

Whitepaper

TRANCHE 2 DNFBPS & AML COMPLIANCE



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Introduction

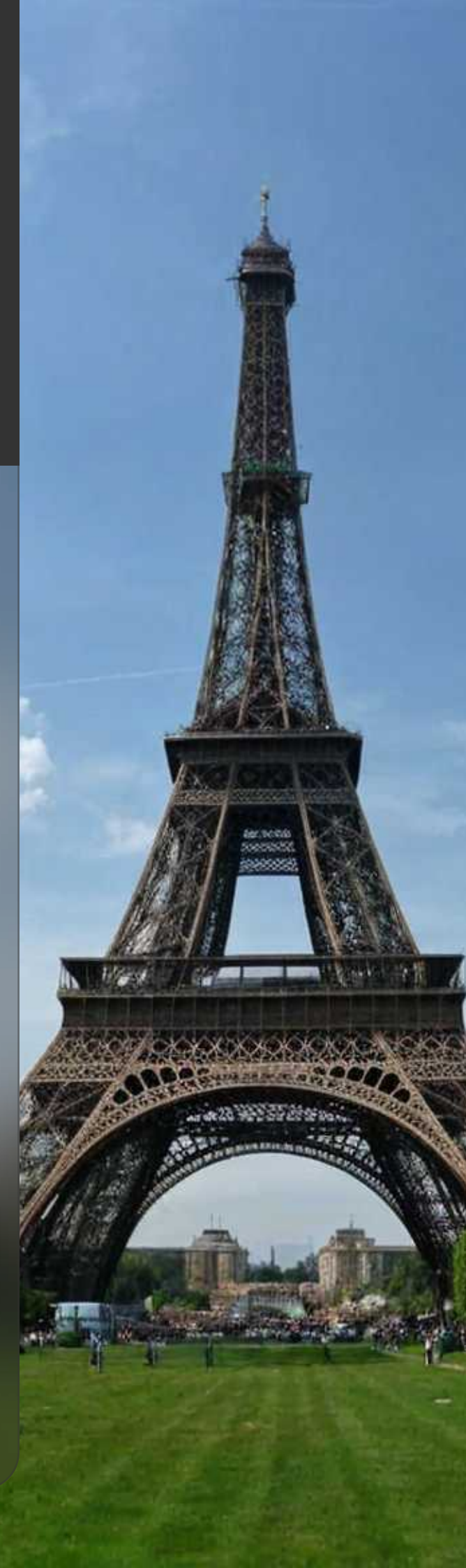
Key Insights & Impact

With the rise of modern banking in the 1980s and 1990s, the efforts against money laundering were intensified, and led to the establishment of international regulatory institutions to prevent money laundering and other financial crimes facilitated by financial institutions like investment firms, banks and insurance companies. The common perception was that financial institutions are the main conduits for illegal money flow.

Therefore, Financial Action Task Force (FATF), which was established by G7 countries in 1989, came up with recommendations targeting banks, investment firms, hedge firms, insurance companies and others. Customer due diligence, monitoring requirements and strict reporting against any illicit financial transfer via any financial institution were introduced.

As the world's understanding of the role of non-financial sectors in money laundering and terrorism funding has developed, so has the concept of Designated Non-Financial Businesses and Professions (DNFBPs), often known as Tranche 2 under anti-money laundering (AML) legislation

In the context of anti-money laundering (AML) regulation, the term "Tranche 2" means second layer or phase of regulatory obligations that extends AML requirements to sectors outside of traditional financial institutions.



Extension of AML Regulations to DNFBP Sector

Criminals started taking advantage of less regulated non-financial sectors that were nevertheless involved in significant financial transactions as money laundering techniques become more complex over time. The vulnerability of industries like real estate, casinos, attorneys, accountants, and jewelers to money laundering threats became more apparent in the early 2000s. Because these industries deal with high-value transactions, criminals seeking to launder money find them appealing because they are not subject to the same stringent regulations as financial institutions.

The Extension of AML to the DNFBP Sector

Real Estate Agents



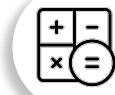
Casinos

Independent Legal Professionals



Gambling Entities

Accountants and Auditors



Dealers in Precious Metals and Stones

Art Dealers and Auction Houses



Lawyers



Trust and Company Service Providers (TCSPs)

Recognizing these risks, FATF included DNFBPs in its 2003 revision of the 40 Recommendations on AML/CFT (Countering the Financing of Terrorism). The FATF made it clear that these non-financial sectors should be subject to similar AML measures as financial institutions. This was the first major step toward extending AML regulations beyond the traditional financial sector.

Which Country First Introduced Tranche 2 Regulations?

The concept of Tranche 2 regulation began to take shape globally in the early 2000s, as countries started expanding AML obligations beyond traditional financial institutions. The United States was one of the first countries to a form of Tranche 2 regulation following the USA PATRIOT Act in 2001, in response to the 9/11 attacks. This act extended AML requirements to some non-financial sectors, though it did not comprehensively cover all DNFBPs.

AML Tranche 2 is now introduced by many other countries, including the UK, Canada, New Zealand, and Australia.



Regulation of DNFBPs in selected countries

FATF DNFBP	Australia	United Kingdom	United States	Canada	New Zealand	Hong Kong	Singapore	Malaysia
Casino	✓	✓	✓	✓	✓	✓	✓	✓
Real Estate Agents	–	✓	–	–	✓	✓	✓	✓
Lawyers	–	✓	–		✓	✓	✓	✓
Accountants	–	✓	–	✓	✓	✓	✓	✓
Notaries	–	✓	–	✓	✓	✓	✓	✓
TCSPs	–	✓	–	✓	✓	✓	✓	✓
Dealers in precious metals and stones	✓ (Limited to bullion dealers)	✓	✓	✓	✓	✓	✓ (Limited to pawn brokers)	✓ (Expect for jewellers in Malaysia)

Source: [Nathan Lynch](#)

Australia recently introduced the Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Amendment Bill 2024 for reading in Parliament. This amendment, which follows two rounds of consultation, would broaden the scope of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 to include regulations for professional services, real estate, and dealers in precious metals and stones—collectively referred to as ‘tranche two’ entities—under the regime.

Scope of proposed Amendments to Australia's AML/CTF Bill Tranche 2 entities

The amendments call for regulation on the following higher-risk sectors:

- Real estate professionals
- Professional service providers, such as lawyers, accountants, trust and company service providers
- Dealers in precious metals and stones.

Under the proposed amendments, the AML/CTF regime will bring tranche two entities in line with global compliance standards, including those set by the Financial Action Task Force (FATF).

Tranche two entities will need to enroll with AUSTRAC, Australia's regulator, who will be overseeing and enforcing these entities' reporting obligations. Existing AML/CTF requirements would also be updated to include risk assessments for entities to consider money laundering, terrorism financing, and proliferation financing risks.

In addition, the reforms would seek to modernize regulation of virtual asset and payments technology, and clarify a risk-based approach for all reporting entities.

Pioneering Country for Comprehensive Tranche 2 Regulations

One of the first countries to fully adopt comprehensive Tranche 2-style regulations is Australia with the **Anti-Money Laundering and Counter-Terrorism Financing Act 2006**. This legislation directly responded to FATF's recommendations and introduced AML obligations for DNFBPs, making Australia an early leader in enforcing Tranche 2 regulations.

Australia also recently introduced the AML/CTF Amendment Bill 2024 for reading in Parliament. This amendment, which follows two rounds of consultation, would broaden the scope of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 to include regulations for professional services, real estate, and dealers in precious metals and stones – collectively referred to as known as ‘tranche two’ entities – under the regime.

Australia's approach provided a structured framework for DNFBPs, again insisting on the effective implementation of customer due diligence, transaction monitoring, and reporting obligations similar to those imposed on financial institutions.

How Would This New Amendment Affect Businesses?

Businesses will now need to meet the new requirements, including:

- Adopting a risk-based approach to AML/CTF.
- Aligning with best practice for CDD.
- Keeping robust records.
- Setting up clear procedures for suspicious matter reports (SMRs), which are known as suspicious activity reports, or SARs, in other jurisdictions.
- Training employees in CDD, record keeping, and SMRs.
- Increasing knowledge, skills, and record-keeping around ultimate beneficial ownership (UBO), i.e., who controls the customer.

Australia's approach to UBO and trusts has been called out by the Tax Justice Network and the Australian Taxation Office, who believe more transparency is needed. One recommendation mooted by the Senate is the introduction of a beneficial ownership register.

Know Who You're Doing Business With

By extending the AML/CTF regime to the DNFBP sector, AUSTRAC's reporting population is expected to increase from roughly 17,000 to 90,000 entities. These entities are required to collect beneficial ownership information as part of customer due diligence efforts, or CDD.

Understanding who ultimately controls your customer is important in detecting, disrupting, and preventing money laundering and terrorism financing. It can also protect your organization from being exploited for other crimes.



AML/CTF regulations will apply to Australian attorneys, accountants, real estate agents, and dealers of precious metals and stones. As with other AML-obligated industries, these professionals will also need to perform PEP and sanctions screening as part of their AML screening procedures.

AUSTRAC requires all reporting entities to identify and verify their customers' beneficial owners and assess the money laundering and terrorism financing risk they pose. Reporting entities are also obliged to keep records of how they identified and verified each beneficial owner.

A beneficial owner is an individual who controls or owns 25% of an entity. Ownership can be direct (such as shareholdings) or indirect (such as ownership through another company, bank, or broker). To control an entity, the beneficial owner must be able to make decisions about the entity's finances and operations. An entity may have more than one beneficial owner.

One major challenge for the DNFBP sector in meeting AML screening requirements is doing so within budget constraints. Unlike the financial sector, DNFBPs often lack the resources for advanced tech-based tools necessary for effective due diligence.

With AML Watcher's flexible pricing and customizable features, DNFBPs can achieve compliance without breaking the bank. Learn how AML Watcher supports DNFBPs every step of the way.

ABOUT US

At AML Watcher, we aim to support more than 10,000 businesses in their fight against rising FinCrime by creating a secure and compliant financial world where they can thrive.

AML Watcher maintains 60,000+ databases including 1300+ watchlists, over 200+ sanction regimes, local and international PEP coverage, over 5000 reputed and reliable media sources across 235+ countries, in 80+ languages bringing everything you need for AML Screening in one place.

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