EXPLANATORY MEMORANDUM TO

THE MONEY LAUNDERING (AMENDMENT) REGULATIONS 2011

2011 No. 1781

1. This explanatory memorandum has been prepared by HM Treasury and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 These Regulations amend the Money Laundering Regulations 2007 (S.I. 2007/2157), to add Junior ISAs to the list of products qualifying for simplified due diligence measures under those Regulations. The effect is that full customer due diligence measures, for example verifying a customer's identity when an account is opened, need not be carried out where a transaction relates to a Junior ISA.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None.

4. Legislative Context

4.1 These Regulations add Junior ISAs to the list of products qualifying for simplified due diligence under the Money Laundering Regulations 2007. The Individual Savings Account Regulations 1998 (S.I. 1998/1870), as amended by the Individual Savings Account (Amendment No. 2) Regulations 2011 (S.I. 2011/1780), provide for the establishment, operation and tax exemption of Junior ISAs. The Individual Savings Account (Amendment No. 2) Regulations 2011 have been laid before the House of Commons at the same time as these Regulations are laid before Parliament.

4.2 The Money Laundering Regulations 2007, which these Regulations amend, implement in part the Third Money Laundering Directive (Directive 2005/60/EC) of the European Parliament and of the Council on the use of the financial system for the purpose of money laundering and terrorist financing (OJ No. L309, 25.11.2005, p 15). The Third Money Laundering Directive provides for derogations from the customer due diligence requirements in certain circumstances, including in respect of products or transactions which represent a low risk of money laundering or terrorist financing.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

- What is being done and why

7.1 The Government has introduced Junior ISAs - a voluntary tax-free children's saving account. Junior ISAs will enable parents and others to save in a clear and simple way for children who are not eligible for a Child Trust Fund. Full details of the Junior ISA policy are set out in the Explanatory Memorandum to the Individual Savings Account (Amendment No. 2) Regulations 2011.

7.2 Junior ISAs are being added to the list of products eligible for 'simplified due diligence' under the Money Laundering Regulations 2007. This means that full customer due diligence measures – for example verifying the identity of customers – need not be carried out for transactions concerning Junior ISAs.

7.3 Junior ISAs are considered to be a low risk product for the purposes of money laundering and terrorist financing. Child Trust Funds are similarly subject to simplified due diligence measures under the 2007 Regulations. Account providers will still be required to apply appropriate measures if they suspect money laundering or terrorist financing.

- Consolidation

7.4 There are currently no plans to consolidate the relevant legislation.

8. Consultation outcome

8.1 After the Government announced the establishment of the new account on 26 October 2010, the Treasury and H.M. Revenue & Customs held informal discussions with interested parties on Junior ISA features and processes. The Government then published draft Regulations with an accompanying explanatory note on 31 March 2011, alongside the Finance Bill 2011. The Government actively sought comments from potential account providers and other interested parties. In total over 60 written responses were received by the closing date of 31 May 2011.

9. Guidance

9.1 Extensive guidance is available on the requirements of the Money Laundering Regulations 2007. The Treasury will work with the authors of the various pieces of guidance to reflect these Regulations. HMRC will issue detailed guidance to account providers ahead of the launch of their Junior ISA accounts.

10. Impact

10.1 The impact on business, charities or voluntary bodies is expected to be minimal.

10.2 The impact on the public sector is expected to be minimal.

10.3 A separate Impact Assessment has not been prepared for this instrument.

11. Regulating small business

11.1 The legislation applies to small businesses who choose to offer Junior ISAs.

11.2 To minimise the impact of the requirements on firms employing up to 20 people, H.M. Revenue & Customs and the Treasury will continue to discuss operational processes with potential account providers and their representatives, and consider any proposals for change that are consistent with minimum requirements set out in the Individual Savings Account Regulations 1998 as amended by the Individual Savings Account (Amendment No. 2) Regulations 2011, or the Money Laundering Regulations 2007.

12. Monitoring & review

12.1 The Junior ISA scheme will be subject to continuing review by H.M. Revenue & Customs through discussions with account providers and other interested groups. The Treasury will review these Regulations accordingly.

13. Contact

Rosemary Ohen at the Treasury Tel: 0207270 6338 or email: rosemary.ohen@hmtreasury.gsi.gov.uk can answer any queries regarding the instrument.