

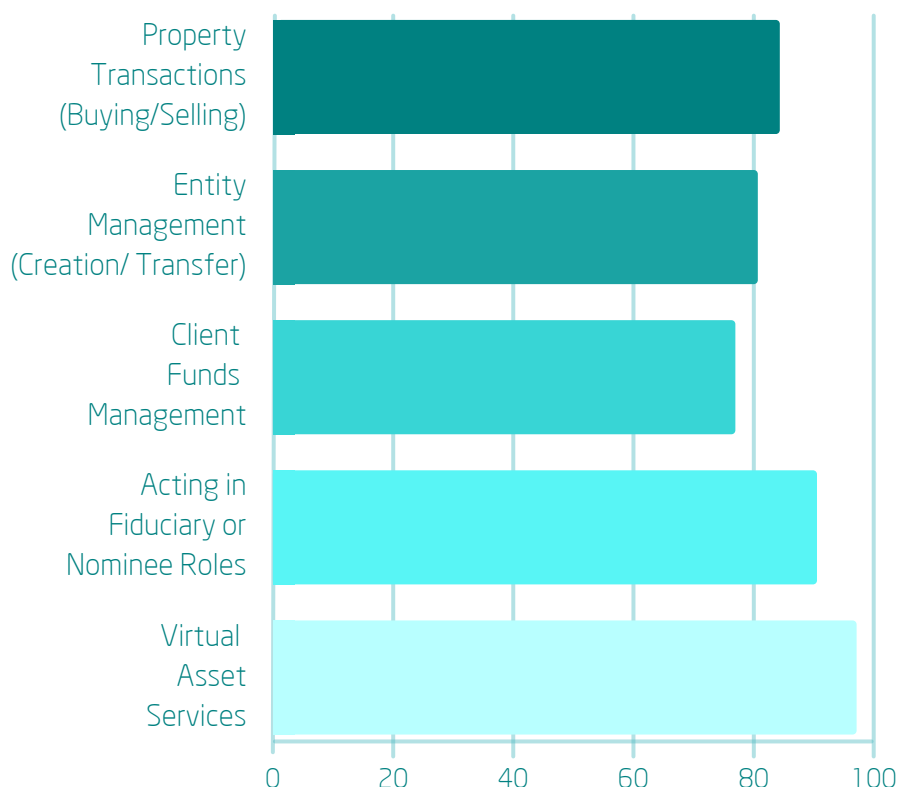
IS YOUR FIRM READY FOR TRANCHE 2?

AML COMPLIANCE GUIDE



Are You a Reporting Entity? Designated Services for Lawyers.

AML/CFT obligations are triggered by providing specific 'designated services' not by all legal work. This chart highlights the key service categories that will bring a law firm under AUSTRAC's regulatory scope. If your firm provides any of these, you must prepare for compliance.



Other service areas in scope include acting in transactions for debt financing, transferring a shelf company, and creating or restructuring a corporate body.

The critical takeaway is the need for firms to meticulously review their service offerings to determine if and when their AML/CTF obligations begin.

The new rules specifically target transactional work with a higher inherent risk of exploitation for money laundering. This includes:

1 Property & Entity Transactions

Buying, selling, transferring or restructuring real estate, companies and trusts.

2 Funds Management

Receiving, holding, controlling or managing a client's money, accounts, securities or securities accounts, virtual assets or other property.

3 Fiduciary/Nominee Roles

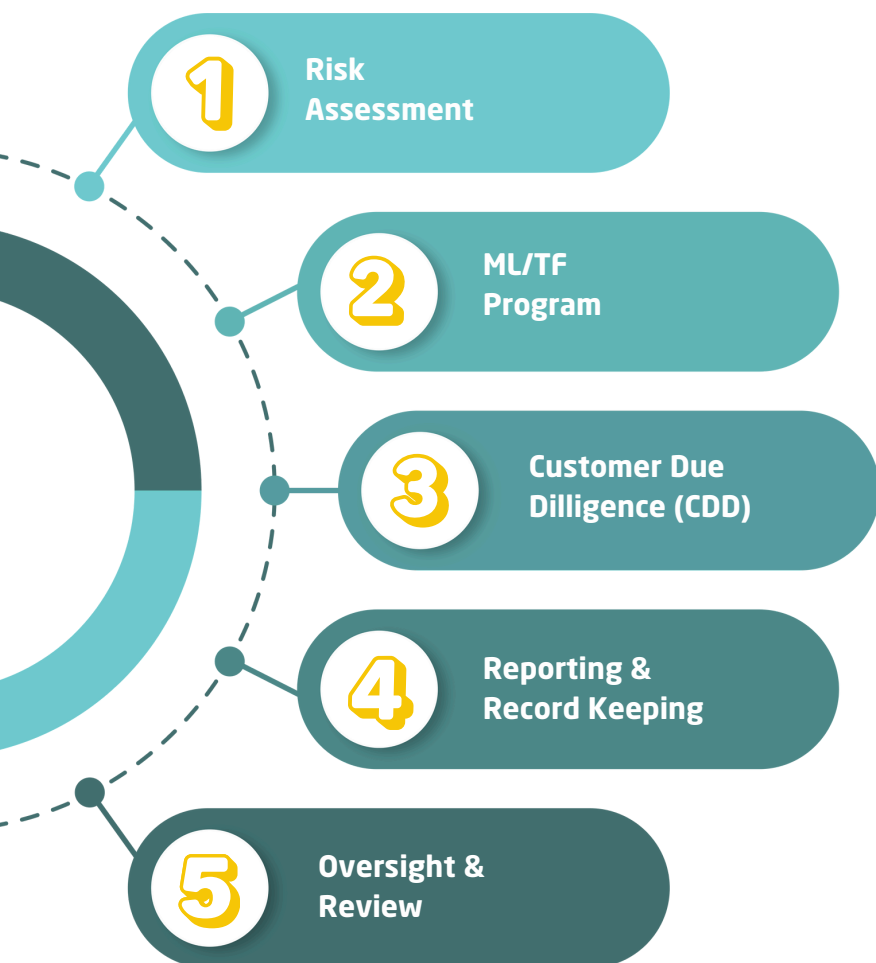
Acting as a director or secretary of a company, a power of attorney of a body corporate or legal arrangement, a partner in a partnership, a trustee of an express trust, or any other functionally equivalent position on behalf of a person.

4 Virtual Asset Services

Engaging in transactions or services involving cryptocurrencies and other virtual assets that carry heightened scrutiny.

The Core Pillars of Your ML/TF/PF Risk Assessment

Compliance is not a single action, but a continuous, integrated process. A robust ML/TF/PF framework is built on several interdependent pillars, creating a cycle of risk assessment action and review. Weakness in one area undermines the entire structure.



1 Risk Assessment

The foundation. A thorough, documented analysis of your firm's specific ML/TF/PF risks based on clients, services delivery channels, and geography. This is a living document, updated regularly.

2 ML/TF Program

The blueprint. Develop and implement a tailored program with written policies, systems, procedures, and internal controls to manage the risks you've identified. Must be approved by senior management.

3 Customer Due Dilligence (CDD)

Know your client. Implement processes to identify and verify clients and beneficial owners before providing services. Conduct ongoing monitoring throughout the relationship.

4 Reporting & Record Keeping

Report suspicious matters (SMRs), threshold transactions (TTRs), IVTs and internal transfers to AUSTRAC. Submit an annual report to AUSTRAC summarising how you've met their AML/CTF obligations. Maintain all relevant records (i.e. documents relating to the AML/CTF program, transaction records, staff training sessions, audit results) for at least seven years.

5 Oversight & Review

Appoint an AML/CF Compliance Officer (AMLCO - someone senior enough to be able to push back on decisions, escalate risks and say "no", when needed), conduct employee due diligence, provide ongoing staff training, and undertake an independent review of your program at least every three years. Findings from the review feed back into your risk assessment.

The Clock is Ticking: Less Than 12 Months To Go!

Australia's AML/CTF regime is expanding, bringing lawyers, accountants, and real estate agents into a new era of regulatory responsibility. With less than a year until the Tranche 2 reforms are implemented, we strongly recommend that you start preparing now as there is a lot to do! Here are some key dates you should be aware of.



AML/CTF Rules finalised



Core guidance for AML/CTF Rules expected to be finalised



Sector specific guidance to be finalised with a consultation period prior to this



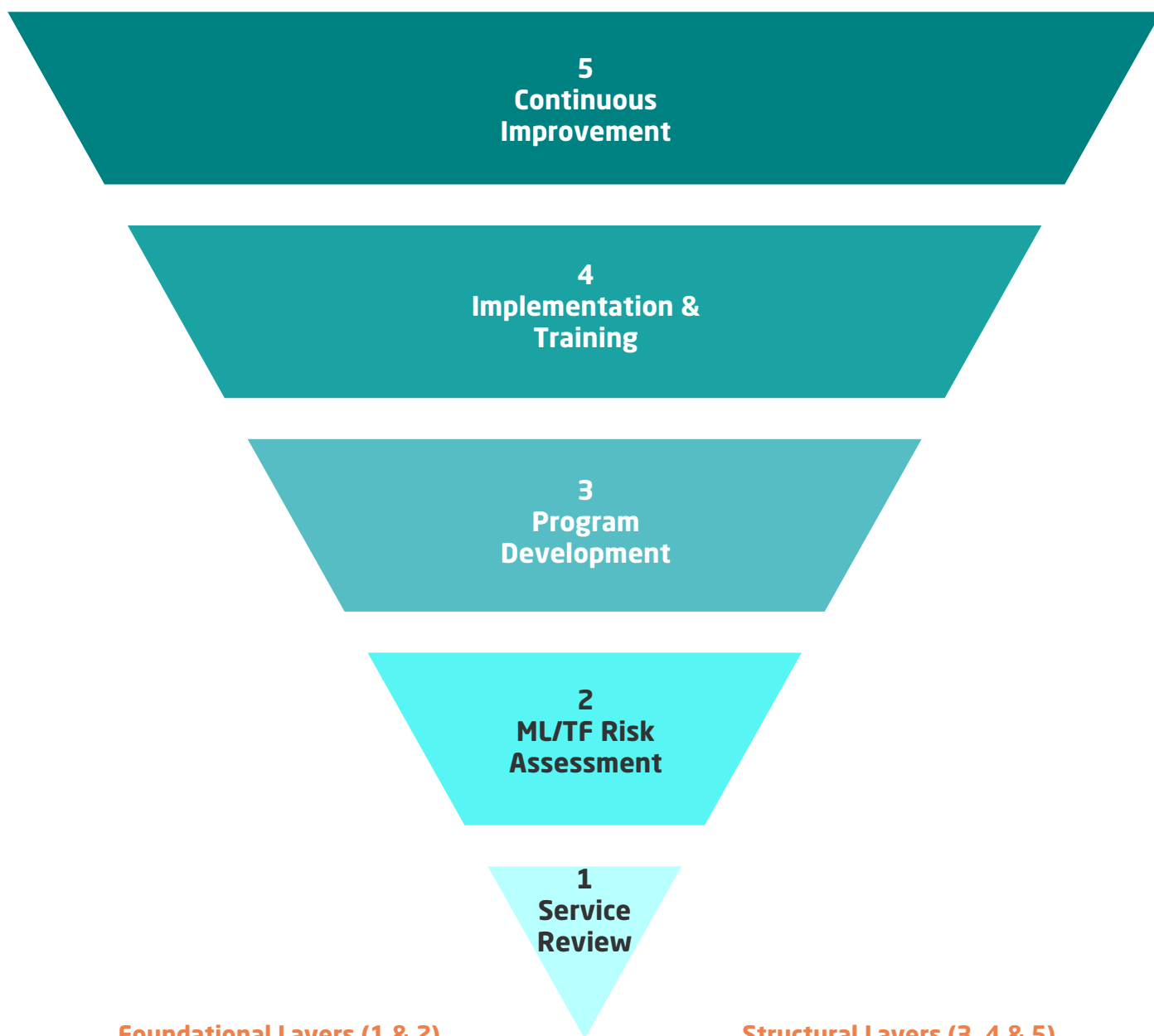
Earlier commencement for virtual asset services



Commencement date for general Tranche 2 obligations

The Pyramid of Preparation

Building compliance capability requires a structured approach. Start with foundational assessments and build up to a fully operational and reviewable program. Each level supports the ones above it.



Foundational Layers (1 & 2)

Begin by reviewing all your services against the 'designated services' list. This is the absolute first step. Then, conduct a comprehensive ML/TF risk assessment to understand your unique vulnerabilities. This assessment is the bedrock of your entire program.

Structural Layers (3, 4 & 5)

Use your risk assessment to develop a tailored AML/CTF program. Implement this program by updating systems, appointing a compliance officer, and training all staff. Finally establish a cycle of independent review and continuous improvement to ensure your program remains effective and compliant over time.

AUSTRAC is Listening: Key Changes in the Second Draft

Industry feedback on the first exposure draft has led to meaningful changes, demonstrating the value of engagement. The second draft introduces more flexibility while also adding new requirements, particularly for high-risk areas.

AREA OF FOCUS	KEY UPDATE OR CLARIFICATION IN SECOND DRAFT
✓ Customer Due Diligence	The burdensome requirement to collect and verify a client's 'Place of Birth' has been <u>DELETED</u> based on overwhelming industry feedback.
✓ Initial CDD Flexibility	Rules now apply for delayed initial customer due diligence (CDD) in a <u>WIDER</u> range of circumstances, increasing operational flexibility.
✓ Reporting Groups	Provides <u>GREATER FLEXIBILITY</u> in determining the lead entity and offers more detail on how to form reporting groups.
✓ New Reporting Details	<u>NEW REQUIREMENTS</u> for reportable details in SMRs and TTRs, especially for virtual assets (e.g. wallet addresses, asset type).
✓ International Transfers	<u>TRANSITIONAL ARRANGEMENTS</u> are now proposed to delay the new IVTR rules until post-2026, allowing more time for development.



Try Our FREE AML Risk Assessment Tool!

Our complimentary data collection tool for firmwide risk assessments will give you the knowledge to support your needs in a solution-led, effective way in preparation for the introduction of the new rules.

Simply email hello@amlsorted.com for access.

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