

November 2015

Alert

Modern Slavery Act 2015

Anti-money Laundering Impact in the Regulated Sector

Background

Following Section 54 of the Modern Slavery Act 2015 (“the Act”) coming into force (to read our article on this, please [click here](#)), a number of new reporting requirements have been introduced for companies with a ‘footprint’ in the UK (defined as businesses with global turnover of £36 million + and a financial year end after 30 March 2016). One such duty, which requires companies to publish a Supply Chain Transparency Statement (“SCTS”), is of importance, particularly with respect to the ramifications that this new obligation will have on the regulated financial sector – particularly banks and financial institutions.

There is an important reminder in the UK National Risk Assessment of Money Laundering and Terrorist Financing report (the first assessment of its kind, which was jointly published by the Home Office and HM Treasury in October 2015) that the new offences created by the Act will be predicate offences for the purposes of money laundering reporting obligations. Banks and financial institutions will need to be aware of the issue and ensure that their systems and procedures are appropriately updated to reflect the impact of these changes.

Modern Slavery – Scale of the Issue

Home Office figures estimate there were between 10,000 and 13,000 potential victims of modern slavery offences such as forced labour, sexual exploitation, domestic servitude and human trafficking in the UK in 2013, with the National Crime Agency identifying the UK as the third most common country of origin for victims. Over the last three years, numbers of reports from victims have consecutively risen; a trend which the introduction—and enforcement—of the Act aims to abolish.

As far as the economics of modern slavery are concerned, the scope for profit is significant. For example, the International Labour Organisation estimates that illegal profits solely from forced labour (which constitutes just one part of the modern slavery definition) amount to \$150 billion per year globally, while in the UK, the Home Office estimates that sexual exploitation alone generates criminal profits of £890 million annually.

For reasons such as these, offences of modern slavery are now considered alongside the familiar offences predicate to money laundering: fraud, tax offences, drugs offences and other acquisitive crime.

Effect for Banks and Financial Institutions

Banks, financial institutions and other businesses operating in the ‘regulated’ sector have long been familiar with their obligations to report suspicious transactions when there are reasonable grounds to suspect that the transaction involves money laundering. Equally, the ‘regulated’ sector well-understand

the requirement to have in place effective systems and controls to prevent the laundering of criminal proceeds.

However, despite the existence of sophisticated systems and the understanding within the sector around such requirements, regulators continue to uncover shortcomings and failings in the systems of even the biggest banks.

From a compliance perspective, the introduction of the SCTS reporting requirement component of the Act has the potential to further increase the complexity of the screening processes for transactions in the regulated sector.

Critically, the introduction of the SCTS will alert businesses in the regulated sector to issues existing across complex and multijurisdictional supply chains. The contents of a SCTS will provide regulated business with considerably more information about the way in which their clients operate than previously required, putting banks 'on notice' of potential issues. This new information will be important for compliance officers and regulators in assessing whether there are 'reasonable grounds to suspect', and when

a suspicious activity report is required. A further important consequence of these developments is that, because the SCTS will be new information, regulated business will be required to reassess the correct risk-rating attached to companies that, up to now, would have been regarded as low risk.

Key steps for banks and financial institutions to action include:

- Training staff on Modern Slavery issues
- Revising Client Due Diligence requirements
- Revising risk assessments to include Modern Slavery issues
- Understanding the architecture of criminal organisations involved in Modern Slavery
- Identifying Modern Slavery 'red flag' issues
- Developing in-house expertise in analysing SCTS reports
- Ensuring systems are in place to collect and analyse SCTS reports for all affected customers

If you have questions concerning the contents of this Alert, or would like more information about The Modern Slavery Act 2015, please speak to your regular contact at Weil, or to:

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