Guidance on the application of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 to UK Patent and Trade Mark Attorneys.

Introduction

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 ("the Regulations") came into force on 26 June 2017. They set out to whom and in what circumstances the Regulations apply and what is required of those who are affected.

This guidance note has been prepared jointly by IPReg, CIPA and CITMA who sought advice from Leading Counsel. Its purpose is to assist regulated attorneys to understand how and in what circumstances the Regulations may apply to them or their firm, and in Annexe 1 provides a number of practical scenarios to illustrate the application of the Regulations. If attorneys have any doubt as to whether the type of activities being carried out may fall within the Regulations, they should consult their firm's Head of Compliance or obtain independent legal advice. Nothing in this note constitutes legal advice.

Summary

The Regulations apply to patent and trade mark attorneys only where the attorney participates in the conveyance of the intellectual property element owned by a business, as part of a wider transaction transferring ownership in that business from one party to another.

The compliance requirements triggered in the Regulations are only engaged with respect to the transactional work itself and not with respect to other parts of the attorney's business.

IPReg, CIPA and CITMA consider that the work of most attorneys would not fall within the activity envisaged by the Regulations, and where it may do, only a small proportion of the work carried out by the attorney or firm may engage the Regulations.

The Regulations

The Regulations apply to a class of relevant persons which include "independent legal professionals". This term is defined in reg 12(1) and means a firm or sole practitioner who by way of business provides legal services to other persons, when participating in financial or real property transactions concerning the buying and selling of real properties or business entities or the managing of client money, securities or other assets. The regulation provides that a person participates in a transaction when they assist in the planning or execution of the transaction or otherwise act for or on behalf of a client in the transaction.

If, in the course of business, an attorney falls within the definition of an "independent legal professional" by virtue of their participation in the transactional work described above, they have a number of duties under the Regulations. Attorneys to whom the Regulations apply should familiarise themselves with the Regulations so they are sure of their responsibilities, but these can be briefly summarised as follows:

- They must take appropriate steps to identify and assess the risks of money laundering and terrorist financing to which the business is subject;

- They must establish, maintain, review and record policies, controls and procedures to mitigate and manage effectively the risks of money laundering and terrorist financing identified in any risk assessment undertaken by the relevant person and ensure that they are applied to subsidiaries and branches;
- They must establish and maintain internal controls including the appointment of a compliance officer and the screening of employees;
- They must implement and record anti-money laundering and counter terrorist financing training;
- They must apply and record customer due diligence measures in a wide range of prescribed circumstances and consider whether to make a disclosure under the Terrorism Act 2000 or the Proceeds of Crime Act 2002;
- They must apply enhanced customer due diligence measures in cases where there is a high risk of money laundering or terrorist financing.

The work caught by the Regulations

Not all work of a Patent or Trade Mark Attorney will be caught by the Regulations and so the requirements set out in the Regulations may not apply to many attorneys. IPReg, CIPA and CITMA following an in-depth analysis with Counsel consider that in fact, very little of the usual type of business activities undertaken by regulated attorneys will require engagement with the Regulations. For money laundering checks to be required, all of the following matters must apply:

1. The firm or sole practitioner must provide by way of business, legal services to another; and
2. They must do so when participating in financial (or real property) transactions, where "participating" means:
    a. Assisting in the planning or execution of the transaction; or
    b. Otherwise acting for or on behalf of a client in the transaction; and
3. The financial (or real property) transactions must concern:
    a. The buying and selling of real property or business entities; or
    b. The managing of client money, securities or other assets.

In practical terms, the Regulations will apply where an attorney advises on intellectual property matters as part of a wider transaction transferring property in a business from one party to another, or effects the conveyance of the intellectual property element of the transaction and in doing so assists in its execution. The advice provided might be on questions of legal title to the intellectual property, the validity of it, the mechanism or transfer of it, effecting the transfer itself and recording and registering it. By providing this advice, the attorney has assisted in the planning of the transaction and so would be caught by the Regulations even if their role in the transaction could be considered minor. However, the regulations would not apply where the intellectual property advised on is not part of the business entity being conveyed.

An attorney need only comply with the anti-money laundering and counter terrorist financing duties set out in the Regulations when engaging in the activity which is caught by the Regulations; they need not carry out all the required checks and activities when the work they are undertaking does not fall within the activities of an "independent legal professional" as defined in the Regulations. It is the view of IPReg, CIPA and CITMA that as the work conducted by patent and trade mark attorneys in this context operates as part of a wider transaction carried out by third party lawyers, patent and trade mark attorneys are entitled to

place reliance on the client due diligence of those third parties to the extent that simplified money laundering checks may be sufficient.

The extent to which an attorney must make due enquiry as to whether an apparently 'free-standing' IP transaction may fall within the transactional work caught by the Regulations will depend on the facts of each case. It is difficult to see how an attorney can participate in a financial transaction to buy or sell a business entity if they do not know that the transactional work has any connection with such an underlying financial transaction. However, the attorney should not deliberately shut their eyes to the obvious and should always ensure they have carried out appropriate client due diligence.

They will need to consider the risks presented by one-off client relationships involving simple transactions and should consider common risk criteria and risk categories such as client risk, transaction risk, delivery channel risk and geographical risk in assessing and managing anti-money laundering and counter terrorist financing obligations.

While attorneys are not under a duty to 'investigate' their clients, it would be insufficient for an attorney to know so little about the circumstances of the transaction that a risk assessment was not possible. Some initial assessment will always be required, even where an attorney considers that anti money laundering obligations may not apply to them or their firm. This is because it is incumbent upon the attorney to continually ensure that their services or those of their firm are not being misused by criminals regardless of whether obligations imposed by specific Regulations apply.

Annexe 1 to this guidance provides examples of scenarios which do or do not require money laundering checks. This list is not exhaustive and attorneys should always consider the facts of each individual case when deciding whether the regulations apply. If in doubt, attorneys should consult their firm's Head of Compliance or seek independent legal advice.

Managing client money

A patent or trade mark attorney would not normally hold any client money for the purpose of transactional work. Ordinarily, the only client money held by a trade mark or patent attorney would be money paid on account for fees or money paid in advance for disbursements directly relating to the provision of the legal service to be provided.

Any client money held by a trade mark or patent attorney is subject to Rule 11 of IPReg's Rules of Conduct and IPReg's Guidance Note on Rule 11 issues in September 2015.

The mere holding on trust of client money by Patent or Trade Mark attorneys where that money is paid in anticipation of legal work to be carried out or disbursements paid, would not be caught by the Regulations. However, an attorney should always consider whether the Proceeds of Crime Act ("POCA") may apply and ensure that they have carried out appropriate client due diligence and have robust systems in place for ongoing monitoring.

Supervisory Authority

A Supervisory Authority for the purpose of the Regulations, is a body that must effectively monitor those persons in its sector to whom the Regulations apply. It must take necessary measures for the purpose of securing compliance by such persons who fall within its professional sector. Not all professional sectors to whom the Regulations may apply, require a Supervisory Authority.

In considering whether it was necessary or appropriate to establish a Supervisory Authority for the regulated Intellectual Property sector, IPReg, CIPA and CITMA considered the

approach of HM Treasury and the Office for Professional Body Anti-Money Laundering Supervision ("OPBAS"). Those bodies, in correspondence, have clarified that the question of whether a Supervisory Authority is required in any given professional sector is determined by the degree of risk of money laundering or terrorist financing arising from the work carried out in the sector, the complexity of measures required to combat such risk and the appropriateness of a particular body to assume the supervisory role.

IPReg, CIPA and CITMA considered carefully whether a Supervisory Authority was necessary or desirable for the regulated Intellectual Property Sector. Given the extent to which the work of some attorneys engages reg 12(1) and the limited risks of money laundering and terrorist financing arising from that work, IPReg, CIPA and CITMA considered that it was not necessary or desirable to establish a Supervisory Authority at this time. This will be kept under review and the position may change if ongoing risk assessments warrant the formation of such a body.

Annexe 1

Scenario 1

A US law firm instructs you to enter the European phase of a PCT application they have filed on behalf of their client, a US corporation.

Guidance: A money laundering check is **NOT** required, because the filing of the European patent application is not an activity covered by the MLR. The guidance would be the same were this to be a trade mark application, a UK patent application or a different overseas instructing law firm but attorneys should always be confident that they have carried out an appropriately robust initial assessment of the client so that they are satisfied as to the legitimacy of the transaction.

Scenario 2

A UK solicitor or foreign attorney instructs you to carry out due diligence in relation to a portfolio of trade marks, patents and designs pursuant to the potential sale of a company. You may also be instructed to prepare an appropriate confirmatory assignment and record the assignment of the registered rights at the relevant registries.

Guidance: A money laundering check is required, because you are involved in the planning or execution of the sale of the company.

Scenario 3

Your client instructs you to file overseas trade mark applications in a large number of countries. You estimate the total cost and ask the client for a payment on account in respect of the total. The client pays you the requested amount, which you hold as client money. Before you have sent instructions out to your overseas associates, the client changes their mind about the filing programme and asks you to return the payment on account.

Guidance: A money laundering check is **NOT** required, because transactions in respect of client money solely for the payment of your charges are not covered by the MLR. However, if you believe your client's activity is suspicious you may be required to make a notification under the Proceeds of Crime Act (POCA).

Scenario 4

Your client, a UK limited company, holds a large portfolio of patents relating to a range of technologies. The company wants to rationalise its business around a core operating company in one field of technology and a licensing business to monetise the patents relating to other technologies. They ask your advice on the company structure, licensing models and distribution of revenues between the companies.

Guidance: A money laundering check is advisable, because you are potentially going to be involved in the planning and execution of transactions relating to the creation and operation of companies.

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