HM Government

CUTTING RED TAPE

Review of the UK'S Anti-Money Laundering and Counter Financing of Terrorism regime

March 2017

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Introduction

This report is a summary of views and evidence submitted to the Cutting Red Tape review of the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) regime. The purpose of the review was to identify any aspects of the supervisory regime (not the underlying regulations but the way in which they are enforced) that make it less effective whilst imposing unnecessary burdens on legitimate, law-abiding businesses.

This is one of a series of Cutting Red Tape reviews that aim to address issues such as overlap and duplication between regulators, or to identify instances where the legislation, guidance or the approach to implementing regulations is unclear, confusing or unnecessarily burdensome.

Review scope

The Government is clear: money laundering undermines the integrity and stability of our financial markets and institutions; it is a key enabler of serious and organised crime and represents a significant threat to the UK's national security. Action to deter, detect and disrupt money laundering and terrorist financing must be made as effective as possible.

The Cutting Red Tape (CRT) review into the impact of UK's Anti-Money Laundering and Counter Financing of Terrorism Regime was launched in 2015. The review sought evidence of needless and ineffective burdens associated with the regime; for example where requirements are unclear, unnecessarily cumbersome, conflicting or confusing. The evidence was provided at face-to-face meetings, roundtables and discussions, formal submissions and comments through the Cutting Red Tape website. Input was received from a range of trade bodies, individual businesses, NGOs and supervisory bodies.

This report summarises the findings and evidence collected as part of the review. It does not make specific recommendations but identifies the impact and consequences of the current supervisory regime, as reported by business and invites relevant regulators / departments to respond.

Summary of findings

Business told us that:

A. Guidance

i. The large volume of supervisor issued guidance creates confusion and unnecessary costs for business

ii. The structure of the regime leads to overlapping and duplicated guidance.

iii. Multiple pieces of guidance fail to clearly distinguish between legal requirements and additional good practice suggestions.

iv. The Treasury guidance approval process is, in some cases, reported to take over a year to report and only covers checking guidance's compliance with the law.

v. Some large financial institutions, which have been involved in the drafting, speak highly of the existing guidance. However, some business users of the existing guidance report finding it complex, confusing and hard to understand.

vi. Multiple firms report feeling forced to hire consultants to help them navigate the regime.

B. Overall approach to compliance and its impact on the effectiveness of the regime

vii. Businesses feel that the current policy approach is at odds with the approach of many supervisors.

viii. Some businesses feel that the perceived prescriptive approach, combined with fear of the consequences of making a mistake, results in industry being unwilling to challenge any supervisor issued advice or guidance.

ix. Companies such as Financial Technology (FinTech) firms reported that their growth is hampered by the inability and unwillingness of banks to adapt to their companies' new business models.

x. FinTech firms feel that new technological solutions to help companies seeking reliable and cheap ways to comply with the law are not being adopted due to supervisors' apparent preference for traditional methods.

xi. A particularly strong focus on Customer Due Diligence checks by supervisors and in the guidance makes businesses feel unable to act in accordance with their own risk assessments.

xii. Among the industry supervisors there is no consistent approach to the separation of enforcement / supervision and representation functions.

C. Overall approach to compliance and its impact on the economy

xiii. The impact of the overall regime is reported to have wider impacts on the economy:

a. The complexity of customer due diligence requirements hits small businesses particularly hard and thus limits competition in the provision of services.

b. The current approach discourages customers (both companies and individuals) from moving their bank accounts to more competitive providers and from using different financial products.

c. The cost of complying with customer due diligence checks on new clients (particularly for SMEs) can outweigh the value of doing business with them.

d. Companies/individuals in high risk sectors report banks unwilling to accept them as a customer / withdrawing services.

D. Duplication of costly checks

xiv. Business feels unable to adopt the system of 'reliance' (where one regulated firm can rely on checks made on a client by another regulated firm).

E. Other findings

xv. Some stakeholders submitted evidence on Suspicious Activity Reports (SARs) which was shared with the Home Office who are conducting a separate SARs reform programme.

xvi. Business supervisors reported that the perceived reluctance of parts of the Government to share information with them on aspects of the regime such as sanctions, Politically Exposed Persons, and high risk country data was reducing their effectiveness at identifying and preventing wrongdoing.

xvii. Across a number of sectors we heard from businesses and supervisors that they considered there was insufficient dialogue with or feedback from HMRC and the FCA.

Review findings

Guidance

The large volume of supervisor issued guidance creates confusion and unnecessary costs for business.

There are multiple pieces of official guidance issued by different supervisors. Businesses feel that the volume of guidance increases risk (including risks relating to inconsistent guidance) and leads to an increased likelihood of differing levels of supervision and oversight by relevant Governmental departments. Small firms, in particular, can feel overwhelmed by the volume of guidance and larger firms report spending a significant amount of time on what they consider largely pointless activity. They told us that this makes the overall regime less clear-cut and effective, creates confusion and uncertainty, and adds considerably to their costs.

The structure of the regime leads to overlapping and duplicated guidance.

> "The FCA's best practice, taken in conjunction with the JMLSG guidance is simply confusing." – High street bank.

There are currently 26 active supervisors who have the power to issue their own guidance, as well as share their own differing interpretations on what compliance with the same law requires. We were told by many businesses that the mix of similar-looking but different guidance (sometimes with different legal statuses) was highly confusing. For example, firms were unsure whether they should follow the FCA Financial Crime Guide as well as other official guidance produced for the sector.

Multiple pieces of guidance fail to clearly distinguish between legal requirements and additional good practice suggestions.

> "Despite the fact it is not approved for use in courts, most institutions are looking at best practice and feeling that they must apply it." – High street bank.

Government policy is clear: when providing advice and guidance, the difference between legal requirements and good practice should be clearly stated and the impact of the advice or guidance should be considered so that it does not impose unnecessary burdens. Although guidance issued by AML/CFT supervisors does distinguish between legal requirements and suggested good practice, many businesses reported that good practice / suggested approaches contained in guidance were frequently followed as though they were legal requirements. For example, one company formation agent told us they stored all of the paper-work from their customer due diligence checks in hard copy format. They were unsure whether this was necessary or not, but told us it had a high cost attached.

"It is recognised that all authorised firms have a duty to take account of the findings of FCA thematic reviews, irrespective of whether they were undertaken in respect of a different financial services sector." – Financial services trade association

Thematic Reviews are used by FCA to assess a risk relating to an issue or product across a number of firms within a sector or market. Business in the financial services sector pointed to the perceived need to comply with best practice advice provided by the FCA, including the findings of the regulator's Thematic Reviews.

The Treasury guidance approval process is, in some cases, reported to take over a year to report and only covers checking guidance's compliance with the law.

At present there appears to be no process responsible for considering the totality of guidance given to business or its consistency and usability. Businesses told us that the process by which supervisor guidance is formally approved by HM Treasury appears to consist principally of technical / legal checks to ensure that it complies with the regulations. However, there is no evidence that those checks look at its overall effectiveness as guidance or that there is any test against the principles of better regulation – i.e. whether it's targeted, consistent, or proportionate. In other words, the approvals process is not a test of the usability and effectiveness of the guidance.

Some large financial institutions, which have been involved in the drafting, speak highly of the existing guidance. However, some business users of the existing guidance report finding it complex, confusing and hard to understand.

Those who have been involved in drafting the guidance tend to regard it as effective as it is produced by the industry. However, many smaller businesses in the financial and accountancy sectors told us that it was confusing and overwhelming. They told us that it was often poorly drafted, difficult to navigate, and made it more difficult to comply with the law and tackle money laundering risks. Some supervisors even told us the existing guidance is not appropriate for their own members because it is too long and challenging to understand. This is particularly burdensome for smaller businesses. One accountancy supervisor told us they planned to issue their own guidance, as the collective guidance for the profession is more suited to large firms than individual accountants.

Current Joint Money Laundering Steering Group (JMLSG) guidance totals 481 pages and is split into three parts. It is presented online as separate pdf documents without internal links, which makes it considerably less easy to navigate than other guidance. Several firms questioned why the JMLSG guidance did not appear to have been edited or scrutinised using better regulation / good guidance principles.

The AML/CFT guidance HMRC produces for the firms it regulates has received praise from many supervisors and firms. The HMRC guidance is listed on GOV.UK (the main government website) so has had to pass certain tests in relation to ease of comprehension, the “user journey” and length.

Multiple firms report feeling forced to hire consultants to help them navigate the regime.

In many cases businesses would approach consultants looking for prescriptive systems and controls rather than questioning what the level of risk was within their own businesses.

In theory, businesses should only have to refer to and follow the guidance produced by their supervisor (with whom they are registered for AML purposes). However, in practice, businesses told us that they thought it necessary to do so for all other guidance that might be relevant to their type of business. For example, although it is not required by law, insurance companies told us that they feel they had to stay abreast of guidance produced by HMRC, the Financial Conduct Authority and the JMLSG. This was because they felt it necessary to keep abreast of the requirements being placed on their customers (who might be subject to supervision by more than one supervisor), to understand their decision making better. However, much of the material covered by the separate sets of guidance described the same underlying legislation. Large amounts of time and resource were therefore being used unnecessarily, and could have been spent more effectively on other types of anti-money laundering activity.

While part 2 of the JMLSG guidance is in theory produced for the financial services sector only, part 1 is clearly seen as the over-arching set of guidance from which all other guidance takes its lead. It is therefore highly influential as a source document for those drafting supervisor advice and guidance. A very large number of businesses, in many regulated sectors, including accountancy, estate agency, and the law, told us that they “should” familiarise themselves with part 1 of the JMLSG guidance as well as guidance produced by their own individual supervisors.

Overall approach to compliance and its impact on the effectiveness of the regime

Businesses feel that the current policy approach is at odds with the approach of many supervisors.

> "Since the rules were introduced the regulator has continuously sought to expand the application of the rules by virtue of their own rulings… From my discussion with other firms I believe there is widespread view that this is a very large sledgehammer to crack what is for most firms a very small nut." – Legal firm

The current policy approach requires companies to do their own assessment of risk and take personal responsibility for that assessment. However, business reports many supervisors to be highly prescriptive in their approach to the requirements of demonstrating compliance.

Businesses told us that supervisors were not always following a risk-based approach to enforcement. We were told of supervisory teams applying a 'tick-box' approach; failing to consider whether a firm's risk-based controls were appropriate given the nature of the business and the risks to which it was exposed.

Some financial businesses suggested that relatively junior FCA staff did not have the necessary understanding of the business or the authority to make subjective judgements on whether a bank's AML/CFT risk-based procedures were adequately adjusted to prevent money laundering. Instead the inspectors tended to focus their attention on those things that could be easily measured or compared businesses' policies to those they had seen elsewhere before. Advice and recommendations from Financial Conduct Authority (FCA) staff are often interpreted as requirements even where the businesses do not agree these actions are effective or risk based. The view from businesses was that inspectors are adding complexity and going far beyond best practice.

> "The cost of compliance continues to escalate year on year, yet numbers of convictions for money laundering remain few by comparison." – Bank

Several businesses wanted to stress that compliance with the policies approved or endorsed by regulators and supervisors did not always result in effective prevention of money laundering. Some businesses reported having diverted resources in order to satisfy their perception of the supervisor's requirements even where they believe that these would be likely to yield no tangible prevention of money laundering.

Some financial service businesses complained that the regime, as operated by the FCA, has sometimes encouraged compliance officials in businesses "to focus on selfpreservation over combatting crime”. Some banks questioned whether the checks that form part of the current regime were actually preventing money laundering. They signposted the evidence in the NRA that money laundering still occurs on a huge scale, despite the billions spent by the financial services sector to prevent it.

Some businesses feel that the perceived prescriptive approach, combined with fear of the consequences of making a mistake, results in industry being unwilling to challenge any supervisor issued advice or guidance.

Although the FCA reported they would welcome a discussion if companies felt guidance given in inspections was unsuitable, some businesses did not feel that this was the case. We heard about an instance where the FCA inspector reportedly required a company to adopt a system used by another company with an entirely different business model, the company felt it was ‘safer’ to do what they were told – even if they felt it would be ineffective. We were told that the FCA were asking companies to do things based on a preconceived view of what is good practice based on another company’s approach. They claimed this was the case even when the other company had a completely different customer profile and client base.

Companies such as Financial Technology (FinTech) firms reported that their growth is hampered by the inability and unwillingness of banks to adapt to their companies’ new business models.

FinTech firms feel that new technological solutions to help companies seeking reliable and cheap ways to comply with the law are not being adopted due to supervisors’ apparent preference for traditional methods.

Although guidance permits systems of electronic verification it does so in a way that does not recognise the range of technologies available and stifles the use of new and innovative technologies. There was consistent feedback that much of the guidance was out of date and needed to be “future proofed” to keep in line with new technologies, products and services, such as crowd-funding, virtual currencies and biometric identification.

The JMLSG guidance defines identity using three points of reference; name, date of birth, and address. This is replicated in all other supervisor-issued guidance. Businesses told us that this fixed criteria reduces the amount of information available for firms to build up a profile of an individual and reduces the range of electronic verification systems that could be used. It also goes above the requirements of the original regulations.

> “IP addresses, device ID, geo-location data, transaction patterns, delivery addresses, and data from online data collection agencies… This kind of data is far more difficult to falsify, and creates an online fingerprint that is unique to the user…” – FinTech Firm

FinTech firms told us not only did the current guidance show bias against digital business models, which damages the growth of the sector, it also presents firms with a missed opportunity to better manage processes and risk through modern methods of identification, verification and monitoring. Some businesses suggest that the current guidance does not reflect advances in technology, particularly as many consumers now routinely bank, sign up to household utility contracts and buy insurance online thereby not having access to the hard copy documents that many businesses routinely demand.

Among digital solutions raised by businesses as potential solutions for more effective CDD, the Government Digital Service-led Identity Assurance Programme was included. This service is currently used to verify identity for DWP (Universal Credit), Insolvency Service (redundancy claims), DVLA (sharing licence information) HMRC (tax returns, PAYE etc.) and Defra (rural payments). The system relies on a user setting themselves up with a certified company just once. This information can then be used to verify someone's identity any time they wish by accessing gov.uk/verify. This type of system is currently used in Denmark, Sweden, Finland and Norway, although these countries also have either government issued ID cards or make their citizens' tax returns public, linking an online ID to their tax number.

A particularly strong focus on Customer Due Diligence checks by supervisors and in the guidance makes businesses feel unable to act in accordance with their own risk assessments.

Although customer due diligence and ongoing monitoring is an absolute legal requirement, they report feeling obliged to put too much resource into identity checks even when they consider in some cases that resource would be better focused (and more likely to detect wrongdoing) elsewhere e.g. on transaction monitoring, and call for supervisors to accept a reduction in effort on low risk activities. Despite the absence of prescription in the regulations and the clear emphasis on the use of a risk-based approach, businesses told us that there is an overwhelming focus placed on hard copy documentation in guidance (and in day to day advice offered by supervisors). Across multiple sectors there was a strong response that this emphasis was inefficient, unnecessary, poorly evidenced and did not encourage a risk-based approach. It imposes unnecessary costs on the firm and creates delays in the opening of bank accounts or impacting professionals' ability to take on new clients.

We were told by one solicitor that their client was an older person in care, who did not have a utility bill and had not renewed their passport because they were unlikely to travel. It was suggested that a pragmatic approach to whether this client needed enhanced due diligence checks was not taken because the current system (guidance, supervisor activity) is too focused on a blanket collection of identity documents at the expense of understanding and managing risk. Preventing individuals who could not easily prove their identity from the list of recommended documents (e.g. a passport or utility bill) from accessing products such as bank accounts had a negative impact on those who were more vulnerable to financial exclusion, rather than organised criminals who could use sophisticated forged documentation to evade detection. Solicitors told us that many clients found it difficult to establish accounts with financial institutions because they could not supply the requisite identity documents, even where these clients were low risk.

Among the industry supervisors there is no consistent approach to the separation of enforcement / supervision and representation functions.

The clearest example pointed out to us by some businesses and NGOs is the different approaches taken by supervisors in the legal and accountancy sectors respectively. While the Law Society, as supervisor, also represents its members (for example when lobbying government) the enforcement function in relation to breaches of the AML/CFT regulations is carried out by the Solicitors Regulation Authority. In the case of some of the accountancy supervisors however, the separation of functions is less obviously clear-cut. While all the accountancy supervisors we spoke to made clear that supervision / enforcement on the one hand and representation of the membership on the other were dealt with by separate teams, some were still part of the same body. This has given rise to criticisms of a conflict of interests by some of the NGOs who campaign on money laundering. While we were not given any evidence of such a conflict of interests leading to a less effective AML/CFT regime, the perception of such a conflict is clear.

The UK has more AML/CFT Supervisors than any other EU Member State. While no one business needs to register with more than one supervisor – other than in some specific instances, we were told by businesses and NGOs that inconsistency, duplication, and a proliferation of guidance arose from the sheer variety of practice caused by such a high number of bodies. The government's National Risk Assessment has already observed that the large number of professional body supervisors in some sectors risks inconsistencies of approach. At the same time businesses told us that they benefit from regulation by a body that knows them. Businesses in other regulated sectors (principally the financial services sector) told us that where they have concerns about the effectiveness of supervision in certain sectors, they feel the need to make additional checks themselves. This inevitably adds to the costs that are passed to the client – whether a business or an individual.

Overall approach to compliance and its impact on the economy

The impact of the overall regime is reported to have wider impacts on the economy which are highlighted below.

The complexity of customer due diligence requirements hits small businesses particularly hard and thus limits competition in the provision of services.

> "AML/CFT presents an issue to those members who do not make enough income… processing customer due diligence checks requires a significant portion of time which is often not billed for. Obtaining, checking, retaining and chasing hard copies of identification is a significant issue." – Accountancy Firm

The regime is creating a barrier to competition and entry into the market for small businesses. Whilst large firms have departments and specialist resources to manage regulatory requirements, SMEs are less able to do this. One business told the review that one of their twelve staff was employed full time to deal only with customer due diligence (CDD) checks, which forms just one part of the AML/CFT process. For some staff AML/CFT compliance forms only one part of a wider role, as well as only one part of financial crime compliance, and those who are responsible find the guidance unclear and difficult to navigate in some instances.

The current approach discourages customers (both companies and individuals) from moving their bank accounts to more competitive providers and from using different financial products.

A number of businesses told us they believed the excessive requirements placed on customers were preventing individuals and businesses from accessing new financial products and services, such as switching bank accounts. We were told that customer inconvenience was a key reason for this, stemming from a number of areas such as the multiplicity and duplication of due diligence checks, the requirement from some banks to provide hard copy identification in person, and the detail required from businesses to qualify source of funds. Many of these issues stem from over-compliance with the regulations, rather than the basic criteria of the regulations themselves. The overall impact of over-compliance therefore appears to be that individual customers and businesses face unnecessary inconvenience, making movements between products less likely. This has an impact on choice and competition within the sector, whereby customers are less likely to move or more likely to drop-off when applying for accounts.

The cost of complying with customer due diligence checks on new clients (particularly for SMEs) can outweigh the value of doing business with them.

Several businesses reported challenges and delays in acquiring financial services products because of the underlying AML/CFT regime. This was reported particularly by MSBs and FinTech businesses who told us that banks simply withdraw their services from certain sectors of the economy, but also by legal practitioners and estate agents who told us they had difficulty setting up client accounts. One solicitor told the review that financial institutions are effectively withdrawing from supporting many areas of traditional business activity simply to avoid any possible breach of AML/CFT regulations.

Companies/individuals in high risk sectors report banks unwilling to accept them as a customer / withdrawing services.

Banks however told us that they often feel that they have no alternative but to deny certain businesses access to their products because of the high risks involved with a less effectively regulated sector (as well as commercial considerations). Banks also reported such decisions being driven by the risk of the FCA or overseas regulators taking action against them for doing business with high risk customers. Some told us that ultimately the FCA's approach has sent a message to banks not to engage with any high-risk sectors or even Politically Exposed Persons (PEPs). The specific pressure exerted on the Money Laundering Reporting Officers (MLRO) due to the personal liability they face may be creating a dynamic where the MLRO is more conservative in their behaviour and more likely to take a stringent approach with disproportionate consequent costs.

MSBs supervised by HMRC are not always able to meet banks' requirements on risk because they are not provided with proof of their AML/CFT compliance. This means that they cannot demonstrate to the bank that they are compliant and that they should consequently be treated as lower risk. Some MSBs asked why the government could not set up an intermediary to check that businesses are legitimate, arguing that this might satisfy the risk baselines of banks. Other MSBs said that they would be happy to pay for audit functions on them if it meant that they were able to obtain banking facilities.

We also heard that estate agents face difficulty in opening client accounts or pooled client accounts on behalf of their clients, which is essential day-to-day practice. We were told that lettings agents, who are not subject to AML/CFT supervision, currently encounter difficulties and delays in opening accounts to hold a client's deposit, which is a statutory requirement of Tenancy Deposit legislation. Current sales estate agents, who are already covered by AML/CFT regulations, also intermittently face this issue when holding pre-contract deposits, which similarly are required to be in a segregated client account.

Estate agents reported that the difficulty for banks stems from being unable to rely on the CDD applied by estate agents to verify the beneficial owner of the funds. We were also told that banks were reluctant to open client accounts for businesses that were not part of a regulated professional body. Solicitors are able to open client accounts because of their membership of the Law Society, a regulated professional body, whereas estate agents are regulated for AML/CFT purposes by HMRC, which is not a professional body. This was described as an “accident of the way the regime has evolved”, but once transposed, 4MLD will permit the potential appointment of professional body supervisors in the estate agent sector.

Duplication of costly checks

Business feels unable to adopt the system of 'reliance'.

"We really struggle to make reliance work. We probably all over-comply." – FinTech firm

The legislation is clear that a system of 'reliance' (where one regulated firm can rely on checks made on a client by another regulated firm) is an entirely legitimate approach; however, businesses feel that they are unable to adopt it. This is largely down to the legal requirement that final liability for due diligence checks still lies with the individual entity, rather than the business on whose checks it is relying.

Businesses told us that there were several reasons for this general failure to use "reliance". One was that the guidance tended to put such strong emphasis on liability (making it clear that ultimate legal liability lay with the firm considering relying on third party checks) that it was effectively advising against its use; this makes relying on third party checks an unattractive and risky option for businesses.

Several businesses in the FinTech sector told us that the market stood ready to provide reliable third party assurance to multiple regulated firms in relation to a single client, but that the prevailing risk aversion described above was currently acting as a barrier.

In some instances the inability to operate 'reliance' results from different supervisors requiring different management of identical risks. Company A cannot rely on checks done by company B (even when all are party to the same transaction involving the same customer) if company A and B's different supervisors require different checks to manage the same risk. This is obviously not the case for financial services, which are all supervised by the FCA. Others report fear that regulators will penalise them for relying on another companies' checks.

"Several firms requesting the same information from the same customer in respect of the same transaction not only does not help in the fight against financial crime, but also adds to the inconvenience of the customer." – JMLSG Guidance

In one example, the purchaser of a property dealt with a solicitor, an accountant, a chartered surveyor (not regulated for AML purposes), a bank and an estate agent. Evidently, running CDD checks five times on the same client is significant duplication, which can add significant cost, much of which will be either passed on to the client or absorbed by the respective firms. Businesses saw this as a classic example of an unintended consequence of the regime: duplication several times over of the same requirement, when once only would have met the requirements of the law and the objective of the regime. Businesses told us that the costs would be compounded further by the nature of the checks potentially being different in each case, such as where one firm might ask to see a passport another might insist on a birth certificate.

Other findings

Business raised a number of additional concerns with the review team that technically fall outside the scope of the review, but have been included here for completeness.

Companies House and AML / CFT registration

Some parts of Business feel that Companies House should be subject to AML/CFT requirements.

Companies are able to incorporate directly with Companies House (CH) using digital or paper channels. The incorporation of companies by CH is not subject to the AML/CFT regime. CH carries out a statutory function and has an obligation to accept any correctly completed application for incorporation. It does not enter into any business relationship with companies, but ensures they comply with their disclosure requirements in return for limited liability.

However, the provision of certain specified trust and company service provider functions are specified in the 2007 regulations as being in scope. Company registration practitioners told the review that they considered that this put them at a competitive disadvantage because many potential clients would choose to incorporate directly with CH to avoid the additional costs and delays of proving their identity and source of funds.

Glossary of terms

Anti-Money Laundering / Counter Financing of Terrorism (AML/CFT) - Money laundering means exchanging money or assets that were obtained criminally for money or other assets that are 'clean'. The Regulations apply to a number of different business sectors, including financial and credit businesses, accountants and estate agents. Firms covered by the regulations must put in place certain controls to prevent their business from being used for money laundering and need to appoint a nominated officer (sometimes called the money laundering reporting officer). Source: GOV.UK

Customer Due Diligence (CDD) - Taking steps to identify your customers and checking they are who they say they are, such as obtaining a customer's name; photograph on an official document which confirms their identity; and residential address or date of birth. Source: National Risk Assessment

Financial Conduct Authority (FCA) - The Financial Conduct Authority (FCA) regulates the financial services industry in the UK. Its role includes protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers. Source: GOV.UK

FinTech (financial technologies) - Used to describe 'innovation in financial services', covering new products from start-ups, or the adoption of new approaches by existing players where technology is the key enabler. It spans many industries including banking, insurance, asset management and trading. Source: GOV.UK

Fourth Money Laundering Directive (4MLD) - The Directive is designed to combat money laundering and the financing of terrorism by preventing the financial market from being misused for these purposes. It seeks to strengthen EU rules and to ensure their consistency with the global standards laid down in the international recommendations adopted by the Financial Action Task Force (FATF). It should be transposed into EU countries' national law by 26 June 2017. Source: EU website

Joint Money Laundering Steering Group (JMLSG) - The Joint Money Laundering Steering Group is made up of the leading UK Trade Associations in the Financial Services Industry. Its aim is to promulgate good practice in countering money laundering and to give practical assistance in interpreting the UK Money Laundering Regulations. This is primarily achieved by the publication of industry Guidance. Source: JMLSG website

Money Laundering Reporting Officer (MLRO) - Businesses that are regulated by the Money Laundering Regulations must appoint what's known as a 'nominated officer'; this is also a requirement of the Proceeds of Crime Act and the Terrorism Act. The nominated officer must be someone in the business – a regulated sole trader with no employees must act as the nominated officer. The nominated officer's role is to be aware of any suspicious activity in the business that might be linked to money laundering or terrorist financing, and if necessary to report it. Source: GOV.UK

Money Service Business (MSB) - The term Money Service Business has a special meaning under the Money Laundering Regulations 2007 - a business is a Money Service Business under these regulations if it does at least one of the following:

- acts as a bureau de change - even if this is on a ship that isn't always in UK territorial waters;
- transmits money, or any representation of money, in any way (just collecting and delivering money as a 'cash courier' isn't transmitting money);
- cashes cheques that are payable to your customers. Source: GOV.UK

National Risk Assessment (NRA) - In October 2015 the UK government published an assessment of the money laundering and terrorist financing risks faced by the UK, drawing on data from UK law enforcement and intelligence agencies, anti-money laundering supervisory agencies, government departments, industry bodies, and private sector firms. Source: National Risk Assessment

Trust or Company Service Provider (TCSP) - A trust or company service provider is any firm or sole practitioner that provides the following services by way of business:

- forming companies or other legal persons
- acting, or arranging for another person to act:
  - as a director or secretary of a company
  - as a partner of a partnership
  - in a similar position in relation to other legal persons
- providing a registered office, business address, correspondence or administrative address or other related services for a company, partnership or any other legal person or arrangement
- acting, or arranging for another person to act as either:
  - a trustee or an express trust or similar legal arrangement
  - a nominee shareholder for a person other than a company whose securities are listed on a regulated market.

Source: National Risk Assessment

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