



FACT SHEET 2026 - 1

ANTI-MONEY LAUNDERING: A GUIDE FOR CLIENTS

AUTUMN 2026

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1. INTRODUCTION

This fact sheet seeks to examine the new and existing legal obligations on both clients and lawyers in light of the new *Anti-Money Laundering and Counter-Terrorism Financing Amendment Act 2024* (Cth) (the **Act**) which imposes new requirements scheduled for implementation on 1 July 2026.

The *Anti-Money Laundering and Counter-Terrorism Financing Amendment Act 2024* (Cth) amends the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) and reforms Australia's heavily criticised anti-money laundering and counter-terrorism funding (**AML/CTF**) regime.

2. WHAT IS MONEY LAUNDERING AND TERRORISM FINANCING?

Money laundering (**ML**) refers to the process of concealing the origins of illicitly obtained financial assets to enable their use without attracting scrutiny regarding the criminal activities from where they originated.

This is typically done through 3 stages:

1. **placement**, which involves moving illicit funds away from the crime;
2. **layering**, which involves disguising the trail of money to prevent it from being traced; and
3. **integration**, making the 'cleaned' money available to the criminal again, with its original source now hidden.

Terrorism financing (**TF**) involves providing or collecting funds to support terrorist acts or organisations. These funds can come from legitimate businesses or criminal activities that can be used for very small purchases or to support entire networks.

3. WHAT ARE THE TRANCHE 2 AML/CTF REFORMS?

Tranche 2 refers to the second phase of Australia's AML/CTF regulatory reforms (**Tranche 2 reforms**), which extends regulations to designated non-financial businesses and professions (**DNFBPs**). This includes lawyers, accountants, real estate professionals, and dealers in precious metals and stones.

Historically, the regime applied only to higher-risk industries such as financial institutions, gambling operators, and bullion dealers. This regulatory blind spot has faced heavy criticism on the global stage, and as such, the Tranche 2 reforms aim to align Australia with international standards, close regulatory gaps and combat financial crime more effectively.

4. WHEN WILL THIS TAKE PLACE?

The Tranche 2 amendments are likely to result in approximately 100,000 new reporting entities.

This means that all new reporting entities that provide designated services will need to enrol with AUSTRAC by 31 March 2026 and comply with the Act by 1 July 2026.

5. CHANGES TO THE ACT:

The new changes for existing reporting entities are broad and will significantly impact clients and legal services. These changes include:

(a) **Client Due Diligence (CDD) and Verification of Client Identity:** Before they can provide designated services, lawyers will be required to take measures to verify the identity of every client upon the introduction of the Tranche 2 reforms. They will also be required to use different verification procedures based on the degree of ML/TF risk that various customers may pose.

- i. **Individual Clients:** As a minimum requirement for clients who are individuals, the client must provide their full legal name, residential address and date of birth in order to verify their identity.
- ii. **Individual Clients without conventional forms of identification:** Individual clients that do not have conventional forms of identification will be able to use AUSTRAC approved forms of alternative identification to prove their identities. These include, but are not limited to:
 - a referee statement;
 - government correspondence, including documents from state or territory corrective services;
 - a community ID or organisation membership card for Aboriginal and Torres Strait Islander peoples;
 - recently expired identification;
 - a self-attestation of their identity; or
 - they can also confirm their identity by utilising reputable organisations or bodies known to them (for example, Aboriginal and Torres Strait Islander organisations or community health organisations).
- iii. **Non-Individual Customers:** For clients who aren't individuals, lawyers must now collect sufficient information about that client so as to reasonably satisfy them that the customer actually exists. For example, if the customer is an Australian company, lawyers must collect and verify information such as the full name of the company, whether it is registered with the Australian Securities & Investments Commission (**ASIC**) as a public or proprietary company, and its Australian Company Number (**ACN**) or Australian Registered Body Number (**ARBN**).

(b) **Lawyers must now assign a risk rating to clients:**

In assigning a risk rating of high, medium or low to a client, lawyers will be assessing the following factors:

- 1) the kind of customer a client is (i.e. individual or company);
- 2) what kind of designated services they're providing to the client;
- 3) the delivery channels that will be used to provide designated services to the client; and
- 4) which countries they will be providing designated services in or through.

(c) **Continual surveillance of customer transactions and behaviours:**

Pursuant to the Tranche 2 reforms, lawyers will be required to continually monitor their clients' financial dealings and transaction. Lawyers will be looking for:

- a) unexplained transactions with new third parties with no apparent lawful or economic purpose;
- b) high-value transactions that do not align with what is known about a client's source of funds or wealth;
- c) transactions which appear to have been intentionally structured below the \$10,000 reporting threshold;
- d) clients who refuse to provide information or documents to you when you ask them for ongoing CDD; and
- e) clients who avoid answering questions about their transactional activity or behaviour.

(d) **Enhanced CDD (ECDD):** When a lawyer determines that the level of ML/TF risk is high for a particular client, clients should expect them to engage in an ECDD programme. In conducting ECDD, lawyers will carry out additional checks on a client's identification and may collect other information related to the client's financial future, past and expected transactions and behaviours. This might involve monitoring the type and frequency of transactions as well as the expected nature and level of customer transactions, including future transactions. Lawyers are required to engage in ECDD in the following high-risk situations:

- i. when a risk-based assessment returns the result that the ML/TF risk for a certain client is high;
- ii. when the lawyer intends to provide to the client who is, or has a beneficial owner who is a foreign politically exposed person (**PEP**) with a designated service;
- iii. the customer's suspicious activity or behaviour may lead to the lawyer making a suspicious matter report (**SMR**); and
- iv. a transaction involves a person or company that has a presence or is incorporated in a prescribed foreign country.

Customer due diligence can be reduced or heightened depending on the risk that a legal professional sees a client posing. For high-risk matters such as dealing with PEPs or high-risk jurisdictions, greater oversight should be applied.

(e) **Services Excluded from Regulation:**

Various legal services provided to clients are excluded from the AML/CTF legislation, meaning that no identity or other verification is required on the client's part for these to be provided.

Excluded services include but are not limited to:

- a) transactions involving short-term leases;
- b) referrals of clients to other professionals;
- c) general advice (e.g. discussing investment options but not explicitly executing transactions); and
- d) asset transfers ordered by the Court.

6. WHAT CLIENTS SHOULD EXPECT:

(a) CDD and Know Your Customer (KYC):

It is essential for a lawyer to know who they are dealing with by understanding clients, their instructions, the purpose of the relationship and client objectives, while still remaining alert to potential red flags.

At a minimum, clients should expect to have to show proof of identity when engaging a lawyer for a designated service. If the client is an individual, this will involve providing information such their full name, date and place of birth, current and any previous residential addresses, occupation, marital status, and family names.

If the client is a company, they will need to clarify and prove who controls the client entity, provide their ACN and ARBN numbers, confirm the entity's name, beneficial owners and whether they are registered with the ASIC as a public or proprietary company.

Clients will also need to clarify the purpose of the engagement and, where relevant, might expect legal professionals to take steps to verify third parties. CDD must be completed before a legal professional can provide designated services.

Clients should be aware that depending on their risk rating, and the level of risk the transaction poses from an AML/CTF perspective, they may be required to provide evidence of the source of their funds, and future or past financial and transaction records.

(b) Enhanced surveillance:

Clients might expect further investigation by legal professionals in the following circumstances:

- the client is a citizen of a high-risk country and have received funds from the high-risk country and these funds are uncertain;
- identification documents supplied were difficult to verify;
- they are vague about business;
- the client wishes to purchase assets through a trust without providing a sound reason;
- they decide not to proceed with the transaction shortly after depositing funds;
- the client is connected to countries flagged by the FATF as having weak AML/CTF controls;
- if the client is connected to a country with high corruption or terrorism rates.

If a client is engaging in cash or virtual asset transactions up to or exceeding the value of \$10,000, they can be expected to experience enhanced levels of surveillance. Such transactions have to be reported by the lawyer through a threshold transaction report under the Tranche 2 reforms.

(c) Collection of information:

Personal and financial information may be collected and stored by businesses for compliance with the Act and may be shared with AUSTRAC if the circumstances so require.

At a minimum, CDD will always be conducted by legal professionals for clients that are businesses. Clients will need to clarify and disclose who the beneficial owners of the client entity are, provide business numbers (ABN/CAN/ARBN), and confirm whether they are registered with ASIC as a public or proprietary company. Clients will also need to clarify the purpose of the engagement and, where relevant, might expect legal professionals to take steps to verify third parties. CDD must be completed before a legal professional provides designated services to a client.

(d) Ascertaining Source of Funds (SoF) and Source of Wealth (SoW)

To ensure that transactions are lawful and to manage risk, legal professionals may make enquiries which seek to establish a client's SoW and SoF. Enquiries may be made if a client is deemed higher risk. High risk clients like PEPs or complex, opaque structures may require more explanation or supporting evidence in relation to their SoW and SoF.

In such cases, clients may expect a legal professional to consult their accountant, obtain business references, review tax returns, or conduct open-source research. Client reluctance or refusal to provide information may trigger a reassessment of risks by legal professionals and will hinder their ability to provide designated services to clients.

(e) Concealing Information:

If a client intentionally withholds information like identification or financial records, this may indicate an attempt to conceal criminal activity, prompting further investigations by lawyers before proceeding with instructions.

7. LEGAL PROFESSIONAL OBLIGATIONS AND CONSEQUENCES:

(a) Decline or Cease to Act:

In upholding their duty to act with integrity, uphold the rule of law and not facilitate unlawful conduct (ML/TF), if a legal professional believes that a client's instructions would further an unlawful purpose, or if they have identified risks that cannot be adequately mitigated, lawyers have an obligation to decline to act for that client or terminate the engagement.

(b) Reporting of Cash Transactions over \$10,000

Pursuant to s15A of the *Financial Transaction Reports Act 1988* (Cth), cash transactions of \$10,000 (AUD) or more must be reported to AUSTRAC by way of a Solicitor Significant Cash Transaction Report (**SCTR**).

(c) Legal consequences:

Once DNFBPs handle client money through their trust accounts, trading accounts or otherwise, they may be “dealing with money” as defined under the *Criminal Code Act 1995* (Cth). This may expose them to liability for ML/TF offences if they unknowingly handle “dirty” funds.

Should a contravention occur, AUSTRAC may apply to the Federal Court for a civil penalty order. Said civil penalty orders can order the payment of up to \$33 million to the Commonwealth.

Considering all of the abovementioned factors, Integra Legal’s lawyers, like all other lawyers in Australia, will require full and frank disclosure, as well as cooperation from clients to ensure designated services can be legally provided. In summary, clients should:

- be prepared to verify their identity more often, especially for large or unusual transactions;
- keep records of their financial dealings, especially when using cash or virtual and untraceable assets like cryptocurrency;
- stay informed about what information they may be required to provide to lawyers in a particular context; and
- be vigilant about protecting your personal information by ensuring a business is requesting your information for the purposes of AML/CTF compliance.

(d) Broader consequences

The Tranche 2 reforms have raised concerns about proportionality. Whilst the reforms are necessary to close a long-criticised gap in Australian AML/CTF regulation, they may also impose disproportionate financial and administrative burdens on smaller DNFBPs. Smaller firms may lack the resources to upskill staff, invest in systems, and redesign their administrative processes to achieve full compliance with the reforms, which may lead to ‘de-risking’, whereby higher-risk clients are turned away to reduce compliance pressures.

8. CONCLUSION:

Under Australia’s new AML/CTF regime, DNFBPs will play a critical role in preventing financial crime. By cooperating with identity verification and ECDD processes, clients will not only contribute to ensuring financial crimes are combatted more efficiently and effectively in Australia but will also ensure that they can access designated services in full compliance with the law. For all your queries or concerns about the Tranche 2 reforms and how they impact you and your business, please contact Janette Tavelli or another Integra Legal team member on (08) 9218 8588.

DISCLAIMER: This Fact Sheet was prepared by Integra Legal, and we have taken great care to ensure the accuracy of the contents. However, it is written in general terms, and you are strongly recommended to seek specific professional advice before taking any action based on the information it contains.