HM Revenue & Customs

Report on Tackling Financial Crime in the Supervised Sectors 2015-2017

Foreword

Money laundering and terrorist financing can undermine the integrity and stability of the financial sector and the broader economy. Her Majesty's Revenue and Customs (HMRC) plays an important role in protecting the economy, businesses and the public from these threats. HMRC:

- Is a supervisor under the Money Laundering Regulations 2017 (MLRs) with a dedicated Anti-Money Laundering Supervision (AMLS) team;
- Has intelligence assessment, interrogation and development capability, which it uses to inform its understanding of money laundering and terrorist financing risks;
- Uses punitive civil and criminal investigation capabilities to tackle serious tax non-compliance and associated money laundering, and works with the relevant prosecution authorities to secure convictions of offences under both the MLRs and the Proceeds of Crime Act 2002 (POCA); and
- Works with other government departments and law enforcement partners to deliver a credible and robust, UK-wide anti-money laundering and counter terrorist financing response.

In this, its first Report on Tackling Financial Crime in the Supervised Sectors, HMRC presents its supervisory activities and wider key achievements over the two financial years 2015-17 and its future priorities. During this period, HMRC has achieved considerable success in relation to its performance as a supervisor. The effective implementation of its Promote, Prevent, Respond strategy, has helped registered businesses understand what they need to do to comply with their obligations under the MLRs. Making full use of enforcement mechanisms, including civil penalties and prosecutions, and implementing new supervisory powers as part of the 2017 Regulations, are critical to its continued success.

Additionally, the second UK National Risk Assessment (NRA) of Money Laundering and Terrorist Financing, published in October last year continues to inform our work, building on successful government action in this area over recent years. By articulating how criminals continue to move illicit funds through the UK, the NRA underlines the risks and pinpoints areas where businesses may be currently vulnerable. This comprehensive risk assessment continues to help government, law enforcement and the private sector protect themselves against criminals laundering money or financing terrorism.

Introduction

HMRC is a key stakeholder in the UK's anti-money laundering (AML) and counter terrorist financing (CTF) regime. It works with other AML supervisors, government departments, law enforcement and intelligence partners to ensure an effective and targeted AML response.

Through HMRC's *Promote, Prevent* and *Respond* strategy, HMRC guides and supports over 27,000 registered businesses helping them identify and mitigate key risks. To ensure efficient use of its resources, HMRC employs a risk-based approach, drawing on a wide range of intelligence information, including the UK's National Risk Assessment for Money Laundering and Terrorist Financing.

Alongside this, HMRC has effective civil and criminal investigation capabilities to tackle serious tax non-compliance and associated money laundering. Teams across HMRC use the full spectrum of powers, including newly introduced capabilities within the Criminal Finances Act 2017.

HMRC has secured funding for additional investigation and intelligence capability as part of the Chancellor's 2017 Autumn Budget. This will include resource to respond to the risks outlined in the NRA, and investigate where firms fail to prevent tax evasion, one of the new legislative measures introduced in the Criminal Finances Act 2017.

HMRC's role as an Anti-Money Laundering Supervisor

HMRC, and the other 24 AML supervisors in the UK, help ensure that businesses comply with the MLRs and complete adequate customer checks to protect themselves and their services from being exploited for the purposes of money laundering and terrorist financing.

Certain types of legitimate business services can be attractive to criminals, who exploit them to launder money or finance terrorism. Life is made easier for criminals when insufficient controls are in place and they can transfer the proceeds of crime through legitimate sources, without being caught. It is therefore extremely important for businesses to put in place adequate measures to detect laundering and prevent criminals from using their services in this way.

HMRC currently supervises over 27,000 businesses across seven different sectors, comprising:

- Money Service Businesses (MSBs);
- Accountancy Service Providers (ASPs);
- Trust or Company Service Providers (TCSPs);
- High Value Dealers (HVDs);
- Estate Agency Businesses (EABs);
- Bill Payment Service Providers; and
- IT and Digital Payment Service Providers.

In most cases, businesses work effectively with HMRC to comply with the rules. HMRC has a dedicated AMLS Customer Strategy and Engagement team to support them through a targeted programme of education and support. This includes detailed guidance on gov.uk, innovative e-learning tools, speaking at conferences and a popular series of educational webinars. Its programme of update emails to registered businesses provides additional, ongoing guidance and support.

For businesses who make mistakes, HMRC aims to quickly address issues. This means putting businesses back on the right track, at the same time as putting measures in place to prevent them from making similar mistakes in the future.

Using a risk-based approach, HMRC continues to make use of a wide range of intelligence information to deploy its compliance resources where they are needed most. This also helps HMRC to identify, at the point of registration, businesses which present a higher risk, and warrant closer attention - or which should be prevented from registering and trading at all.

HMRC's new AML IT registration and case management system, implemented in early 2017, also supports our approach. In the long-term, it will make life easier for businesses – enabling them to register and renew online – and it integrates an automated risking process which will speed up HMRC's processes. This will help HMRC to quickly identify higher risk businesses and direct them to teams for closer attention, before they are registered to trade.

For those that fail to comply with the MLRs, HMRC imposes civil penalties and where appropriate, in collaboration with the appropriate prosecuting authority, will pursue criminal prosecutions. Penalties can be imposed on businesses for issues such as trading while unregistered; failing to notify HMRC of any changes to registration information; or failing to comply with audit, assurance and record-keeping procedures and training of staff.

For the most serious breaches HMRC will open criminal investigations for prosecution by the appropriate body[1]. HMRC can also restrict a business's ability to trade. HMRC works closely with other supervisors, government departments and law enforcement agencies (including the police and the National Crime Agency - NCA) to share information and support consolidated action.

HMRC's supervision is part of a much broader international effort to stop money laundering and terrorist financing. The UK's MLRs are part of wider arrangements across the European Economic Area (EEA), established by the European Union (EU) Money Laundering Directive - (currently the Fourth Directive). This EU law is principally based on international standards set by the Financial Action Task Force (FATF), a global standards organisation of which the UK is a member.

In the UK, HM Treasury is responsible for the MLRs and for appointing supervisors in this regime. HM Treasury publish an annual review of supervisory effectiveness on GOV.UK.

What HMRC charges and how it's spent

The MLRs give HMRC the authority to levy fees on the businesses it supervises. Income from fees cover HMRC's expenses in carrying out its supervisory activity. Importantly, HMRC cannot use funds from general taxation or penalties to fund this activity. However, it strives to keep costs to a minimum, ensuring that wherever possible, total costs equal total fees charged.

[1] For England and Wales this is the Crown Prosecution Service; for Scotland, the Crown Office and Procurator Fiscal Service; and for Northern Ireland, the Public Prosecution Service for NI.

HMRC introduced its current fee structure on 1 December 2017. This is:

- A non-refundable application charge of £100 for businesses applying to be newly registered;
- A £130 registration fee, renewed annually, for every premise a business operates from;
- A charge for Fit and Proper persons tests in the MSB and TCSP sectors. This is a fee of £100 per test for each director, beneficial owner, nominated officer, manager and any other person exercising effective control of the business; and
- A charge for the approvals process in the ASP, EAB and HVD sectors. This is a fee of £40 per test for each director, beneficial owner, nominated officer, manager and any other person exercising effective control of the business.

This typically gives rise to income of around £10m per year, which is used entirely to fund AMLS work. HMRC will be consulting shortly on further changes to its fees structure.

At the end of 2016-17, the staff resource (Full Time Equivalent - FTE) for HMRC's AMLS team equated to around 200. Over the last two years, HMRC staff have carried out activities including:

- Keeping a register of all supervised businesses and publishing a lookup facility on GOV.UK;
- Specifying what information those applying for registration must provide to HMRC.
- Carrying out Fit and Proper tests;
- Requiring information and attendance at meetings of relevant representatives in or connected with the business;
- Entering business premises – inspecting, observing and making copies of information found there;
- Refusing to register a business;
- Imposing civil penalties for failure to meet any requirement of the regulations.
- Where appropriate, instituting proceedings for criminal offences; and
- Making disclosures to other supervisory authorities.

HMRC's intelligence and investigation role

HMRC's aim is to deliver a system wide response to risks, offering a credible and robust investigation response when required. To ensure HMRC focuses its resource on the right risks, it has a sophisticated and highly capable intelligence function, which can analyse, assess, interrogate and develop intelligence from a wide range of domestic and international sources.

These outputs inform the UK's collective understanding of money laundering and terrorist financing risks. Alongside this, the development of specific intelligence packages direct and support HMRC's compliance activity, including money laundering supervision, and the investigation of serious tax non-compliance. HMRC officers draw on a wide range of skills and professional backgrounds, including accountants, criminal justice professionals, intelligence professionals, tax professionals, financial investigators and AML compliance officers. This capability is blended together to deliver innovative and impactful outcomes to disrupt, degrade and dismantle those involved in serious tax non-compliance or major money laundering networks.

The successful bid for financial reinvestment, outlined in the Chancellor's Autumn Budget 2017, will enhance HMRC's capacity to tackle more sophisticated and complex money laundering risks. Married with new powers in the Criminal Finances Act 2017, including the ability for HMRC to investigate businesses, such as those in the regulated sector, which fail to prevent the facilitation of tax evasion, HMRC's intelligence and investigation toolkit is second to none amongst other UK law enforcement agencies.

HMRC plays an active role across Government, working closely with partners such as the NCA, the Financial Conduct Authority (FCA) and Police Forces to ensure a joined-up approach to tackling and disrupting money laundering networks.

Priorities and achievements in 2015-17

HMRC's AML Vision

In accordance with FATF standards, HMRC applies a risk-based approach to supervising its registered and unregistered population. It does this to reduce their vulnerability to exploitation by criminals and terrorists financiers. HMRC helps businesses who need help and, where necessary, imposes measures and sanctions to tackle non-compliance and address risks.

Where non-compliance is identified, HMRC uses its full range of civil and criminal investigation capabilities, and is committed to targeting and tackling key enablers and facilitators of serious tax fraud and money laundering.

Key priorities

- Reduce the risk of money laundering and terrorist financing through the businesses HMRC supervises;
- Ensure the relevant parts of HMRC, including AMLS, tax functions and criminal investigations work together to make the most effective use of data to prevent and respond to crime;
- Effectively risk-assess applications for AML supervision: challenging those that pose the highest risk;
- Improve information flows and exchanges between other supervisors and international partners to identify criminal activity;
- Expand and enhance HMRC communications to supervised businesses – encouraging compliance through effective promote strategies;
- Continue to understand the risks in each of its supervised sectors for both registered and unregistered businesses. This will involve thematic reviews and 'test and challenge' campaigns;
- Develop effective digital tools that are easy to use and help businesses effectively manage money laundering/terrorist financing risks;
- Increase the perception, in deliberately non-compliant or criminally complicit businesses, that facilitating tax evasion or money laundering will be detected by HMRC and they will face strong sanctions and reputational damage; and
- Prepare for the FATF Mutual Evaluation in 2018 and implement the MLRs 2017.

Key achievements

Ensuring relevant businesses are supervised and preventing unsuitable people from owning or running these businesses –

- The number of businesses on HMRC's register has risen from 18,000 to over 27,000 during the last six years, spread over 80,000 premises;
- HMRC's new AMLS Registration and Case Management was introduced in 2016-17, with all businesses expected to register on the system by mid-2018;
- HMRC carries out statutory Fit and Proper (F&P) tests on relevant people in TCSP and MSB businesses applying to be registered. These tests continue to help prevent unsuitable people from owning or running these businesses. When a person no longer meets the criteria under the MLRs, their F&P status can be withdrawn and their business deregistered. Comparing 2015-16 and 2016-17, there was an increase in the number of F&P tests undertaken, and we expect this to increase in 2017-18 with the new requirements on F&P tests in the MLRs.

Improved knowledge of supervised sectors –

- In October 2015, the Government published the first National Risk Assessment relating to money laundering and terrorist financing. An updated version of the NRA has recently been published on GOV.UK, providing a detailed picture of the risks facing the UK;
- As well as contributing to this and the resultant Action Plan, HMRC's overall *Promote*, *Prevent* and *Respond* approach targets the highest risks in its supervised businesses.

Promoting compliance with the regulations –

- Nearly 40% of targeted emails to registered business are opened by recipients - well above the industry average. Importantly, these emails provide useful information and help raise compliance standards in HMRC's registered community;
- In the financial years 2015-17, HMRC conducted over 3,700 direct interventions (including desk-based research and visits) with registered businesses;
- In addition, HMRC runs educational webinars and for 2015-17 over 12,000 participants have joined live sessions or watched the recording afterwards on GOV.UK. In response to demand from businesses, HMRC has provided in-depth sessions on Customer Due Diligence (CDD) and Suspicious Activity Reporting (SARs). Further webinars with other sectors and topics have taken place in 2017-18.

Tackling non-compliance –

- Total penalties imposed by HMRC for regulatory breaches in 2015-16, were 1,153, with a value of £558,432. In line with HMRC's risk-based approach, 2015-16 saw a higher number of registration penalties, which have a lower

penalty value compared to compliance penalties. Registration penalties include late registration and failing to notify HMRC of changes in key information, whilst compliance penalties relate to breaches in policies and procedures, including customer due diligence;
- In 2016-17, there were 895 penalties, worth a value of £1,171,679, reflecting an increase in the number of compliance penalties, attracting a higher value;
- Civil sanctions are appropriate in the majority of supervisory cases, although in the financial years 2015-17, HMRC secured four successful prosecutions for regulatory breaches.

Tackling financial crime –
- In 2015-16 HMRC achieved 30 convictions for POCA money laundering or MLR regulatory offences, resulting in a sum of custodial sentences of 1,033 months;
- In the same period using the confiscation and cash forfeiture powers in the Proceeds of Crime Act, recovered £26.9 million of criminal proceeds, of which £6.5 million was associated with money laundering;
- In 2016-17 HMRC achieved 42 convictions for POCA money laundering or MLR offences, resulting in a sum of custodial sentences of 1,115 months;
- In the same period using various POCA powers, recovered £24.9 million of which £6.2 million was associated with money laundering;
- Publicised operational outcomes involving individuals or business facilitating money laundering, selected highlights include:
    - A joint operation with Greater Manchester Police following identification of £400,000 and drugs, following a raid on residential premises;
    - Recovering monies from a husband and wife who were found guilty of laundering significant sums through their Money Service Business;
    - Securing a substantial confiscation order against a money launderer who used illegal online banking facilities to launder the proceeds of crime.
- Established a taskforce looking at tax compliance of MSBs and their customers. As a result, HMRC has opened 122 tax evasion interventions into MSBs and 1,402 tax evasion interventions into those using MSBs to cash cheques and transmit money. Intelligence outcomes from this work is increasing the UK's collective understanding of tax and money laundering risk.

Working with other supervisors and law enforcement agencies

The NRA demonstrates the strong steps the UK has already taken, but highlights the need for greater collaboration to deal with the significant threats.

HMRC continues to collaborate with the wider law enforcement agencies and other supervisors in tackling money laundering and terrorist financing. Specifically, this has included:

- Working with the City of London Police on a number of operations – resulting in police arrests and the removal of F&P status from a number of supervised persons;
- Collaborating with the Metropolitan Police – resulting in the arrest and removal of F&P status from supervised individuals;
- Working with Police Scotland on the links between metal theft and cheque cashing;
- Responding to requests from foreign supervisors. Information has been shared with a number of jurisdictions, including the US;
- Working with the Spanish supervisor, learning more about Spanish compliance work with large agent networks; and
- Collaborating with the Lithuanian and Latvian authorities and supervisors successfully to tackle cross-border money laundering.

Alongside the new MLRs, HM Treasury has created an oversight body for professional body supervision – the Office for Professional Body Anti-Money Laundering Supervision (OPBAS), to be hosted by the FCA. HMRC will work closely with OPBAS and other supervisors going forward. HMRC intends to adopt the OPBAS standards to ensure it provides the same standards of supervision as Professional Body Supervisors and will set out in future reports how it has drawn on OPBAS's guidance, as well as explaining any deviations from it.

Transforming HMRC's response to AML

The financial year 2017-18 has been a key period in the development of the anti money laundering and counter-terrorist financing regime in the UK. The transposition of the Fourth Money Laundering Directive into UK law has introduced a range of reforms to the UK regime, as well as higher standards and requirements on HMRC as a supervisor. It's based on a revised set of standards set by FATF and work has been led by HM Treasury in the UK.

As noted elsewhere in this report, 2017 also saw the introduction of the Criminal Finances Act 2017, which has increased HMRC's capability to tackle money laundering and recover the suspected proceeds of crime:

- HMRC investigators can now use Disclosure Orders in support of money laundering investigations. A Disclosure Order compels the production of material relevant to an investigation, whomever may hold that information;
- HMRC is now an enforcement authority and can pursue POCA Part 5 Civil Recovery investigations and use Unexplained Wealth Orders, which introduces a rebuttable presumption that suspected criminal property is recoverable by HMRC;
- Introduced a new offence of Failure to Prevent the facilitation of tax evasion, which is applicable to businesses across the regulated sector.

HMRC has also contributed to the FATF Mutual Evaluation Review of the effectiveness of the UK's supervisory regime, which took place in 2017-18 and is working closely with HM Treasury to coordinate its activities and reporting.

In addition, HMRC is carrying out a wide-ranging programme of transformation, aimed at improving the service provided to customers and increasing further the department's effectiveness as a supervisor. The key parts of the transformation are:

- Enhancing methods of communication – including further webinars to all sectors HMRC supervises; and joint-awareness campaigns;
- Introducing a comprehensive compliance checks framework aligned to HMRC's tax compliance process. This will continue to ensure more consistent procedures and standard work instructions are used;
- Public Access to the Registers. Building on the online lookup facility for MSBs and EABs, HMRC is providing a similar facility to include all businesses, across all sectors on a lookup register on GOV.UK;
- A new Registration and Case Management System – the new system was launched early in 2017 and the roll-out has continued during 2017-18. Not only will this make life easier for businesses, it will provide a more efficient way for HMRC to supervise those registered;
- Risk Model – developing a more sophisticated approach to identifying/using information and intelligence to consider the risks in HMRC's registered businesses

and potential businesses. This will help inform decision-making on the action HMRC plans to take in its *Promote, Prevent, Respond* initiatives; and

- Exploiting Third Party Data - integrating the systems and protocols needed for the effective and appropriate use of data acquired from external law enforcement and other agencies.

Additionally, during 2017-18, HMRC has integrated its AML supervision team into its top-end investigation function, which will enhance its collective response to money laundering risk, building on existing examples of effective multi-discipline cooperation.

Overview of HMRC's business

Supervised sectors

Money Service Businesses

HMRC currently supervises almost 2,000 principal MSBs engaged in currency exchange, money transmission and cheque cashing. Banks also offer these types of services, but they are supervised by the Financial Conduct Authority (FCA).

MSBs provide a fast, low-cost way for people in the UK to transfer cash abroad. Their key advantage lies in their global-reach distribution networks – providing services to those without bank accounts.

The sector is made up of principal MSBs operating through some 45,000 agent sites – with almost half of these in high street locations. This high number of businesses, coupled with their predominant use of cash, make this a complex sector to supervise. Additionally, the services they offer are attractive to criminals.

The key people in charge of principal MSBs registered with HMRC have to pass a Fit and Proper test and HMRC works closely with the MSB principals to help them identify risks among their agent populations. Additionally, HMRC works jointly with law enforcement agencies on areas of crossover between the MLRs and POCA, and AMLS staff continue to work collaboratively with colleagues in tax areas as 'one HMRC'.

During the financial years 2015-17, HMRC focused much of its compliance activity on some of the largest and most complex supervised businesses in this sector. As part of its Thematic Review, HMRC uncovered a number of breaches and risks associated with lack of controls. Sanctions and penalties resulting from this work are expected in the next financial year. HMRC also focused its work on investigating the integrity of the register of MSBs and its details, which has led to an increase of over five times the number of registration penalties compared to the previous year and greater understanding of the risk levels within this sector.

Taskforce on MSB compliance

HMRC has continued to identify opportunities to combine supervisory work on MSBs with tackling money laundering offences and wider tax compliance work. One of these initiatives, the MSB Taskforce was setup to tackle instances of potential criminality using a variety of means. The Taskforce has involved increased multi-agency working with the NCA, the Metropolitan Police Service and other police forces across the UK.

During the first year of operation, the Taskforce identified cases worth £18million. It has also led to the removal of fit and proper status for an MSB (meaning it can no longer trade), while other MSBs have ceased trading as a consequence of the Taskforce's activity.

The work of the Taskforce has also led to the development 14 operational sub-groups, working across different regimes. These include investigations into money laundering offences and wider organised criminal groups and has also allowed HMRC to obtain valuable intelligence about remittance corridors used by MSBs.

Estate Agency Businesses (EABs)

HMRC took over supervision of the EABs in April 2014 from the Office of Fair Trading (OFT). Since then, the number of registered business has increased by 25%, with over 10,000 registered in April 2017.

All EABs in the UK currently need to register with HMRC. This includes businesses involved in residential and commercial estate agency work and the sale or lease of land and property in the UK or abroad, including real estate property auctioneering. Lettings and property management agents who do not carry out such work are not required to register.

Property is attractive for criminals because it can present opportunities to launder large sums of money through purchase and sale. Therefore, services offered by EABs are potentially at risk from criminals who want to move money from the proceeds of crime into high-value property or real estate. Because they build relationships with the buyer/seller, EABs are in a strong position to identify any suspicious activity and report this via the SARs process to the NCA.

HMRC also works with National Trading Standards Estate Agency Team, who enforce the property redress schemes, and has a standing agreement to exchange information on EABs

As part of the MLRs, implemented in June 2017, a new approvals test will be undertaken for relevant people in EABs. This new measure prohibits people with convictions for offences listed in Schedule 3 to the MLR 2017 being beneficial owners, sole proprietors, officers or managers of such businesses.

Digital engagement with EABs

When HMRC took over as supervisor for EABs from the OFT, it initially focused on enhancing its understanding of the sector, concentrating specifically on those most vulnerable to exploitation for diverting the proceeds of crime.

Businesses identified as high risk were those with multiple outlets or high value property sales. The AMLS team held meetings with the head offices of these businesses to establish their understanding of the MLRs. This understanding was then tested at branch level, where significant differences were identified between policy and practice. To address this HMRC worked to improve compliance by educating businesses to ensure they understand what is needed to comply with the regulations. This approach continues – and is showing positive improvements in application of the regulations.

AMLS has successfully used targeted emails and webinars to communicate with EABs, as part of its *Promote* work to encourage good practice:

HMRC held three live webinars for EABs in June and September 2015 and January 2016. With over 1,300 EABs taking part during the session with the take-up and feedback from the industry and registered businesses has been extremely positive. As such, AMLS continued to run webinars for EABs and other sectors in 2016 and 2017 and the recordings are already being used as part of AMLS officer training.

Customer feedback and questions from the first two webinars highlighted a desire to learn about HMRC good practice for customer due diligence. As a result, the third webinar for the EAB sector in January 2016 focused on the subject of customer due diligence.

The webinars helped AMLS to highlight particular risks and helped educate businesses about compliance. AMLS is confident that these webinars have contributed to a significant net increase in the number of EAB registrations.

Accountancy Service Providers

The definition of an ASP in the MLRs is wide-ranging, including accountancy; auditing; tax advice; book-keeping; payroll agency; tax consultancy; and customs practitioner services. Many of these businesses are supervised by one of the professional bodies that are also designated as supervisors for this sector. HMRC supervises those ASPs who are not part of a professional body, which tend to be small or micro-businesses, such as individual book-keepers. HMRC currently supervises over 13,000 ASPs.

The attractiveness of the ASP sector to money launderers and terrorist financers comes from the services offered and the knowledge and ability a complicit accountant has to circumvent controls.

With 14 other supervisors in the ASP sector, HMRC recognises the importance of collaborating and sharing information with the other ASP supervisors, including through the Accountants' Affinity Group (AAG) - a sub-group of the UK's Supervisor

Forum that brings together all the MLR supervisors. These contacts help the supervisors ensure that all relevant ASPs are supervised.

Additionally, compliance initiatives in the financial years 2015-17 have resulted in almost treble the number of compulsory de-registrations of ASPs and a significant increase in the number of ASP registration penalties.

HMRC is also working hard to support and educate the ASP businesses it supervises. In the financial years 2015-17, nearly 500 ASP participants attended two HMRC webinars. As part of the AAG group of ASP supervisors, HMRC is dedicated to working together to provide the most up-to-date and accurate information for ASPs.

As part of the MLRs, implemented in June 2017, a new approvals test will be undertaken for relevant people in ASPs. This new measure prohibits people with convictions for offences listed in Schedule 3 to the MLR 2017 being beneficial owners, sole proprietors, officers or managers of such businesses.

Trust or Company Service Providers

TCSPs are businesses offering a range of services such as forming companies or trusts; providing registered offices or related services such as mail forwarding for businesses; and providing company directors, company secretaries, trustees and nominee shareholders. At the end of the financial year 2016-17, HMRC supervised over 2,700 TCSPs.

Some TCSPs carry out these functions as their core business, but many offer the services as add-ons to other business activities. This may be the case with financial institutions, lawyers and accountants, who are already supervised for their core activity by the FCA or another supervisor. If so, then scrutiny of their additional TCSP activity will fall to their existing supervisor.

One of the main risks is the anonymity TCSP services can give to their clients. This makes it extremely attractive for those wishing to exploit the sector – the ability to seem legitimate, whilst conducting fraud or money laundering activity.

TCSPs can be involved in creating complex interlinked arrangements for their clients, involving a variety of companies, trusts and property, sometimes covering more than one jurisdiction. Furthermore, the use of nominee shareholders and directors sometimes adds to the challenges of determining ultimate beneficial ownership.

TCSP services make an important contribution to the UK economy, helping businesses start up, operate flexibly and grow. However, the products and services provided can be part of arrangements used for criminal purposes such as money laundering. This might take place one or more steps removed from the business service offered.

The MLRs respond to TCSP risks by only allowing those that HMRC are satisfied are Fit and Proper to join its register and carry out TCSP activities. All sole proprietors, partners, directors, beneficial owners, managers and the nominated officer of TCSP entities have to pass a Fit and Proper Test with HMRC in order to carry out their roles.

High Value Dealers

HVDs are businesses that are prepared to accept or make payments of €10,000[2] or more in cash in exchange for goods, whether in single or linked transactions.

HMRC currently supervises around 700 HVDs. The sector is complex in both its size and reach, encompassing businesses from car dealerships to auction houses. As such, HMRC are working closely with a wide range of trade and representative bodies to educate and support businesses who should be registered to do so.

In accepting high-value cash payments, HVDs provide an opportunity for money launderers to quickly turn proceeds of crime into assets. These can then be sold, or provide a legitimate source of funds for the criminal. Although this practice is relatively unsophisticated, it is still attractive for those wishing to launder money. HMRC is improving its knowledge and insight of this sector, by working with trade bodies.

As part of the MLRs, implemented in June 2017, a new approvals test will be undertaken for relevant people in HVDs. This new measure prohibits people with convictions for offences listed in Schedule 3 to the MLR 2017 being beneficial owners, sole proprietors, officers or managers of such businesses.

Bill Payment Service Providers and IT & Digital Payment Service Providers

Bill Payment Service Providers (BPSPs) provide a mechanism for customers to pay their bills to a utility company. BPSPs must register with HMRC under the MLRs only if they are not already supervised by the FCA.

---

[2] From 26 June 2017. Prior to that it applied to accepting payments of cash of over €15,000

Telecommunications, Digital and IT Payment Service Providers connect the purchaser and supplier using a telecommunications, digital and IT device, and must also register with HMRC.

Both of these types of provider facilitate rapid payment by individuals and so represent a way of transferring value between entities. HMRC continues to provide effective support and supervision of these sectors, including through the identification of risks and test visiting a number of service providers.