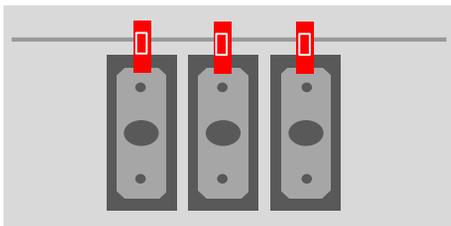


ANTI-MONEY LAUNDERING 5MLD



Anti-Money Laundering 5MLD

Changes to the legislation

On 10 January 2020 **changes** to the Government's Money Laundering Regulations came into force. They update the AML regime to incorporate international standards and the EU's 5th Money Laundering Directive. This is the reason why these changes are sometimes abbreviated to 5MLD.

Extension of an existing law

AML is nothing new. The 4th Money Laundering Directive tightened the rules for estate agencies but left lettings agencies out of scope. 5MLD now requires lettings agencies where the rent for a property is over €10,000 per month – that's approximately £2,000 a week – to carry out full money laundering checks on the "customer" as defined by the legislation.

For letting agencies, the customer will mostly be the landlord, but it can also be the tenant where agencies collect rent on landlords' behalf.

What's different in law?

Letting agents, for relevant transactions, will have to consider:

- **Identity:** the identity of tenants. This won't change much as they already have to do this under Right to Rent but may require one or two additional documents such as utility bills.
- **Provenance:** the validation of the provenance of the funds being used to pay the rent.
- **PEP:** whether the tenant is a Politically Exposed Person (PEP) – someone who could obtain funds illicitly as a result of their position.

PEP is defined by the legislation and includes head of states, heads of government, ministers, members of Parliament, ambassadors, high-ranking officers in the armed forces etc

What's different for tenants?

We are all still awaiting further guidance on the type of due diligence expected from letting agents for rental transactions caught under the legislation.

While additional checks will be undertaken, agents will, in the main:

- a) be very accustomed to carry out these checks because they already have to do them for sales transactions. Most agents do both rentals and sales.
- b) As they do for sales transactions, the checks will be reasonable in the context of finalising a lease agreement.

Setting expectations

As guidance has not yet been provided, the challenge may come with how different agents will choose to apply the new legislation in practice.

It is also very possible many agents will choose to outsource additional checks to their reference provider.

R3Location hopes for consistency in this area, but as has already been experienced in the relatively recent introduction to Right To Rent checks, not everyone will be applying 5MLD the same way in practice.

Overall, R3 feels this is just an additional referencing requirement in the context of a lease transaction that should cause minimal practical disruption to the overall process.

KEY FACTS

5MLD

Stands for 5th Money Laundering Directive and merely extends what is already in place under the 4th Money Laundering Directive

Euro 10k

The monthly rent threshold over which letting agents will have to apply additional due diligence to verify the identity of the customer and the provenance of the funds

Key dates

The legislation has come into effect on 10 January 2020, so is currently in play. HMRC's online register for approved schemes won't be operational until May 2020

DID YOU KNOW?



R3Location is AML compliant

HMRC

It is registered for supervision under HMRC scheme

Apr 17

It has been registered since April 2017