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### British Virgin Islands mandates greater transparency with money laundering law

By [Brian Monroe](#)

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The British Virgin Islands, identified by U.S. officials as a secrecy jurisdiction, enacted anti-money laundering legislation last week that requires financial institutions to identify the beneficial owners of companies, cut ties with shell banks and refuse requests to open anonymous accounts.

The measure, which replaces guidance issued in 1999 and expands financial crime laws dating to 1992, helps the Caribbean jurisdiction comply with the European Union's Third Money Laundering Directive.

The directive also calls for member states to mandate that banks adopt a risk-based approach to AML programs, and that lawyers and other professionals identify the beneficial owners of companies, political figures and clients' source of funds.

Norman Jones, director of London consultancy AML Support UK, said governments and financial institutions are pressuring jurisdictions such as the British Virgin Islands to provide more transparency in their financial systems. The new laws help improve its standing with other governments and within the international business community.

"Rightly or wrongly, the British Virgin Islands has had a reputation as an island...where it's hard to get information, and they needed to address that," said Jones, a former member of Scotland Yard's fraud squad.

The British Virgin Islands announced passage of the AML provisions roughly one year after U.S. lawmakers introduced a bill that would impose disclosure requirements on U.S. taxpayers using jurisdictions named as tax havens and give the government more authority over foreign financial institutions that impede U.S. tax enforcement.

The bill, introduced by Senators Carl Levin, Norm Coleman, and presidential hopeful Barack Obama, names 34 areas it considers secrecy jurisdictions – including the British Virgin Islands, Cayman Islands, Isle of Man and others. If the bill passes, it would force any bank doing business with a U.S. client tied to these jurisdictions to notify the U.S. Internal Revenue Service.

The Paris-based Financial Action Task Force, which issues global AML standards, recommends that, as part of the customer due diligence process, financial institutions take reasonable measures to verify the identity of beneficial owners, including understanding the control structures related to legal persons and arrangements. Currently, the United States does not comply with this directive.

"You simply can't do business with banks or individuals if you are not getting a favorable response" when a bank is requesting know your customer and other risk assessment information, Jones said.

Under the new law, financial institutions also must give higher scrutiny to politically exposed persons, correspondent relationships in high-risk jurisdictions and certain trusts. Institutions subject to the new laws must also keep detailed due diligence information on customers for five years or face penalties of as much as \$3,500.

The law also extends AML requirements to car and boat dealers, jewelers and any person buying and selling "high-valued goods" of more than \$15,000 because such entities are "vulnerable to activities of money laundering and terrorist financing."

It may be difficult for some banks to adopt these measures simply because, for so long, privacy and the promise of a confidential banking relationship was "very culturally ingrained," said Kenneth Bryant, the managing director of Bryant & Associates, a Hayesville, North Carolina-based AML consultancy. "But the secrecy they offered for high end banking, though it didn't start out this way, is being used by bad guys in a bad way," he said.

A U.S. Senate investigative subcommittee report released in August 2006 identified the British Virgin Islands – along with Belize, the Cayman Islands, the Isle of Man, Nevis and Panama – as targets of a year-long probe into offshore tax havens whose laws help individuals rob the U.S. Treasury of as much as \$70 billion in unpaid taxes annually.

The 370-page report from the Senate Permanent Subcommittee on Investigations said that the British Virgin Islands was one of the regions used by fraudsters in six major offshore scams aiding rich, politically-connected individuals to dodge U.S. tax laws. The report urged the U.S. government to tighten up beneficial ownership requirements and subject hedge funds to AML laws.

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