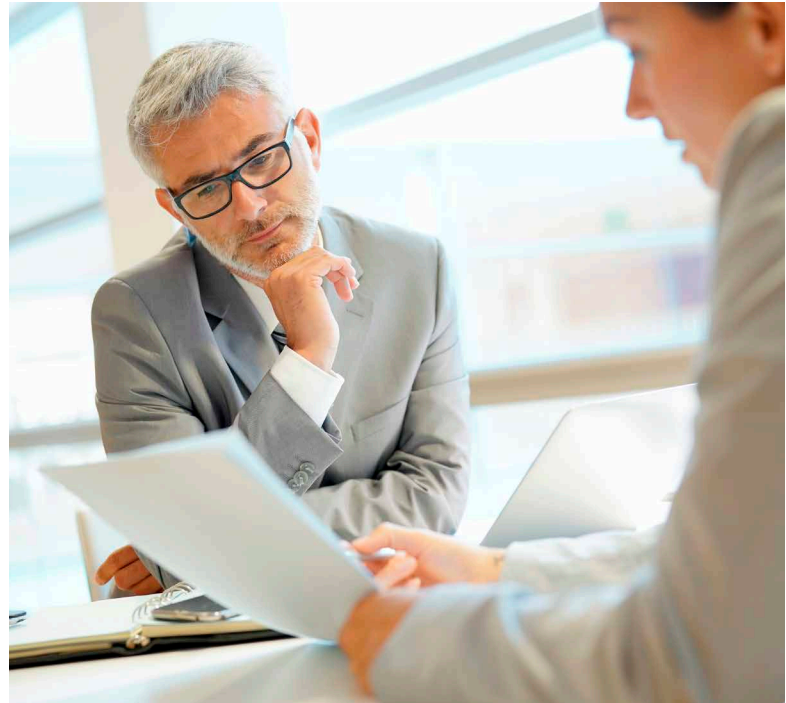
**Register of overseas entities**

**15 January 2024**

**DAML exceptions**

**15 January 2024**

This article examines the three objectives of the Act and their potential impact on the AML compliance framework in the UK Financial Services sector.





# Areas of changes

The Act delivers a suite of wider-ranging reforms to tackle economic crime and improve transparency over corporate entities.

- ▶ **Companies House** will be reformed to improve transparency over UK companies and other legal entities.
  - ▶ **Limited Partnership Reform** will seek to address the misuse of limited partnerships as it modernises the law governing them. The implementation of this reform is supported by the Limited Liability Partnerships (Application of Company Law) Regulations 2024<sup>1</sup>.
  - ▶ **Defence Against Money Laundering (DAML) Suspicious Activity Reporting (SAR)** will have new exemptions<sup>2</sup> from the principal money laundering offences to reduce unnecessary reporting by businesses carrying out transactions on behalf of their customers. The exemptions do not apply to disclosures under the Terrorism Act 2000.
  - ▶ **Crypto assets** will be reformed under both criminal and civil regimes (Proceeds of Crime Act 2002). Officers will have additional powers to seize crypto assets during an investigation without an arrest, in a similar way to seizing tangible property. Law enforcement agencies will have powers to recover crypto assets directly from exchanges and custodian wallet providers.
  - ▶ **Proceeds of Crime Act 2002** will be amended to allow the NCA to proactively gather intelligence without reliance on a Suspicious Activity Report (SAR).
  - ▶ **AML powers will be strengthening** through:
    - ▶ Information Sharing: The Act will allow direct information sharing between relevant businesses and indirect sharing through a third-party intermediary. Indirect sharing will apply in cases where the business has information about a customer that is relevant to preventing, detecting, or investigating economic crime, but does not know whom the information would assist, either now or in the future.
  - ▶ **High-risk countries:** The Sanctions and Anti-Money Laundering Act will be amended to confer the power to amend and publish the list of high-risk countries to the Treasury.
  - ▶ **Identification Doctrine (Corporate Criminal Liability)** was amended from 26 December 2023, so that if a senior manager of a relevant body 'acting within the actual or apparent scope of their authority commits a relevant offence (or they attempt, conspire, encourage or assist someone else to act in that way), the relevant body is also guilty of the offence.' It will no longer be necessary for prosecutors to show that anyone who was the 'directing mind and will' of the organisation (e.g., its CEO) was involved in the offence.
  - ▶ **Failure to prevent fraud offence** will apply to all large bodies and corporate partnerships as defined in Companies Act 2006. Companies meeting any two out of the following criteria will be in scope:
    - ▶ Having more than 250 employees.
    - ▶ Generating over £36, in turnover.
    - ▶ Holding more than £18m in total assets.
- Failure to prevent fraud has been discussed separately in more detail in [this article](#). How the failure to prevent could impact greenwashing has also been discussed [this article](#).

<sup>1</sup> Limited Liability Partnership Regulation. [Find it here](#)

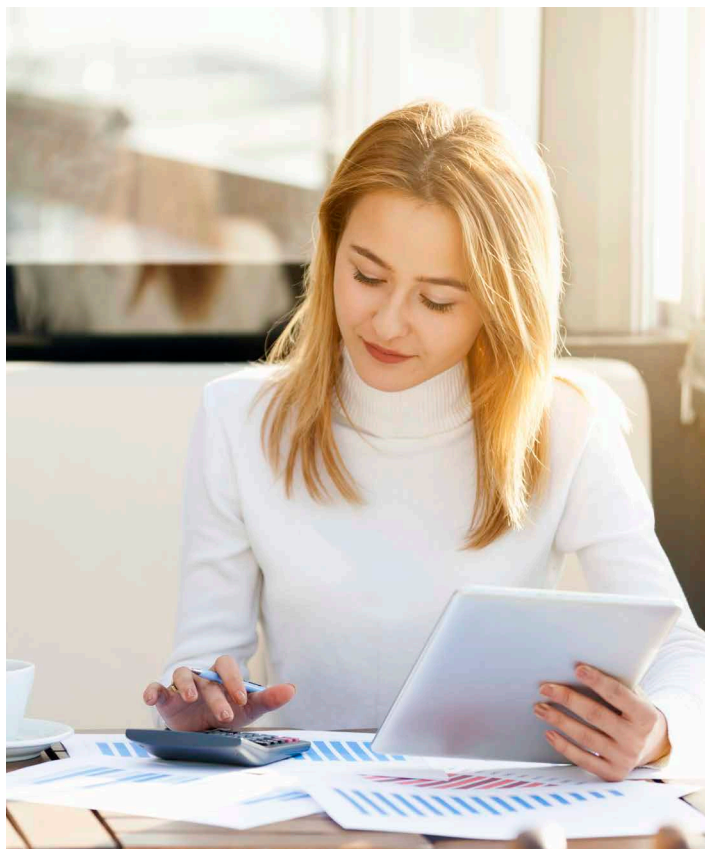
<sup>2</sup> Guidance on DAML exemption on UK Government website. [Find it here](#)

# What is the impact on regulated entities?

In light of the new legislation, firms should consider the potential scope of impact to their organisation whilst additional/ supporting legislation and Companies House systems and guidance are being developed – focusing on how these new rules may affect their business and how they can prepare.

## First Line of Defence (1LoD)

- ▶ The legislation will impact **Know Your Customer (KYC)** controls within financial institutions. The reforms to Companies House should provide more reliable information and thus increase the quality whilst reducing the time taken to perform KYC checks.
- ▶ The crypto reforms will also have implications for businesses handling crypto as they will need to ensure thorough **Enhanced Due Diligence (EDD)** is performed on those customers.
- ▶ The increased frequency of high-risk country list updates could also increase the **volume and frequency** with which EDD is required on customers.



## Second Line of Defence (2LoD)

- ▶ **Risk assessment:** The increased frequency of updates to the **high-risk** country list could impact financial institutions that do not operate a **dynamic customer risk assessment model**. As new countries are added, risk assessments customer due diligence will need to be **reperformed** to ensure financial crime risks are understood.
- ▶ **Monitoring:** The increased frequency of updates to the **high-risk country list** will require **frequent and timely adjustments to screening tools**. This could also lead to increased workload relating to whitelisting. With changes in the DAML suspicious activity reporting, businesses will have to **modify their transaction monitoring systems and protocols** to ensure they are in line with the new regulations.
- ▶ **Reporting:** The DAML reforms will have a positive impact on 2LoD as this will **reduce the volume of DAML SARs** required. However, enhanced information sharing across institutions could increase the workload of 2LoD and **resource needs assessment** may be required. Information sharing has the potential to enhance the quality of KYC checks and investigations by preventing potential criminals from having access to the financial system.
- ▶ **Investigations:** The reform related to ID&V will **enhance investigators' understanding of company structures**, especially for overseas entities. Given information orders can now be received from the NCA without the business having submitted a SAR, this would potentially **increase the volume of investigations internally** as the business may now need to conduct investigations into customers/ transactions that have been identified as suspicious by the NCA.
- ▶ **Policies and procedures:** Updates to AML and other financial crime policies and procedures may be required, particularly, **adjustments to DAML reporting procedure** to incorporate new exemptions and ensure they are **correctly implemented**.



- ▶ **Training:** 2LoD will need to organise increased training for relevant staff members to ensure they are aware of these reforms and are **equipped to handle the revised procedures** adequately. In particular:
  - ▶ Training for new DAML requirements will be required to **ensure staff are aware of new requirements** and are equipped to handle the revised procedures.
  - ▶ There may be a need for enhanced AML training to equip staff with knowledge and skills to spot **suspicious crypto asset investment behaviour** and understand the increased risks associated with these digital currencies.

## Third Line of Defence (3LoD)

- ▶ **Increased audit scope:** The 3LoD will need to **expend resources in auditing** the changes implemented by management and the 2LoD to comply with the new Act.
- ▶ **More rigorous audit procedures:** The auditors will need to devise **more rigorous audit procedures** due to the expanded scope and complexity brought about by the changes in the Act. Existing audit techniques will need to be enhanced to suit these changes. This could **involve incorporating IT audit techniques** and developing a better understanding of crypto assets and data sharing.
- ▶ **New audit risks:** With the introduction of new reforms, there are new risks associated with compliance. For example, risk of non-compliance with ID&V, handling of crypto assets, identification of high-risk countries. The 3LoD will need to **identify these new audit risks and build suitable responses**.
- ▶ **Additional training and skills:** The 3LoD will require additional training on the new regulations, updates, and working of new system changes. This may require **development of new skills within the audit team**.
- ▶ **Increased regulatory reporting:** With the broadening of the scope and complexity of the Act, there may be **increased requirements on regulatory reporting** which would need to be verified by the 3LoD.

- ▶ **Reviewing changes in policies and procedures:** Internal Auditors will need to have a **clear understanding of changes** to the Companies Act 2006, Sanctions and Anti-Money Laundering Act and other relevant acts. They will need to review changes in the company's policies and procedures for their **adequacy to meet the new requirements**.

## Legal

- ▶ **Reporting:** The Act will have an impact on the Legal department as Information orders can now be received from the NCA without the business having submitted a SAR. Depending on volume, this could mean that **additional resource is required in legal** to satisfy these requests.
- ▶ **Crypto asset regulation:** Given the increased focus on crypto assets, there are expanded powers for law enforcement agencies. Legal departments must understand these changes and address internal and **client-related queries** on handling of crypto assets.
- ▶ **Increased responsibility:** The Identification Doctrine Amendments presents a significant shift. Corporate bodies can now **face criminal liability resulting from the actions of their senior management**. Legal departments will have to ensure senior management is aware of the **potential repercussions of their actions** under the new law.
- ▶ **Consequences for non-compliance:** The Act sets new offences relating to non-compliance, which can lead to criminal charges. Legal departments within the financial sector will need to ensure not just compliance but also **manage the risk of potential legal consequences** for non-compliance.



# How EY teams can support

EY professionals focus on helping firms enhance their financial crime compliance frameworks and help ensure that policies, procedures, and risk framework are tailored and appropriate to the nature of its business and are fit for purpose. Our team can support your firm by providing the following services:

- ▶ **Audit support:** EY teams can assist in planning and performing Internal Audits by enhancing the audit techniques to be suited to the new regulations. This may be in the form of co-source arrangements or SMR support.
- ▶ **Independent/audit readiness review:** EY teams can perform an assessment of your financial crime compliance framework post implementation of the new changes. The design and operating effectiveness of the controls implemented can be assessed and where there are any gaps, we can work with your stakeholders to define and align your framework with the new regulations, market insights and leading practice.
- ▶ **Lead or facilitate trainings/workshop:** EY teams can leverage its industry knowledge to conduct strategy workshops or training for relevant teams.

To talk to someone about improving your financial crime compliance framework or for help with managing financial crime risks, please reach out to us.

## Key contacts

For further information, please contact the EY Financial Crime & Forensics team.



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