



HM Treasury

# Anti-money laundering and counter-terrorist financing: Supervision report 2018-19

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August 2020



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# Foreword

The UK is one of the world's largest and most open economies. Whilst the majority of financial transactions through and within the UK are entirely legitimate, its openness and status as a global financial centre brings with it the heightened risk of illicit financial flows from money laundering and terrorist financing. Such risks threaten our security and prosperity. To ensure the integrity of our financial system, protect communities and support legitimate businesses, the government has taken robust action to clamp down on illicit finance.

The UK's anti-money laundering (AML) and counter-terrorist financing (CTF) supervisory regime is comprehensive and the UK's response to economic crime has been recognised as world-leading. In December 2018, the Financial Action Task Force (FATF), the global standard-setter for AML/CTF, found that the UK had one of the toughest systems for combatting money laundering and terrorist financing of any country it has assessed to date.

Such a result is indicative of the effectiveness of steps taken by the government, particularly in partnership with the private sector, to create an increasingly robust regime. Nevertheless, the FATF noted shortcomings in the preventative measures that regulated firms take under the Money Laundering Regulations 2017 (MLRs) to detect and deter money laundering and terrorist financing. FATF also identified inconsistencies in the performance of the 25 supervisors, whose role it is to monitor, facilitate and ensure compliance with the MLRs, and, in particular, the 22 professional bodies in the accountancy and legal sector. The government recognises that there is more work to be done and we are working to strengthen the regime further by implementing FATF's recommendations.

We continue to work in partnership with the private sector to deliver on our aim to ensure the UK's financial system is hostile to illicit finance. The Economic Crime Plan articulates the collective action being taken to enhance the UK's response to economic crime over the next three years and includes, as one of its strategic priorities, a commitment to enhance the risk-based approach to supervision.<sup>1</sup> The Economic Crime Strategic Board will continue to hold supervisors accountable for delivering their Economic Crime plan commitments in full.

This year, the government has transposed the vast majority of the Fifth Anti-Money Laundering Directive into domestic law. This transposition ensures the UK's AML/CTF regime remains comprehensive, responsive to emerging threats, and in line with evolving international standards set by FATF.

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<sup>1</sup> <https://www.gov.uk/government/publications/economic-crime-plan-2019-to-2022>

The government recognises the importance of developing and maintaining a robust and shared national understanding of money laundering (ML) and terrorist financing (TF) risks. The National Risk Assessment (NRA) is the definitive high-level assessment of money laundering and terrorist financing risk in the UK. The 2020 NRA, to be published later this year, will serve as a stocktake of our understanding of these risks, including how they have changed since the 2017 NRA. This will inform government and supervisors' continuing work to prevent terrorists and criminals moving money through the UK and to ensure that the UK's AML/CTF regime remains robust, proportionate and responsive to emerging threats.

Effective supervision is key to a successful risk-based regime, that focusses supervisory and law enforcement resources on the highest risk but does not place unnecessary burdens on business. The more effective the UK's supervision regime is, the more we can reduce the vulnerability of the financial system to illicit finance, lessening the pressure on law enforcement.

The work of the Office for Professional Body Anti-Money Laundering Supervision (OPBAS), established in January 2018, continues to ensure that the 22 legal and accountancy professional body AML supervisors adopt consistent and high standards of supervision. In 2018, OPBAS conducted supervisory assessments of each of the 22 professional body supervisors (PBSs) and published an overview of their findings. In March 2020, they published a report on progress and themes from 2019, based on their ongoing supervision and made a number of observations. They include an increase in the use of supervisory tools by PBSs (indicating a move towards more proactive supervision), increased levels of intelligence and information sharing, both between PBSs and with law enforcement agencies, and improvement in AML enforcement activity.

However, whilst they found that there has been strong improvement across both the legal and accountancy sectors, they concluded that there is still work to do in assessing the effectiveness of the strategies PBSs have put in place to address weaknesses. I have continued to meet regularly with the senior leaders of the professional body AML supervisors to recognise the progress made and to emphasise that the government expects more to be done to tackle illicit finance in the professional services sectors and the importance that I place on the work of OPBAS to be. I will continue to engage with the professional body supervisors to ensure these issues are being addressed.

I will also be looking to the statutory AML supervisors – the Financial Conduct Authority (FCA), HM Revenue and Customs (HMRC) and the Gambling Commission - for evidence of continued improvements in their effectiveness.

Given the size and importance of the UK's financial sector and the high ML/TF risks it faces, effective and risk-based supervision by the FCA is critical to the overall effectiveness of the UK's AML/CTF regime. Since 2015, the FCA has prioritised tackling financial crime and is committed to improving intelligence sharing with the government and relevant agencies and to use intelligence, data and technology to improve their approach to AML. As part of the Economic Crime Plan, HMRC has committed to delivering an enhanced risk-based approach to AML/CTF supervision, supported by the recent increase in charges to its supervised population. This will allow HMRC to carry out more interventions, giving the supervisor greater coverage of its supervised businesses and intensifying its focus on disrupting illicit finance. The FATF MER found that the Gambling Commission had a good understanding of the

ML/TF risks in the gambling sector and applied risk-based approach to supervision. I will look to the Gambling Commission for a continuation in their high standards of AML/CTF supervision.

There have also been improvements in the strength of action taken by statutory supervisors against non-compliance, including the second largest financial penalty for AML controls failings ever imposed by the FCA.

The Treasury will continue to monitor improvements in the supervision regime through the Economic Crime Delivery Board, as it monitors progress against the plan's actions; ongoing engagement at official level; and its annual supervision reports.

I would like to thank the supervisors for their contributions to this report and their ongoing collaboration. The Treasury is committed to continuing to work in partnership with the supervisors as we lead the global fight against illicit financial flows.

A handwritten signature in black ink that reads "John P. Glen" with a stylized flourish underneath.

John Glen MP

Economic Secretary to the Treasury



# Chapter 1

## Introduction

This is the Treasury's eighth annual report on AML/CTF supervision. This report includes self-reported data about activity undertaken in 2018-19 across the UK's AML/CTF regime, which supervisors provided to the Treasury in their annual returns. The data collected in these returns covers the period 6 April 2018 to 5 April 2019. This report provides transparency about the performance of AML/CTF supervisors, and fulfils the Treasury's obligation under the Money Laundering Regulations (MLRs) to ask all designated AML/CTF supervisors to provide information on their supervisory activity and publish a consolidated review of this information.

- 1.1 Under the MLRs, the Treasury is responsible for appointing AML/CTF supervisors (see Annex 1 for the full list of current supervisors). Working closely with both statutory supervisors (FCA, HMRC and the Gambling Commission) and the 22 legal and accountancy PBSs, as well as with OPBAS, the Treasury seeks to ensure they deliver upon the government's objective of a robust and risk-based approach to supervision, applying dissuasive sanctioning powers when appropriate, while minimising unnecessary burdens on regulated firms.
- 1.2 The UK's AML/CTF regime is based on the international standards set by the FATF. These standards form the basis of the European Union's Fourth Money Laundering Directive (4MLD) which was transposed into UK law by the MLRs. The European Union published the Fifth Money Laundering Directive (5MLD) in June 2018 to further enhance money laundering legislation. The government transposed the vast majority of the provisions in the Fifth Anti-Money Laundering Directive into domestic law through, 'The Money Laundering and Terrorist Financing (Amendment) Regulations 2019', which came into force on 10 January 2020. In doing so, letting agents, art market participants and cryptoasset businesses were brought in scope of the legislation, but they are not captured in this year's report.
- 1.3 Alongside the 5MLD provisions, HM Treasury also made additional technical amendments to the MLRs to address the concerns of supervisors and strengthen AML supervision. These include:
  - amending the requirement to be registered so that Money Service Businesses (MSBs) and Trust and Company Service Providers (TCSPs) cannot practice until their application has been determined by HMRC
  - strengthening requirements relating to criminality checks to ensure that the integrity of the UK's AML/CTF regime is not jeopardised by criminals acting in key roles within regulated businesses

- 1.4 In December 2018, the FATF MER of the UK's AML/CTF regime concluded, with the publication of the final evaluation report. Whilst the UK achieved the best rating of any country assessed to date, the FATF assessed the UK's supervision regime to be only moderately effective. Specifically, it found that there were significant weaknesses in the risk-based approach to supervision among all the UK AML/CTF supervisors, except for the Gambling Commission. The statutory supervisors – the FCA, HMRC, and the Gambling Commission – and the largest legal sector supervisor (the Solicitors Regulation Authority) were assessed to have a stronger understanding of the risks present in their sectors than the other Supervisors. The report concluded that:
- PBSs have significant weaknesses in the application of a risk-based approach to supervision
  - there is a lack of dissuasive sanctioning for non-compliance with the MLRs, particularly within the accountancy and legal sectors
- 1.5 The UK accepts these findings and in July 2019, the government and the private sector published a landmark joint Economic Crime Plan, which responds to FATF's Mutual Evaluation Report recommendations and includes, as one of its strategic priorities, a commitment to enhance the risk-based approach to supervision.
- 1.6 As part of a wider package of government reforms to strengthen the UK's AML/CTF regime, the government established OPBAS in 2018 to oversee the 22 legal and accountancy PBSs and ensure a consistent standard of supervision.<sup>2</sup> It also seeks to facilitate increased information and intelligence sharing between PBSs, statutory AML supervisors and law enforcement agencies.
- 1.7 OPBAS conducted supervisory assessments in 2018 of each of the 22 PBSs and published an overview of their findings.<sup>3</sup> As part of the Economic Crime Plan (Action 36), OPBAS committed to working with the accountancy and legal professional body supervisors to ensure they have appropriate plans in place to address the AML/CTF weakness identified in their supervisory assessments and summarised in their first annual report. All PBSs have taken steps to address the weaknesses identified and have proposed action plans in place. OPBAS will continue to monitor their progress against these and assess their effectiveness to deliver more consistent supervisory standards.
- 1.8 In March 2020, OPBAS published a report on progress and themes from 2019 on PBS AML supervision.<sup>4</sup> Based on its ongoing supervision (and PBS self-reported data for the reporting period April 2018 to April 2019), they observed a strong improvement across both the legal and accountancy sectors, including:

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<sup>2</sup> In addition to the 22 bodies listed in Schedule 1 MLRs, this includes three additional legal bodies which have been delegated regulatory functions: the Solicitors Regulation Authority, the Bar Standards Board and the Chartered Institute of Legal Executives Regulation Ltd.

<sup>3</sup> <https://fca.org.uk/publication/opbas/themes-2018-opbas-anti-money-laundering-supervisory-assessments.pdf>

<sup>4</sup> <https://www.fca.org.uk/publication/opbas/supervisory-report-progress-themes-2019.pdf>

- all PBSs had identified and verified their supervised population and 86% were driving supervisory activity by AML risk, compared to just 9% of PBSs applying a risk-based approach in 2018
- 95% of PBSs had undertaken some form of AML supervision, up from 77% in 2018
- whilst previously 86% of PBSs preferred to offer support to their members rather than issue penalties to improve compliance, the total number of fines issued for MLRs contraventions, reported by PBSs, increased by 150%, from April to April 2017-18 and April to April 2018-19

However, they also noted that there were some notable outliers, including:

- 16% of PBSs continued to question the value of intelligence sharing systems
- whilst the number and total sum of fines issued for contraventions of the MLRs has increased, inconsistencies of approach remain, with 41% of PBSs not taking any kind of enforcement action for AML non-compliance during OPBAS's reporting period

Following their report, OPBAS concluded that there is still work to do, specifically in relation to testing the effectiveness testing of the PBSs' revised AML strategies and the data analysis that sits behind them. Where OPBAS has identified deficiencies in supervision, they have taken robust action, including using powers of direction. OPBAS will continue to take such action when appropriate with PBSs to ensure consistent high standards of supervision are achieved.

1.9 There have also been improvements in the strength of action taken by statutory supervisors against non-compliance. In November 2018, the Gambling Commission imposed a significant financial penalty of £7.1 million on online gambling business, Daub Alderney for AML and social responsibility failures; in April 2019, the FCA fined Standard Chartered Bank £102.2 million, the second largest financial penalty ever imposed by the FCA for AML control failings; and in September 2019, HMRC reported it had fined a West London money transmitter a record £7.8 million for a range of failures under the MLRs.

1.10 As in previous years, the Treasury has fulfilled its legislative requirement to ask all designated supervisors to provide information on their supervisory activity to inform the content of this report. This report sets out AML/CTF supervisory activity in 2018-19 based on the self-reported information provided by AML/CTF supervisors. It does not attempt to replicate the assessments undertaken by OPBAS but provides a factual review of the information AML/CTF supervisors provided in their annual returns to the Treasury.

1.11 Each chapter of this report considers a specific area:

- chapter 2 outlines the methodology the Treasury used to develop this report
- chapter 3 considers supervisor's supervisory activities

- chapter 4 considers supervisors' promotion and enforcement of compliance with the AML/CTF standards among their supervised population
- 1.12 Whilst this report shows improvements in several areas, across both statutory and the professional body supervisors, there is still more work to do. The UK's AML/CFT supervisors remain committed to further strengthening their approach and tightening the UK's defences against money laundering.
- 1.13 The Treasury will continue to work in close partnership with supervisors and other key parties, including OPBAS, to enhance the proportionality and effectiveness of the AML/CFT regime.

# Chapter 2

## Methodology

- 2.1 The MLRs require all AML/CTF supervisors to provide the Treasury with information to inform this report. The data that supervisors are required to collect and submit to the Treasury, on request, is set out in Schedule 4 of the MLRs.
- 2.2 As in previous years, the Treasury asked all supervisors to provide the required information using a standard questionnaire. It includes questions on the number of regulated firms and persons supervised, the supervisory activities carried out, the number of breaches of the MLRs, and the sanctions employed using powers provided under the MLRs. The questionnaire asked all supervisors to provide information for the period 6 April 2018 to 5 April 2019.
- 2.3 This report details AML/CTF supervisory activity in 2018-19 based on the annual returns from AML/CTF supervisors. This report covers activity by statutory supervisors – the FCA, HMRC and the Gambling Commission – and by PBSs – the legal and accountancy sector professional body supervisors.
- 2.4 The Treasury sought quantitative as well as qualitative evidence to help inform and present this report. Due to the specificities of each sector – including differences in size of supervised population, distribution of ML/TF risk within this population– it is not always appropriate to compare supervisors based on quantitative data alone. It is also important to note that updates to how supervisors collect data and changes in reporting requirements has meant year-on-year comparisons do not always compare like with like.
- 2.5 The Treasury has sought to capture the data reported by supervisors as accurately as possible.

# Chapter 3

## Supervisory activities

### Context

- 3.1 The MLRs require AML/CTF supervisors to take a risk-based approach to the supervision of their population. This involves understanding the ML/TF risk within their supervised populations to target resources on the activities that criminals are most likely to exploit. This approach ensures that supervision is focused on areas where it will have the greatest impact on detecting, deterring and disrupting criminals whilst minimising unnecessary burdens on legitimate businesses.
- 3.2 An effective risk-based approach requires a deep understanding of the supervised population; differentiating between types of firms, the services they provide, and their clients, amongst other factors. There are various resources available to assist AML/CTF supervisors build an understanding of ML/TF risks within their regulatory population, such as the guidelines published by the European Supervisory Authorities and reports published by FATF. The MLRs also require supervisors to refer to the National Risk Assessment (NRA) 2017 when they carry out their own AML/CTF risk assessments. The Treasury is due to publish the third NRA later this year. This will support supervisors in building a solid intelligence picture of the relevant sector, alongside supervisors' own risk assessments, and in disseminating findings to their supervised populations.
- 3.3 A robust and up-to-date risk methodology is key to effective implementation of a risk-based approach to AML/CTF. Supervisors have access to a range of powers to ensure the firms they supervise are implementing appropriate AML/CTF controls. They include: powers to request information, require attendance at interview, and to access firms' premises. In practice, supervisory activities often help supervisors update their understanding of the ML/TF risk within their population, and to refine their approach to focus resources where they have greatest effect.
- 3.4 Collaboration amongst AML/CTF supervisors and with law enforcement is also useful to share skills, knowledge and experience. In addition to improving supervisors' monitoring of their members, these relationships also enable supervisors to aid law enforcement investigations, ensuring criminals are successfully identified and prosecuted. This has been a key focus of OPBAS's work.

- 3.5 Adequate data protection safeguards, both in terms of processes and integrity of supervisory personnel, underpin this collaboration and are key to ensuring information is used appropriately.

## Analysis

### Onsite visits and desk-based reviews (DBRs)

- 3.6 Supervisors have a range of on-site and off-site supervisory tools at their disposal to monitor their supervised population including meeting senior management, desk-based reviews, questionnaires, periodic and ad hoc information requests. The MLRs require AML/CTF supervisors to effectively monitor their supervised populations and to vary the frequency and intensity of their on-site and off-site supervision based on the different risk profiles within their supervised population.
- 3.7 This section of the report sets out data provided by AML/CTF supervisors, as part of their annual returns, on the number of on-site visits and desk-based reviews (DBRs) they carried out and their assessment of the compliance of the supervised firms reviewed with the MLRs. For all tables in this chapter, the corresponding data for 2017-18 is included in brackets.
- 3.8 Due to the specific attributes of each sector – including differences in size of supervised population and distribution of ML/TF risk within the populations – it is not appropriate to compare supervisors based on quantitative data alone. In addition, the data does not reflect the quality of the on-site visits and DBRs undertaken.
- 3.9 The Treasury also worked with OPBAS this year to agree definitions for certain supervisory activities, such as desk-based reviews. Activities that were considered a review in previous years may now not meet the threshold, resulting in an apparent decrease in activity for some supervisors. Therefore, it is important to note that year-on-year comparisons do not always compare like with like.
- 3.10 During 2018-19, the designated AML/CTF supervisors carried out 6,201 DBRs and visits in total, on a population of approximately 85,437, compared to 6,432 in 2017-18 on a population of approximately 90,118.
- 3.11 Although the total number of DBRs and visits carried out by supervisors has decreased slightly since 2017-18, there has also been a reduction in the size of AML population. Consequently, in a supervised population where 15% are classified as high risk, according to supervisors' returns, the overall proportion of the population who received a DBR or visit, increased slightly in 2018-19, from 7.1% to 7.3%.

### FCA's supervisory activity

- 3.12 The FCA is the supervisory authority for financial services firms in the UK. It supervises c. 19,660 firms under the MLRs. There are an equivalent of 52 employees dedicated to AML/CTF supervision in the FCA, supported by sector

supervisors who are also responsible for assessing FCA supervised firms' overall AML/CTF compliance, as part of their broader supervisory functions and undertake less complex AML/CTF work.

- 3.13 Through its sector risk assessments, the FCA concluded that Retail Banking, Wholesale Banking & Capital Markets, and Wealth Management & Private Banking pose the greatest inherent ML risk, and that Retail Banking poses the highest inherent TF risk.
- 3.14 Given the size and diversity of its supervised population, and in line with the MLRs, the FCA adopts a risk-based approach to AML/CTF supervision and allocates its resources to focus most closely on those firms that present the highest risks of ML/TF. Its approach has been divided up into 3 main programmes:
- the Systematic Anti Money Laundering Programme covered the 14 largest retail and investment banks operating in the UK, who are subject to the most intensive AML/CTF supervision. Given the high risk they present, the FCA's engagement with these firms is continuous and each has a dedicated relationship manager and frontline supervision team
  - the Proactive Money Laundering Programme focused on predominantly smaller firms, that were assessed as higher risk. It covered about 30 firms per year. Depending on risk levels, firms moved in and out of the programme and a data return was used to determine if they were in scope, to ensure that the FCA assessed the firms posing the greatest ML risk
  - the Risk Assurance Programmes covered all the remaining firms within the FCA's supervised population. 29 firms were selected during the year for review, from across all sectors, with some targeting of specific sectors based on risk
- 3.15 Alongside its programmes, the FCA also communicated key messages about AML/CTF compliance via its annual AML report, data publication in November 2018 which included key findings and trends identified in data returns, as well as through:
- the first AML TechSprint that happened in May 2018<sup>5</sup>
  - a number of AML related speeches during the period about innovation and AML<sup>6</sup>, turning technology against criminals<sup>7</sup>, and how new technologies have huge potential to monitor, analyse and prevent financial crime<sup>8</sup>
  - consultation and finalised updates to the financial crime guide<sup>9</sup>, including keeping it up to date with the latest legislative requirements on

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<sup>5</sup> <https://www.fca.org.uk/events/techsprints/aml-financial-crime-international-techsprint>

<sup>6</sup> <https://www.fca.org.uk/news/speeches/ai-and-financial-crime-silver-bullet-or-red-herring>

<sup>7</sup> <https://www.fca.org.uk/news/speeches/turning-technology-against-criminals>

<sup>8</sup> <https://www.fca.org.uk/news/speeches/technology-and-global-ties-turning-tide-financial-crime>

<sup>9</sup> <https://www.fca.org.uk/publications/finalised-guidance/fg18-5-guidance-financial-crime-systems-and-controls-insider-dealing-and-market-manipulation>



AML/Financial Crime and adding a new chapter on insider dealing and market manipulation

- the e-money thematic review published in October 2018

- 3.16** As part of the Economic Crime Plan, the FCA committed to further enhancing its supervision and engagement (Action 34). This includes considering how it could use intelligence and data to better target its supervisory activity and continuing regular engagement with industry to share its supervisory findings. The FCA has continued to make progress against its commitment. It has identified changes to its proactive AML supervision and will pilot a new data led AML supervision model during the 2020-21 financial year. This will include making greater use of data and intelligence, use new and innovative technology tools to test the effectiveness of systems and controls. These changes will make sure the FCA's approach is more bespoke, flexible, targeted, and in-depth.
- 3.17** Data provided by the FCA as part of their annual return is set out in table 3.A. During the reporting period, the FCA conducted a total of 47 DBRs and 64 onsite visits. The onsite visits include 19 thematic and 9 risk assurance visits.
- 3.18** Overall, approximately 0.6% of the FCA's supervised population was subject to either a DBR or an onsite visit during the reporting period.<sup>10</sup> This is a slight reduction compared to 2017-18. Our return did not collect data on the proportion of the population visited or reviewed falling in each risk category.

**Table 3.A: Financial Conduct Authority's supervisory activity<sup>11</sup>**

2018-19	Size of AML population	Total number of DBRs assessed	No. of DBRs assessed as compliant	No. of DBRs assessed generally compliant	No. of DBRs assessed non-compliant	Informal actions taken following DBRs	Formal actions taken following DBRs	Total number of onsite visits	No. of onsite visits assessed as compliant	No. of onsite visits assessed as generally compliant	No. of onsite visits assessed as not-compliant	Informal actions taken following onsite visits	Formal actions taken following onsite visits
Financial Conduct Authority	19,660	47 (38)	0 (38)	20 (0)	0 (0)	20 (0)	27 (0)	64 (98)	0 (0)	50 (84)	14 (14)	31 (1)	33 (10)

Source: HMT Returns

- 3.19** The FCA's DBRs are comprised of 20 risk assurance reviews and 27 reactive case reviews. Reactive cases are generally not assigned a compliance rating

<sup>10</sup> Although our return clarified that DBRs which subsequently lead to onsite visits should be counted as onsite visits only, to avoid duplication, there may still have been accounting errors resulting in double-counting.

<sup>11</sup> The corresponding data for 2017-18 has been included in brackets in all tables in this chapter.

as the supervisory activity tends to focus on responding to a single issue. However, the FCA still considers these DBRs as 'off-site inspections' since supervisors are obliged to review specific AML/CTF issues.

- 3.20 The FCA also ran an AML Call Campaign, alongside wider supervisory activity, focused on firms identified as lower risk. Under their counting, both the Campaign and supervisory activity were classified as full off-site DBRs. As such, using this methodology the FCA had a total of 1,021 DBRs. However, for the purpose of this report the definition of a DBR does not include this wider activity.
- 3.21 The FCA reported that 43% of the firms subject to a DBR and 78% of firms visited were classified as 'generally compliant'. Approximately 22% of firms visited were non-compliant with the regulations. Frequent breaches identified in firms supervised by the FCA through their supervisory programmes include: inadequate client risk assessments; ineffective application of enhanced due diligence, leading to poor identification and monitoring of high risk customers; inadequate AML policy procedures; and the lack, or inadequacy, of AML training for relevant staff.
- 3.22 During the relevant period, the FCA took formal action on approximately 57% of the firms reviewed and approximately 52% of the firms visited. Formal action can include appointing a skilled person or enforcement action such as financial penalties.

### **Box 3.A: Case Study**

In 2018, the FCA conducted a proactive AML visit to a UK branch of a foreign bank, where they identified significant weaknesses in their financial crime framework, including: their risk assessment; inadequate due diligence and ongoing monitoring; and a lack of training and awareness. This led to a concern that the firm was unable to manage the money laundering risks within its business.

In order to mitigate the immediate money laundering risks, the firm voluntarily agreed to restrict its business in several areas. The FCA appointed a Skilled Person to evaluate the firm's proposed remediation plan and its successful completion. The FCA also communicated with the firm's home state regulator, to ensure a coordinated approach to the resolution of issues by the wider Group.

The branch has since completed a significant remediation programme and now has a much stronger financial crime framework.

## **HMRC's supervisory activity**

- 3.23 HMRC is responsible for the supervision of estate agency businesses, high value dealers, money service businesses, and trust or company service providers who are not supervised by the FCA or PBSs. HMRC is also the

default supervisor for Accountancy Service Providers (ASPs); it supervises those ASPs that are not supervised by one of the PBSs.

- 3.24 Overall, it supervises 23,619 obliged entities; 16,727 (c. 71%) of which are firms and 6,892 (29%) are sole practitioners. Of these, 1,366 firms and 148 sole practitioners act as Trust and Company Service Providers (TCSPs).
- 3.25 There are an equivalent of 204 employees dedicated to AML/CTF supervision in HMRC.
- 3.26 Through its sector risk assessments, HMRC concluded that: its money service businesses population present a high risk; its trust or company service providers population was medium risk; accountancy service providers present a medium-low ML risk and low risk for TF; and high value dealers and estate agency businesses were inherently low risk. Overall, HMRC reported that the majority of firms and sole practitioners were low risk but classified 16% of firms and 6% of sole practitioners as high risk, and 27% of firms and 11% of sole practitioners as medium risk.
- 3.27 In accordance with the MLRs, AML/CTF supervisors are required to vary the frequency and intensity of their on-site and off-site supervision based on the different risk profiles within their supervised population. As part of the Economic Crime Plan, HMRC committed to enhancing their supervision through a full review of its AML/CTF Supervision Operating Model and implementation of a new operating model. This model was introduced in January 2020. They are currently on track to deliver an enhanced risk-based approach by March 2021. For example, HMRC has already considerably tightened registration, leading to an increase in the number of applications rejected, and are taking a more proactive approach in using registration as a sanction.
- 3.28 A further example of progress in HMRC is the introduction of a new sanctions framework in October 2019. They also committed to conducting an annual self-assessment of their alignment to the OPBAS sourcebook standards. This review is currently underway and is helping to drive further improvements in HMRC's supervisory function. The results will be published in Autumn 2020.
- 3.29 As set out in the table below, during the reporting period, HMRC conducted 107 DBRs and 1,265 onsite visits. This means that approximately 6% of HMRC's supervised population was subject to either a DBR or an onsite visit during the reporting period. This is the same proportion as in 2017-18.

**Table 3.B: Her Majesty's Revenue and Customs supervisory activity**

2018-19	Size of AML population	Total number of DBRs	Total number of onsite visits	No. of DBRs and onsite visits assessed as compliant	No. of DBRs and onsite visits assessed as generally compliant	No. of DBRs and onsite visits assessed as not-compliant	Informal actions taken following DBRs and onsite visits	Formal actions taken following DBRs and onsite visits
HM Revenue and Customs <sup>12</sup>	23,619 (27,666)	107 (273)	1,265 (1,323)	95 (167)	227 (161)	350 (295)	322 (161)	350 (295)

Source: HMT Returns

- 3.30** Of the 1,372 firms subject to supervisory activity by HMRC in 18-19, 26% were assessed as not compliant. However, 700 cases (51% of the total firms subject to either a DBR or onsite visit) did not result in a compliance rating being recorded. This includes over 550 visits to agents or branches, who do not receive individual compliance ratings. Instead, the results of these inform the overall compliance rating of the principal business. In addition, there are a variety of other reasons why an intervention may not result in a compliance rating – e.g. businesses may cease trading or the intervention may lead to further activity by HMRC or partner agencies. When just considering the 672 businesses who received a compliance rating, 52% were assessed to be non-compliant.
- 3.31** The most frequent forms of non-compliance within the relevant period identified by HMRC were: lack of appropriate AML policies, control and procedures; inadequate customer due diligence; and failures to update checks where there is an ongoing business relationship.
- 3.32** Alongside its enforcement activity, during the relevant period, HMRC took informal action, such as a letter to the business offering advice and feedback, against 23% of those who were subject to a DBR or visit. They took formal action against all firms who were assessed to be not compliant. The formal action taken could include financial penalties, suspension or removal of authorisation to practice, or a formal warning letter.
- 3.33** Other supervisory activity undertaken by HMRC includes thematic and outreach work. For example, in 2018, they published a review of anti-money laundering compliance in the money service businesses (MSB) sector.<sup>13</sup> To ensure their wider supervised population are kept up to date on how to comply with the regulations, HMRC have also published extensive guidance on firms' obligations, best practices and risk, and send relevant risk information to businesses via email to keep them updated. They also conduct outreach work through online training and webinars, targeted at

<sup>12</sup> The figures included for HMRC's supervisory activity for 2017-18 have been updated since last year's report due to a discrepancy.

<sup>13</sup> <https://www.gov.uk/government/publications/money-laundering-supervision-review-of-money-service-businesses>

specific sectors or AML themes; a forum for MSB principals to attend to discuss issues; and by speaking at industry events across sectors to widen knowledge.

### **Box 3.B: Case Study**

In 2014, the government set up the Flag It Up! Campaign, teaming up with industry experts to promote best practice in AML compliance and reporting suspicious activity. With support from HMRC, the government expanded the campaign into the property sector in 2018.

The campaign aims to help estate agents identify business suspected of, or at risk of, money-laundering; reinforce their legal and moral obligations to report suspicious activity; and address any concerns identified.

The campaign provides a wealth of resources and guidance for professionals online.

## **Gambling Commission's supervisory activity**

- 3.34** The Gambling Commission is the supervisory authority for approximately 208 casinos; 163 of these are online casinos, 36 are land-based and 9 have a license allowing them to do both.
- 3.35** Any gambling company operating in the UK, or with customers based in the UK must hold the appropriate license issued by the Gambling Commission. Within these licensed businesses, individuals who hold certain key management functions must hold personal management licenses.
- 3.36** There are an equivalent of 4 employees dedicated to AML/CTF supervision in the Gambling Commission. However, AML/CTF is integrated into the Commission's wider work (legal, intelligence, licensing, compliance and enforcement) which also assist with AML/CTF supervision. Across these areas, there are an equivalent of 150 employees.
- 3.37** The Gambling Commission's risk assessment classifies all casinos as high risk. Within this, there are 88 higher-risk casinos. Of which, 19 are land-based, 62 are online and 7 have a license allowing them to do both. The Gambling Commission reaches this greater granularity of risk by separating those casinos with higher impact and higher likelihood of risk based on many risk indicators, such as: the businesses' gross gambling yield, consumer impact, jurisdictional risk, exposure to Politically Exposed Persons, higher risk products, channels or means of payment.
- 3.38** The Commission considers land-based casinos to have a higher level of risk, relative to other gambling sectors, due to a combination of compliance failures and the high level of cash transactions. However, online casinos face additional risks such as customers not being physically present for verification purposes and increased accessibility.

3.39 The Gambling Commission’s supervisory activity increased in 2018-19. During the reporting period, the Commission conducted 38 DBRs and 27 onsite visits to its licensed businesses. This means that approximately 31% of the commission’s supervised population was subject to either a DBR or onsite visit; an increase of approximately 13% since 2017-18.

**Table 3.C: Gambling Commission’s supervisory activity**

2018-19	Size of AML population	Total number of DBRs	No. of DBRs assessed as compliant	No. of DBRs assessed as generally compliant	No. of DBRs assessed as non-compliant	Informal actions following DBRs	Formal actions following DBRs	Total number of onsite visits	No. of onsite visits compliant	No. of onsite visits assessed as generally compliant	No. of onsite visits assessed as not-compliant	Informal actions following onsite visits	Formal actions taken following onsite visits
Gambling Commission	208 (237)	38 (27)	16 (3)	9 (13)	13 (11)	12 (13)	7 (11)	27 (15)	5 (4)	4 (4)	18 (6)	4 (8)	3 (2)

Source: HMT Returns

3.40 The Gambling Commission reported that 34% of firms subject to a DBR and 67% of firms visited, were assessed as non-compliant with the regulations. Common breaches of AML/CTF regulations identified through the Commission’s enforcement work include, among others: AML policies which are not fit for purpose, inadequate staff training programmes for ML/TF, inadequate customer risk profiling, lack of ongoing customer monitoring, inappropriate CDD procedures or CDD record keeping, and a failure to see gambling as a leisure activity for criminals to spend the proceeds of their crime. The Gambling Commission identified similar levels of non-compliance in its online and land-based supervisory population and among small and large firms.

3.41 A common factor the Commission identified in non-compliant firms was a low level of understanding regarding the risk-based approach set out in the MLRs. They also highlighted that insufficient resource being allocated to AML and a loss of experienced AML/CTF staff, alongside high turnover of staff, were common factors in non-compliance.

3.42 Following supervisory activity, the Commission took informal action against approximately 32% of firms subject to a DBR and 15% of firms subject to a visit. Formal actions were taken following approximately 18% of the DBRs and approximately 11% of visits.

3.43 Other supervisory tools used by the commission include: proactively maintaining oversight of the largest operators by conducting regular assessments of their policies and procedures, thematic pieces of work on specific topics, as well as requiring the largest operators to produce an annual assurance statement signed off at board level. This encourages licensees to reflect on processes, including AML and CTF, from board level

down and ensure they have worked to raise standards in identifying, reviewing, and correcting compliance issues.

- 3.44 The Gambling Commission also provides information to its supervised population to promote AML/CTF compliance through a range of publications and outreach work, including: its guidance, its twice-yearly AML forum meetings with MLRO and relevant compliance staff, engagement events with speakers from law enforcement agencies, its fortnightly e-newsletter to industry, its annual enforcement report, which highlights good and poor practices in the sector, and the publication of their ML/TF risk assessment to improve the sector's understanding of ML/TF risks. Additionally, the Gambling Commission's published Corporate Strategy, Business Plan and Annual Report and Accounts also recognise the importance of AML and CTF.

### Box 3.C: Case Study

In 2016, the Commission commenced a review of the licence held by Silverbond Enterprises Ltd (trading as Park Lane Club, a land-based casino), as they suspected that the Club's processes and procedures did not comply with the MLRs. This resulted in a decision notice being published online and the addition of further licence conditions to address failings to comply with the MLRs. One of these additional conditions stated that the operator was required to complete full enhanced due diligence (EDD) on its top 250 customers within its customer profiling system.

Following this review, the Commission conducted inspections with the licensee in 2018. During these visits, it discovered that a significant number of the licensee's top 250 customers had not been subject to effective EDD checks and that there was a reliance on open source or third-party providers for these customers. Whilst the licensee's internal compliance team had identified that more EDD should be obtained before allowing players to continue gambling, casino staff allowed the players to gamble without doing so.

Subsequently, the Commission had serious concerns about the manner in which the licensee was undertaking its AML responsibilities; although policies and procedures were in place, they were not being adhered to. In addition, it discovered that the licensee had failed to keep detailed records of its customers.

The Commission undertook another review of the firm's operating licence, taking account of the inspections, and concluded that the severity of the breaches warranted a financial penalty of £1.8 million. They also issued an official warning and imposed additional conditions on the operating licence, for social responsibility and money laundering failings.

## PBS's supervisory activity

- 3.45 The 22 PBSs responsible for AML/CTF supervision for the accounting and legal sectors cover supervision for a range of services including accountancy,

audit, bookkeeping, legal and notarial and the size of their supervised population varies between 0 and 10,911. Some PBSs supervise both firms and sole practitioners and others only supervise firms or individuals.

- 3.46 Overall, PBSs supervise 41,950 obliged entities; 32,217 in the accountancy sector and 9,733 in the legal sector. 62% of the obliged entities supervised by PBSs are firms and 38% are sole practitioners. Of these, 22,086 firms and sole practitioners act as TCSPs. The majority of firms and sole practitioners acting as TCSPs are in the accountancy sector (75%).
- 3.47 Across the 22 PBSs, there are an equivalent of 111 employees dedicated to AML/CTF supervision; 64 of these are in the accountancy sector and 47 are in the legal sector.
- 3.48 4 PBSs had not completed a sectoral risk assessment for the accounting period. The remaining 18 PBSs submitted breakdowns of their population per risk category (low, medium, high). Percentages of obliged entities in risk categories varied significantly between PBSs due to the different nature of their population and understanding of risks. Overall, PBSs classified approximately 10.5% of their population as high risk, 20% as medium risk and 69.5% as low risk with slight variations between the legal and accountancy sectors.
- 3.49 During the reporting period, PBSs conducted a total of 2,399 DBRs and 2,254 onsite visits; this means that approximately 11% of the total population of PBSs was subject to either a DBR or an onsite visit. This is a slight increase on the proportion in 2017-18.
- 3.50 In the accountancy sector, PBSs reported that approximately 5% of the obliged entities subject to a DBR and 14% of obliged entities visited were assessed as non-compliant with the regulations. Legal sector PBSs reported that 2% of the obliged entities subject to a DBR and 27% of obliged entities visited were non-compliant with the regulations. However, given that entities selected for DBRs and onsite visits should be selected on a risk-basis and not at random, this may not be representative of the overall compliance levels of the sector.
- 3.51 Not all interventions by PBSs have received a compliance rating. There are several reasons for this, including that some supervisors only introduced formal compliance ratings mid-way through the reporting period, as a result of feedback from OPBAS, and some compliance ratings were not finalised by the end of the reporting period.
- 3.52 Across the accountancy and legal sector alike, PBSs reported that the most frequent breaches identified in firms and sole practitioners they supervised were: the lack, or inadequacy, of firm-wide risk assessment; the lack of ongoing CDD monitoring; missing client risk assessment records; inadequate AML policy procedures and documents; and the lack, or inadequacy, of AML training for relevant staff. Several PBSs highlighted that a common factor was the lack of understanding or knowledge of the regulations among supervised entities and their obligations, especially among older practitioners. Some PBSs indicated poorly compliant firms also seemed to



view compliance as a tick-box exercise and do not prioritise it when allocating resources.

- 3.53 There has been a rise in the enforcement activity of PBSs, which is outlined in Chapter 4. However, PBSs only took formal actions in the form of disciplinary action on approximately 2% of supervised entities reviewed and 10% of firms and sole practitioners visited.
- 3.54 Whilst the number of supervisory actions carried out by PBSs increased overall, this increase was not consistent across all 22 PBSs; 3 did not undertake any DBRs or onsite visits at all during the relevant period. In some instances, this was because the supervisory activity they carried out does not fit into these categories or because some members of their supervised population did not undertake work covered by the MLRs during the reporting period. In the case of the General Council of the Bar of Northern Ireland, this was because none of their population carried out activity within the scope of the Regulations.
- 3.55 Alongside more active supervision, like DBRs and visits, PBSs also carry out a range of supervisory activity including reviewing clients' records for AML compliance through online systems and outreach work including, educational emails, training, events, online webinars and tools, such as risk assessment templates or compliance software, published guidance and contact with support staff.

**Table 3.D: Supervisory activity by members of the Accountancy Affinity Group**

2018-19	size of AML population	Total no. of DBRs	No. of DBRs assessed as compliant	No. of DBRs assessed as generally compliant	No. of DBRs assessed as non-compliant	No. of Informal actions taken following DBRs	Formal actions taken following DBRs	Total no. of onsite visits	No. of onsite visits assessed as compliant	No. of onsite visits assessed as generally compliant	No. of onsite visits assessed as non-compliant	Informal actions taken following onsite visits	Formal actions taken following onsite visits
Association of Chartered Certified Accountants	6,442 (6,983)	317 (291)	57 (103)	258 (186)	2 (2)	258 (186)	2 (2)	122 (140)	120 (122)	2 (16)	0 (2)	2 (18)	0 (0)
Association of International Accountants	275 (579)	3 (17)	0 (0)	3 (14)	0 (3)	1 (3)	2 (0)	21 (40)	4 (15)	8 (18)	9 (7)	4 (4)	17 (0)
Chartered Institute of Management Accountants <sup>14</sup>	1518 (1638)	205 (0)	205 (0)	0 (0)	0 (0)	25 (0)	0 (0)	7 (22)	5 (6)	1 (0)	1 (16)	2 (16)	0 (0)
Chartered Institute of Taxation	810 (866)	4 (1)	3 (1)	0 (0)	1 (0)	1 (0)	0 (0)	31 (22)	5 (2)	10 (13)	16 (7)	26 (18)	0 (0)
Association of Taxation Technicians <sup>15</sup>	524 (539)	5 (2)	0 (0)	1 (1)	4 (1)	5 (2)	0 (0)	14 (10)	3 (6)	2 (1)	9 (3)	12 (6)	0 (0)
Institute of Chartered Accountants	10,911 (10,881)	1003 (817)	540 (465)	406 (301)	57 (51)	37 (33)	20 (18)	1101 (930)	623 (534)	334 (259)	144 (137)	99 (82)	45 (46)

<sup>14</sup> The figures for CIMA's onsite visits in 2017-18 differ from HMT's AML and CTF Supervision Report 2017-18 due to changes in how CIMA records its visits.

<sup>15</sup> Some of the figures for ATT's onsite visits in w017-18 differ from HMT's AML and CTF Supervision Report 2017-18 due to a miscalculation.

of England & Wales													
Institute of Chartered Accountants of Ireland	520 (512)	5 (4)	3 (4)	2 (0)	0 (0)	2 (0)	0 (0)	51 (54)	40 (46)	3 (4)	8 (2)	3 (0)	8 (0)
Institute of Chartered Accountants of Scotland	907 (975)	32 (69)	26 (60)	6 (9)	0 (0)	0 (0)	6 (9)	128 (113)	65 (53)	59 (51)	4 (9)	0 (0)	62 (60)
Institute of Certified Bookkeepers <sup>16</sup>	3,137 (3,248)	90 (318)	0 (316)	90 (0)	0 (2)	90 (2)	0 (0)	35 (15)	7 (12)	20 (2)	8 (1)	20 (3)	8 (0)
Institute of Financial Accountants	1,671 (1,717)	28 (64)	2 (36)	14 (22)	12 (6)	12 (22)	0 (6)	10 (12)	0 (2)	5 (6)	5 (4)	5 (6)	1 (4)
Association of Accounting Technicians	4,504 (3,847)	131 (98)	79 (68)	45 (25)	7 (5)	46 (30)	6 (3)	88 (79)	39 (51)	31 (21)	18 (7)	38 (28)	11 (3)
International Association of Bookkeepers	811 (731)	0 (15)	0 (-)	0 (-)	0 (3)	0 (-)	0 (-)	0 (3)	0 (-)	0 (2)	0 (-)	0 (-)	0 (1)
Insolvency Practitioners Association	187 (568)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	46 (262)	20 (185)	22 (61)	4 (16)	35 (77)	1 (2)

Source: HMT returns

<sup>16</sup> In the relevant period, the ICB screened 1430 of their members' AML records and where poor compliance was found, appropriate intervention options such as outreach work or onsite visits were undertaken. This process resulted in 90 DBRs and 35 onsite visits.

Table 3.E: Supervisory activity by members of the Legal Affinity Group

2018-19	size of AML population	Total no. of DBRs	No. of DBRs assessed as compliant	No. of DBRs assessed as generally compliant	No. of DBRs assessed as non-compliant	Informal actions taken following DBRs	Formal actions taken following DBRs	Total no. of onsite visits	No. of onsite visits assessed as compliant	No. of onsite visits assessed as generally compliant	No. of onsite visits assessed as non-compliant	Informal actions taken following onsite visits	Formal actions taken following onsite visits
Solicitors Regulation Authority <sup>17</sup>	6,643 (6,659)	0 (113)	0 (0)	0 (0)	0 (0)	0 (91)	0 (22)	140 (73)	2 (-)	2 (-)	0 (-)	6 (-)	20 (-)
Law Society of N. Ireland	468 (497)	485 (489)	473 (268)	0 (208)	12 (13)	0 (208)	12 (13)	185 (209)	63 (85)	29 (23)	89 (93)	63 (76)	29 (22)
Law Society of Scotland	821 (891)	2 (0)	0 (0)	0 (0)	2 (0)	0 (0)	2 (0)	185 (266)	50 (125)	102 (124)	33 (17)	13 (-)	20 (17)
Council of Licenced Conveyancers	229 (229)	0 (-)	0 (-)	0 (-)	0 (-)	0 (-)	0 (-)	63 (91)	13 (35)	11 (35)	39 (21)	60 (56)	3 (0)
The Bar Standards Board	976 (693)	84 (0)	84 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
General Council of the Bar of N. Ireland	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Chartered Institute of Legal	17 (12)	5 (2)	5 (2)	0 (0)	0 (0)	0 (0)	0 (0)	7 (3)	6 (2)	1 (1)	0 (0)	1 (1)	0 (0)

<sup>17</sup> The SRA's population figure included in this table for 2017-18 differs from HMT's AML and CTF Supervision Report 2017-18 due to a miscalculation.

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Executives  
Regulation

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Faculty of Advocates	421 (438)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
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Faculty Office of the Archbishop of Canterbury	158 (212)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	20 (14)	6 (14)	14 (0)	0 (0)	14 (0)	0 (0)
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*Source: HMT Returns*

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### **Box 3.D: Case Study**

X is an AAT licensed bookkeeper. She was selected for a DBR and her report outlined areas for improvement by the reviewer. The reviewer summarised her AML related issues as follows:

X had not completed a firm-wide risk assessment. Her initial response referred to this being done on a client by client basis, so AAT sent a supplementary request to clarify what the firm-wide risk assessment was. AAT requested submission of her documentation in this respect to confirm she has completed the firm wide risk assessment. The reviewer also reminded her of the requirement to carry a regular review of her AML policies and procedures. She advised she would monitor but planned to complete this each September as part of her practice annual compliance review. Professional Standards issued an action plan to X. She was asked to conduct a firm-wide risk assessment and to provide the completed risk assessment to AAT for review. She was also asked to conduct a review of her firm's AML policies, controls and procedures. She submitted her firm-wide risk assessment to AAT within four days and provided a copy of her review of her AML policies, controls and procedures within two weeks of the action plan being issued to her. X was very engaged with the process and provided good, detailed responses to the action plan points.

Given the member's engagement, insight demonstrated and timely resolution, the review was closed. AAT will continue to monitor risk via the annual AML survey to identify if further intervention is required.

### **Box 3.E: Case Study**

Through its risk-based approach to supervision, an accountancy sector PBS identified significant weaknesses in the AML compliance of a member.

The PBS's intelligence section identified concerning information linked to the staff/client ratio of the practice, which was being run as a one-man, sole trader operation. The firm was also acting as a TCSP, with research showing that there were tens of thousands of Companies House matches, of both companies and officers, registered at the premises. This was considered a substantial amount for a sole trader to manage.

An on-site AML compliance inspection was subsequently carried out which confirmed the earlier intelligence. 70% - 80% of the firm's client base was made up of small freight operators, many of which operated in Continental Europe and hold overseas bank accounts. This prompted concerns regarding the potential use of haulage contractors in people and drugs trafficking, the facilitation of illegal immigration and the smuggling of other contraband.

The compliance inspection identified significant failures in the member's AML systems and control, including a lack of understanding of AML risk and

outdated policies and procedures. It also found that although client due diligence was outsourced to a third-party company, which was run by a relative of the practice licence holder, there was a total lack of acceptable CDD carried out by this practice. Open source research also discovered that a family member of the practice licence holder, who was also a haulage contractor client of the practice, had recently been convicted of serious criminal offences and sentenced to a lengthy period in custody.

Although they could not establish any links between the practice and the criminality uncovered, the PBS did find this information relevant in assessing the member's risk profile. Formal disciplinary action was then taken against the member.

### **Box 3.F: Case Study**

The Law Society of Northern Ireland ('the Society') attended a Firm to carry out an onsite integrated inspection. During the inspection, it was noted that there was a lack of evidence that any AML/CTF client due diligence and source of funds checks had been carried out on four client files reviewed.

This matter was considered by the Society's relevant regulatory Committee who directed that the solicitor be given appropriate guidance and a formal warning that the Society would take these breaches into account, in the event of recurrence, and that a revisit inspection would be carried out. The solicitor was notified of this.

The Society then returned to the Firm after a period to undertake the revisit inspection. During this revisit inspection, there was evidence of continuing failure to comply with the AML/CTF obligations and duties on solicitors, with the timing of AML/CTF checks one of the issues raised.

Following the revisit inspection, the Society's Committee noted the evidence of continuing failure to comply, despite the Society's previous correspondence to the solicitor. The Committee agreed to recommend to the Society's Council that the solicitor be referred to the independent Solicitors Disciplinary Tribunal for breach of the Solicitors Practice Regulations 1987 (As Amended) and failure to comply with AML/CTF obligations.

The Committee's recommendation was accepted by the Society's Council.

## **Cooperation, coordination and information-sharing**

- 3.56 One of the ways that supervisors have been working to improve their effectiveness is through sharing intelligence and experience across the regime. The Economic Crime Plan includes a series of actions relating to improving information and intelligence sharing, including a specific commitment to improving information-sharing between AML/CTF supervisors and law enforcement (Action 9).

3.57 Regulation 50(1) of the MLRs 2017 requires AML/CTF supervisors to take such steps as it considers appropriate to:

- co-operate with other supervisory authorities, the Treasury and law enforcement authorities in relation to the development and implementation of policies to counter money laundering and terrorist financing
- co-ordinate activities to counter money laundering and terrorist financing with other supervisory authorities and law enforcement authorities
- co-operate with overseas authorities to ensure the effective supervision of a relevant person where that person is established either a) in the UK with its head office in another country or b) in another country but with its head office in the UK

The MLRs 2017 (Regulation 50(3)) specify that such co-operation may include the sharing of information which the supervisory authority is not prevented from disclosing.

3.58 In their Treasury returns, supervisors highlighted their regular attendance at a range of supervisors' forums and discussion groups to coordinate AML/CTF activities including:

- the Anti-Money Laundering Supervisors' Forum (AMLSF), which all supervisors are invited to attend. The Treasury, the Home Office, the National Crime Agency (NCA) and OPBAS are also invited to attend and contribute
- the Public Sector Affinity Group, which is a co-operation group to share information and support and learn from other supervisors
- the Accountancy Affinity Group, which is attended by accountancy sector professional bodies
- the Legal Sector Affinity Group, which is attended by legal sector professional bodies
- discussion groups, including those run by the Royal United Services Institute and other UK and international specialist fora

3.59 Several supervisors mentioned the Intelligence Sharing Expert Working Groups (ISEWGs), created by OPBAS in conjunction with the NECC, for the accountancy and legal sectors.<sup>18</sup> The purpose of the ISEWGs (based in part on the Joint Money Laundering Intelligence Taskforce model) is to share strategic and tactical intelligence with PBSs, statutory AML supervisors and law enforcement, such as typology reports, alerts and anonymised case studies and, more generally, to create an environment to work collaboratively to improve intelligence sharing arrangements by building trust and agreeing a consistent approach.

3.60 Several supervisors also noted that their membership of the Financial Crime Information Network (FIN-NET), an intelligence-sharing network with

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<sup>18</sup> <https://www.fca.org.uk/publication/oppbas/accountancy-sector-isewg-terms-of-reference.pdf>,

<https://www.fca.org.uk/publication/oppbas/legal-sector-intelligence-sharing-expert-working-group-terms-of-reference.pdf>



quarterly meetings, helps facilitate the sharing of operational information with law enforcement and government.

- 3.61 Proactive use of the Shared Intelligence Service (SIS) was also identified as a means to facilitate information and intelligence sharing, but utilisation of the service still appears low among the smaller PBSs.

# Chapter 4

## Promoting and ensuring compliance

### Context

- 4.1 Under the MLRs 2017 (Regulations 17(1), 47(1), 47(3)), supervisors are required to provide appropriate and up-to date information on AML/CTF requirements to their supervisory population. The MLRs 2017 (Regulation 49(1)(d)), also require supervisors to ensure that regulated firms who contravene relevant requirements are liable to effective, proportionate and dissuasive measures. Supervisors may use a range of sanctions to this effect including sanctions such as fines, public censure, suspension or withdrawal of the right to provide services consistently and proportionately. Enforcement action should be effective, proportionate and dissuasive.
- 4.2 The enforcement action set out in this section also includes fines issued using powers under legislation other than the MLRs, but only where these powers have been used in response to money laundering control contraventions. This is to more accurately reflect the action supervisors have taken against AML failings.
- 4.3 The Treasury-approved sectoral guidance provides advice to firms on how to efficiently and effectively detect, deter and disrupt criminals and terrorists, targeting resources at risk whilst minimising unnecessary burdens on their business. Under the MLRs, supervisors and law enforcement authorities should consider whether firms have followed their respective sectoral guidance, when deciding whether a MLR requirement has been contravened.
- 4.4 As highlighted in Chapter 3, most supervisors provide AML/CTF information online, including through webinars, to help promote compliance and many answer specific queries through an email or a telephone advice service. Other forms of engagement include email updates, membership magazines, provision of training events or AML/CTF specific sessions at professional conferences or roadshows.

### Analysis

#### Refusing licenses to provide services

- 4.5 Supervisors can refuse a licence to practise to prevent criminals from infiltrating the regulated sector. Statutory supervisors subject key staff in regulated firms to a 'fit and proper' test to determine whether it is in the

public interest that an individual be permitted to practice; they consider several factors, including the potential risk that the individual may facilitate money laundering or terrorist finance.

- 4.6 The FCA and the Gambling Commission often issue 'minded to refuse' letters prior to formally declining an application for a license to practice – this reduces the expense of undergoing a time consuming and complex rejection process. During the relevant period, the FCA had zero applications to register.
- 4.7 The Gambling Commission has the power to issue licenses to operators under the Gambling Act 2005, and, through specialist guidance and support from its AML team, considers AML compliance when assessing new licence applications. Additionally, the Commission licences and regulates individuals who work within the casino sector. In the reporting period this amounted to 16,304 personal functional licence holders, who typically work as cashiers and croupiers in casinos, and 505 personal management licence holders within casinos who complete key management functions such as head of overall strategy, head of compliance, as well as those responsible for the day-to-day management of specific casino premises.
- 4.8 HMRC is not a membership organisation like other professional bodies are; the application to register for money laundering supervision from a prospective regulated firm is often the first AML/CTF contact HMRC has with the applicant and the first opportunity to refuse the right to practice. In 2018-19, 13,136 businesses applied to be registered with HMRC for AML supervision. 1,082 were refused under regulation 59 and 628 registrations were cancelled or suspended, under regulation 60.
- 4.9 HMRC also conducts fitness and propriety tests on certain individuals in MSBs and TCSPs. Under the MLRs 2017, in addition to the 'fit and proper' tests in MSBs and TCSPs, HMRC is also required to conduct criminality tests for key individuals in accountancy service providers, high value dealers and estate agency businesses, ensuring that individuals who have a relevant criminal conviction are not able to hold relevant positions, including being a beneficial owner, officer or manager of a firm or sole practice (known as BOOMs).
- 4.10 In the relevant period, HMRC received 21,760 applications for individuals to become BOOMs; 72% of these were approved and 6% were rejected, either by being part of a rejected company application or for individually failing their fitness and propriety test. The remainder were not finalised within the relevant period.
- 4.11 Many PBSs have also established processes to evaluate prospective new regulated entities, and whether to provide authority to practice. For example, they may require individuals to have qualifications and work experience and to have completed training and continuous professional development. PBSs also must receive sufficient information to determine whether an individual applying for approval has been convicted of a relevant offence, which would include evidence of a criminality check. Consequently, prospective members that may pose a risk to the AML/CTF regime may be rejected before they gain membership. In the relevant period, the PBSs received 4,148

applications for AML supervision; 2% of which were rejected. They also received approximately 6870 BOOM applications; 1% of which were rejected or invalidated by disciplinary measures.

## Enforcement action

- 4.12 This section considers enforcement action across the supervision regime, based on the data provided by AML/CTF supervisors as part of their annual returns. In tables 4.B – 4.F, the corresponding data for 2017-18 is included in brackets.
- 4.13 All supervisors have a full range of enforcement tools and are expected to investigate a failure to comply with the MLRs and to consider an appropriate sanction that is effective, proportionate and dissuasive.
- 4.14 Overall, the data suggests that the number of enforcement actions carried out by supervisors have decreased since 2017-18, with the total number of fines issued dropping to 376 from 791. However, this obscures how individual supervisors' approaches have improved; 56% of supervisors reported an increase in the number or total sum of fines they issued, or both.
- 4.15 Additionally, the total sum of fines has increased from £8.9 million in 2017-18 to £121.8 million in 2018-19, suggesting that supervisors are taking stronger action against those who fail to comply with the MLRs. This year's figure includes the FCA's second largest financial penalty ever imposed (£102 million). Whilst this could be seen to distort the figures, excluding this fine, the total sum of the remaining fines in 2018-19 is still more than double the total in 2017-18.

**Table 4.A: Enforcement activity by supervisors**

All supervisors	Expulsion / Withdrawal of membership	Suspension	Number of Fines	Total amount of Fines
2017-18	32	3	791	£8,870,106
2018-19	25	3	376	£121,812,841

## FCA's enforcement activity

- 4.16 The FCA derives its enforcement powers from the MLRs and the Financial Services and Markets Act 2000 (FSMA). Both acts provide the FCA with extensive powers to impose sanctions including suspensions and restrictions, prohibitions, public censures and disgorgement.
- 4.17 Both the number and value of fines issued by the FCA increased in 2018-19, compared to the previous reporting period. Whilst the FCA has not yet issued sanctions under the 2017 MLRs, during the relevant period, the authority issued three fines under the 2007 MLRs and FSMA for AML/CTF misconduct, totalling £103.1 million. This includes the second largest

financial penalty ever imposed by the FCA of £102 million, on Standard Chartered Bank in April 2018, for AML control failings.

- 4.18 We also note that the FCA currently has 65 AML investigations open<sup>19</sup> and that the FCA made 5 referrals to law enforcement for ML/TF related matters in 2018-19.
- 4.19 As set out above, the authority also has powers under the FSMA which enable it to take action for AML/CTF misconduct, when it is more appropriate. For example, during the relevant period, the authority imposed a financial penalty on Canara Bank of £896,000 under the FSMA.<sup>20</sup>
- 4.20 In addition to using traditional enforcement powers, the authority also regularly uses its intervention powers under FSMA to stop regulated firms being used as conduits or to facilitate money-laundering. An example of this is set out in Box 4.A. Firms have also submitted voluntary requirements to restrict their business.

**Table 4.B: Enforcement action by the Financial Conduct Authority**

2018-19	Expulsion / Withdrawal of membership	Suspension	Number of Fines	Total amount of Fines
Financial Conduct Authority	0 (0)	0 (0)	3 (0)	£103, 135, 700 (£0)

**Box 4.A: Case study**

Coutts Automobiles Limited (“CAL”), specialised in selling high value and rare automobiles, and was authorised by the FCA to carry out various credit related activities.

CAL and its employees were subject to investigation by law enforcement agencies; they suspected that CAL was using its business to launder money obtained through criminal activities. The investigations led to a series of events including the arrest of a senior employee at CAL, the execution of search warrants on CAL’s premises, the seizure of cash and other items by law enforcement and litigation to repossess high value vehicles.

CAL also submitted false documents in relation to five separate applications to Firm J, a lender also regulated by the FCA, for finance to purchase high value vehicles in its own name, or on behalf of customers for whom it was acting as a broker. This undermined the effectiveness of the due diligence that financial/lending institutions are required to undertake to mitigate against the risk of financial crime.

<sup>19</sup> These 65 open investigations are under MLRs 2017, MLRs 2007 and FSMA.

<sup>20</sup> [https://www.fca.org.uk/publication/final-notices/canara-bank-2018.pdf?mod=article\\_inline](https://www.fca.org.uk/publication/final-notices/canara-bank-2018.pdf?mod=article_inline)

In light of the law enforcement proceedings and CAL's willingness to provide false documents to obtain finance, CAL put itself at risk of being used for the purposes of financial crime or of being otherwise involved in crime.

On 20 December 2018, the FCA varied CAL's permission, by removing all of its regulated activities with immediate effect. CAL ceased to be authorised by the FCA on 17 July 2019.

## HM Revenue and Customs' enforcement activity

- 4.21 HMRC is not a membership organisation and therefore cannot use member expulsion as an enforcement tool. However, alongside financial penalties, it can deregister firms it supervises as a form of enforcement action. For example, HMRC can withdraw the fit and proper status of key personnel, and where no other fit and proper individuals can take over these key roles, the business must stop providing the regulated service, which can mean it closing.
- 4.22 Alongside deregistration, it can also issue warning letters to highlight any concerns identified and how they should be addressed, as well as financial penalties relating to the size of the business. In 2018-19, HMRC issued 131 fines, amounting to approximately £1.2 million, compared to 655 fines in 2017-18, worth over £2.2 million.
- 4.23 Although HMRC's overall enforcement action has reduced in number since the previous financial year, the average fine has more than doubled to an average cost of approximately £8,955, compared to £3,448 in 2017-18. In addition, HMRC has also carried out a number of high-profile cases, which were not finalised in the relevant period and so were not included in this return.

### Box 4.B: Case study

As part of its commitment to tackle money laundering, HMRC has conducted coordinated weeks of action. The first week of action, took place in February 2019, with the overall aim of cracking down on Estate Agency Businesses (EABs) who fail to comply with their obligations under the MLRs.

The coordinated week of activity included:

- Unannounced visits to 50 EABs, across London and the Home Counties. The larger proportion of these were identified as trading as an EAB, whilst not currently being registered for MLR supervision with HMRC.
- HMRC published its latest list of businesses who have failed to comply with the MLRs and who have received a penalty during 1 August – 31 October 2018. Three EABs are listed, including Countrywide Estate Agents, who received a penalty for £215,000

for failing to put in place adequate policies, controls and procedures.

This activity raised awareness of HMRC's approach to non-compliance across the sector, resulting in several publications discussing the matter.

- 4.24 Along with its supervisory role, HMRC can also pursue prosecutions through its law enforcement powers under the MLRs. Staff working on supervisory issues work closely with the wider investigation teams elsewhere in HMRC to ensure intelligence is shared effectively. In 2018-19, HMRC secured 2 convictions under the MLRs, increasing from one in 2017-18, and made 13 referrals to law enforcement, compared to 10 in the previous reporting period.

**Table 4.C: Enforcement action by Her Majesty's Revenue and Customs**

2018-19	Expulsion / Withdrawal or suspension of membership	Number of Fines	Total amount of Fines
HM Revenue and Customs	n/a (-)	131 (655)	£1,173,072 (£2,258,656)

## Gambling Commission's enforcement activity

- 4.25 The Gambling Commission supervises its sector via a licensing regime rather than a membership scheme and undertakes numerous enforcement actions, for breaches of licence conditions and codes of practice relating to AML and CTF measures. Operators failing to comply with AML/CTF obligations would be in breach of their license, allowing the Commission to impose sanctions, including fines, or suspension or revocation of their licence.
- 4.26 Overall, the Commission carried out more enforcement activity during the relevant period compared to 2017-18, with both the number and value of fines having increased. In 2018-19, the Gambling Commission issued five financial penalties, or agreed settlement in lieu of penalty, amounting to £17 million in total, compared to just one fine of £6.4 million in 2017-18.<sup>21</sup>

**Table 4.D: Enforcement action by the Gambling Commission**

2018-19	Expulsion / Withdrawal of membership	Suspension	Number of Fines	Total amount of Fines
Gambling Commission	n/a (-)	n/a (-)	5 (1)	£17,005,018 (£6,400,000)

<sup>21</sup> Included in the number and sum of fines is one regulatory settlement of £2,024,046.

- 4.27 As part of its enforcement action, the Gambling Commission publishes sanctions relating to AML/CTF failings on its website. During the relevant period, 13 entries for AML failings were published. Seven related to individuals holding management licences within their respective gambling business and six related to firms.
- 4.28 These failings resulted in:
- 11 entities receiving warnings
  - 3 having additional conditions imposed on their license to operate
  - 1 licence being revoked
  - 5 financial penalties, amounting to £17 million in total<sup>22</sup>
- 4.29 The Commission made 108 referrals to law enforcement for ML/TF related matters in 2018-19, compared to 231 in 2017-18. The differential in figures is largely due to a change in the methodology in 2018-19, where only disseminations made directly from the Commission's intelligence database were captured, meaning year on year comparisons may be misleading. The Commission will continue to engage and collaborate with law enforcement where necessary.

#### **Box 4.C: Case study**

In November 2018, the Gambling Commission fined the online gambling business, Daub Alderney, £7.1 million for breaching the conditions of its licence relating to AML and failing to comply with social responsibility codes of practice.

During an evaluation by the Commission, it was found that the licensee did not have its own ML/TF risk assessment in place, as required by the MLRs and the Licence conditions and codes of practice.

It was also found that they had failed to implement measures in Parts 2 and 3 of the MLRs 2007, in respect of: conducting appropriate ongoing monitoring of a business relationship; applying risk-based enhanced customer due-diligence; keeping full records; and providing regular training to relevant staff on how to recognise and deal with activities which may relate to ML or TF.

In April 2018, the case was referred to the Gambling Commission's Regulatory Panel for a decision. Given the seriousness of the breaches, the Panel decided it was appropriate to issue the licensee an official warning and impose the following additional conditions on the licensee's operating licence, requiring them to:

- appoint an appropriately qualified Money Laundering Reporting Officer who holds a Personal Management Licence (PML)

<sup>22</sup> Included in the number and sum of fines is one regulatory settlement of £2,024,046.



- ensure that all personal management licence holders, senior management, and key control staff undertake outsourced anti money laundering training
- continue its review of the effectiveness and implementation of its anti-money laundering (AML) and social responsibility policies and procedures, with the outcome of the review and subsequent action plan to be reported to the Commission

It also agreed that it was appropriate to impose a financial penalty of £7.1 million, and that this was a proportionate outcome.

Since the sanctions were imposed, the Gambling Commission compliance team have had regular contact with the operator and continue to closely monitor the implementation of additional conditions.

## Enforcement action by PBSs

- 4.30 All PBSs have a range of enforcement tools available to them. These range from administrative sanctions, including censures and financial penalties, to suspension, restriction or withdrawal of membership or authorisation to practise, and the ability to direct members to take action to remedy non-compliance and promote future compliance.
- 4.31 The data below shows levels of AML/CTF related enforcement activity within the accountancy and legal sector. Although there is still a need to achieve greater consistency in approach across the PBSs, overall both the number and average amount of fines issued by the 22 PBSs have increased since 2016-17.
- 4.32 In 2018-19, 12 out of the 22 legal and accountancy PBSs collectively issued 237 fines, amounting to £499,051 in total. The average amount fined varied significantly between PBSs (between £192- £48,571) but approximated £2,105 overall. This is a significant increase in enforcement action by PBSs compared to the last financial year when 11 PBSs issued a total of 135 fines amounting to £211,450.

### Box 4.D: Case study

A complaint was made by a liquidator to the Scottish Legal Complaints Commission (SLCC), who then referred it to the Law Society of Scotland for investigation. The Society investigated the conduct complaint and found that the solicitor had failed to comply with the MLRs by not ensuring that full and proper client identification checks were carried out on companies represented by his firm.

The Society prosecuted a complaint of professional misconduct before the independent Scottish Solicitors Discipline Tribunal. It found the solicitor guilty of professional misconduct in respect that he had failed to comply with the MLRs and obligations under the Proceeds of Crime Act 2002, Part 3

of the Terrorism Act 2000 and the MLRs 2007. The individual was subsequently fined £6,000.

Since this finding, the Society has continued to monitor the firm, keeping its compliance under review and has since carried out a subsequent on-site inspection.

#### **Box 4.E: Case study**

As part of a Practice Assurance Review by the AAT, it was identified that X had failed to undertake any AML training and record adequate customer due diligence in respect of one or more clients.

As these failures constituted non-compliance with the MLRs, alongside other breaches of AAT regulations, disciplinary action was taken against X.

Subsequently, in April 2019, X was fined £660 and expelled from AAT for a period of three years. This consists of the revoking of his license and supervision. X accepted these sanctions and paid the fine in full.

The outcome of the case was published on the AAT's website. To aid other supervisors, AAT shared this expulsion on FCA's Shared Intelligence Service and with the default supervisor, should X re-engage in public practice in the future.

#### **Box 4.F: Case study**

For the Association of International Accountants, a key area of their supervision is through the annual renewal of Practising Certificates. Every member must renew their Practising Certificate annually on or before 1 October. On a specified date after this, any members who are still not compliant with the requirements for renewal are referred to their internal Practice Compliance Committee. Members who have submitted a late renewal, incomplete, or inaccurate information receive an aggravated risk adjustment.

A member of the PBS's supervised population was referred to the Committee for failing to submit the required Disclosure and Barring Service Certificate, to enable a fit and proper status check, and evidence of appropriate AML training, and were subsequently not compliant with regulations 24 and 26 of the MLRs. As a sanction for this non-compliance, the Committee decided that the member must pay a disciplinary fine and comply with the requirements within 30 days.

The member paid the fine and submitted the required information within the specified time limit. Following this sanction, the member underwent an

onsite visit. The visit noted that further advice and guidance were required to enhance awareness of AML issues, including appropriate risk assessment of clients and the application of the correct level of customer due diligence. Following the visit and enforcement action the member was judged to be compliant with the regulations.

#### **Box 4.G: Case study**

Following a referral from the Solicitors Regulation Authority (SRA), on 11 December 2018, the Solicitors Disciplinary Tribunal (SDT) ordered that Mr X, a solicitor, pay a fine of £45,000 and costs of £40,000 for money laundering failures.

The SRA first opened an investigation as result of the Panama Papers leak, and because of a self-report by Mr X.

Mr X was instructed by clients, who were Politically Exposed Persons (PEPs). They wished to purchase two flats in Knightsbridge, London, for just under £60 million. Contracts were exchanged in 2015 and payments totaling £14 million were made. The deal then subsequently fell through and the money was returned to the clients.

Following its investigation, the SRA referred the matter to the SDT for enforcement action. Under the Solicitors Act 1974, the SRA is limited to only fining traditional law firms up to £2,000. If they consider that a greater fine is appropriate, they must refer the case to the SDT, which has unlimited fining powers.

The SDT found that the Mr X had failed to identify his clients as PEPs as such, or ascertain whether they were linked with the proceeds of crime. Mr X also failed to apply EDD, to conduct ongoing monitoring of his business relationship.

The Tribunal considered the misconduct too serious for no reprimand to be imposed and determined that a fine of £45,000 was an appropriate and proportionate sanction.

- 4.33** There have also been an increased number of referrals to law enforcement. In 2018-19, there were 22 referrals, compared to just 5 in 2017-18. However, as in the previous financial year, these referrals only came from PBSs in the legal sector.<sup>23</sup>

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<sup>23</sup> This isn't to say that the accountancy sector are not making referrals to law enforcement or receiving them in return, however these were not captured in the data collection period used in this report.

**Table 4.E: Enforcement activity by members of the Accountancy Affinity Group**

2018-19	Memberships cancelled	Memberships suspended	Number of Fines	Total amount of Fines
Association of Chartered Certified Accountants	0 (9)	0 (1)	0 (0)	0 (£0)
Association of International Accountants	4 (1)	2 (0)	9 (2)	£1,800 (£400)
Chartered Institute of Management Accountants	2 (1)	0 (0)	0 (1)	£0 (£675)
Chartered Institute of Taxation	0 (0)	0 (0)	72 (28)	£15,244 (£3,378)
Association of Taxation Technicians	0 (0)	0 (0)	53 (12)	£10,200 (£2,394)
Institute of Chartered Accountants of England & Wales	8 (8)	0 (0)	22 (11)	£55,907 (£77,625)
Institute of Chartered Accountants of Ireland	0 (0)	0 (0)	6 (2)	£1,500 (£750)
Institute of Chartered Accountants of Scotland	0 (0)	0 (0)	1 (0)	£5,000 (£0)
Institute of Certified Bookkeepers	0 (0)	0 (0)	18 (16)	£7,352 (£4,115)
Institute of Financial Accountants	0 (2)	0 (0)	1 (1)	£750 (£500)
Association of Accounting Technicians	2 (4)	0 (0)	43 (53)	£48,046 (£47,112.96)
International Association of Bookkeepers	0 (1)	0 (0)	0 (0)	0 (£0)

Insolvency Practitioners Association	0 (2)	0 (1)	1 (0)	£1,750 (£0)
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Source: HMT returns

**Table 4.F: Enforcement activity by members of the Legal Sector Affinity Group**

2018-19	Memberships cancelled	Memberships suspended	Number of Fines	Total amount of Fines
Solicitors Regulation Authority	7 (1)	1 (1)	7 (7)	£340,002 (£70,500)
Law Society of N. Ireland	0 (0)	0 (0)	0 (0)	0 (0)
Law Society of Scotland	2 (1)	0 (0)	4 (2)	£11,500 (£4,000)
Council of Licenced Conveyancers	0 (1)	0 (0)	0 (0)	0 (0)
Bar Standards Board	0 (0)	0 (0)	0 (0)	0 (0)
General Council of the Bar of N. Ireland	0 (0)	0 (0)	0 (0)	0 (0)
Chartered Institute of Legal Executives Regulation	0 (0)	0 (0)	0 (0)	0 (0)
Faculty of Advocates	0 (0)	0 (0)	0 (0)	0 (0)
Faculty Office of the Archbishop of Canterbury	0 (1)	0 (0)	0 (0)	0 (0)

Source: HMT Returns

# Annex A

## List of supervisors

### Accountancy professional body AML supervisors

- Association of Accounting Technicians
- Association of Chartered Certified Accountants
- Association of International Accountants
- Association of Taxation Technicians
- Chartered Institute of Management Accountants
- Chartered Institute of Taxation
- Insolvency Practitioners Association
- Institute of Certified Bookkeepers
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants in Ireland
- Institute of Chartered Accountants of Scotland
- Institute of Financial Accountants
- International Association of Bookkeepers

### Legal professional body AML supervisors

- Chartered Institute of Legal Executives
- Council for Licensed Conveyancers
- Faculty of Advocates
- Faculty Office of the Archbishop of Canterbury
- General Council of the Bar
- General Council of the Bar of Northern Ireland
- Law Society
- Law Society of Northern Ireland
- Law Society of Scotland

### Statutory AML Supervisors

- HM Revenue and Customs

- The Financial Conduct Authority
- The Gambling Commission

## Annex B

### Definitions of sanctions or penalties

- Expulsion: To remove membership, authorisation, fit and proper status, and/or registration
- Suspension: To suspend membership, authorisation, fit and proper status, and/or registration
- Fine: To levy a financial penalty
- Reprimand: Any type of formal written warning issued by a tribunal, committee or organisation
- Undertaking or condition: Any formal requirement to implement remediation or restrict ability to carry on business or offer specific services
- Action plan: Any communication seeking improvements which is considered as part of the general capacity development and monitoring programme, rather than part of a formal disciplinary programme
- Warning: Any communication with a firm cautioning against specific conduct



## Annex C

### FATF: key findings and recommended actions

#### Key findings

- All regulated activities under the FATF Standards are supervised for AML/CTF compliance under the UK regime. The quality of supervision varies among the 25 AML/CTF supervisors which range from large public organisations to small professional bodies.
- The statutory supervisors (FCA, HMRC and the Gambling Commission) and the largest legal sector supervisor (which supervises around 90% of solicitors in the UK) have a stronger understanding of the ML/TF risks present in the sectors than the other 22 professional bodies that supervise most accountants and the remainder of the legal sector.
- Each supervisor takes a slightly different approach to risk-based supervision. While positive steps have been taken, there are significant weaknesses in the risk-based approach to supervision among all supervisors, with the exception of the Gambling Commission.
- Systemic AML/CTF failings identified at some large multinational UK firms over the last decade raises questions, but the assessors recognise that there is an increasing trend in levying penalties for serious failings.
- For the accountancy and legal sectors, weaknesses in supervision and sanctions are a significant issue which the UK has put steps in place to address. However, these failings have an impact on the preventative measures applied (Chapter 5 on IO.4) and the quality of financial intelligence (section 3.2 on IO.6).
- Supervisors' outreach activities, and fitness and propriety controls are generally strong.

#### Recommended actions

- The FCA should consider how to ensure appropriate intensity of supervision for all the different categories of its supervisory population from low risk to high risk.
- HMRC should consider how to ensure appropriate intensity of supervision for all the different categories of its supervisory population from low risk to high risk. HMRC should ensure that it properly takes into account ML/TF when risk rating firms subject to their supervision.
- The UK should continue its efforts to address the significant deficiencies in supervision by the 22 legal and accountancy sector supervisors through: ensuring consistency in ML/TF risk understanding; taking a risk-based approach to supervision; and ensuring that effective and dissuasive sanctions apply. The UK should closely monitor the impact of the Office

for Professional Body Anti-Money Laundering Supervision (OPBAS) in undertaking this work.

- All supervisors should continue to ensure, in accordance with the increased trend for levying penalties, that proportionate, dissuasive and effective sanctions are applied for violations of AML/CTF and sanctions obligations.
- Supervisors should routinely collect statistics and feedback on the impact of supervisory actions. They should introduce systems for maintaining statistics on the numbers and trends of findings to enable them to better target their supervisory activities and outreach, and demonstrate the impact of their supervision on AML/CTF compliance.
- The FCA should consider the wider use of criminal background checks as part of its processes to ensure that criminals and their associates are prevented from owning or controlling FIs. This would bring them into line with the approach taken by other statutory AML/CTF supervisors (HMRC, Gambling Commission) where such checks are performed routinely in respect of all relevant persons.
- Supervisors should ensure that their guidance is timely and fit-for-purpose. For example, legal and accountancy supervisors should continue to provide guidance and outreach to their members and seek to ensure the updates to guidance are provided in a timely manner. The FCA should ensure that the guidance it provides meets the needs of the range of firms within the sectors it supervises.
- Progress plans to extend AML/CTF requirements and related supervision to virtual currency exchange providers.

## Annex D

### Economic Crime Plan Actions

Action	Responsible organisation(s)
Understanding the threat and performance metrics	
1. Undertake collective threat assessments	NAC with support of NECC, UK Finance, Legal Sector Affinity Group (LSAG), Accountancy Affinity Group (AAG), HM Treasury (HMT), Home Office
2. Develop a fully operational performance system to measure what works	Home Office, UK Finance, NECC, JFT
3. Conduct new National Risk Assessments on money laundering, terrorist financing and proliferation financing	HMT, Home Office
4. Better understand the threat and performance in combatting public sector fraud	Cabinet Office
5. Resolve evidence gaps through a long-term research strategy	Home Office, with support of NECC, HMT, Ministry of Justice
Better information sharing	
6. Review barriers to information-sharing, powers and gateways	Home Office, HMT, with support of NECC, UK Finance, Information Commissioner's Office <sup>28</sup> , LSAG, AAG, Department for Digital, Culture, Media and Sport
7. Promote sharing of information in corporate groups	Home Office, HMT
8. Expand and enhance public-private information-sharing through JMLIT	NECC, HMT
9. Improve information-sharing between AML/CTF supervisors and law enforcement	NECC, UKFIU, OPBAS, with support of AML/CTF supervisors, LSAG, AAG
10. Promote information-sharing in relation to fraud	Home Office, Cabinet Office

Powers, procedures and tools	
11. Implement the Asset Recovery Action Plan	Home Office, law enforcement agencies
12. Consider legislative changes to improve the Proceeds of Crime Act	Home Office
13. Transpose the Fifth Money Laundering Directive	HMT
14. Implement the Disclosure Review recommendations	AGO, CPS, NPCC
15. Consider tactical targeting orders	Home Office, HMT, UKFIU
16. Develop framework to repatriate funds to victims of fraud	Home Office, with support of JFT, UK Finance
17. Clarify sanctions supervision powers	HMT, with support of AML/CTF supervisors, LSAG, AAG
18. Review the criminal market abuse regime	FCA, HMT
19. Investigate power to block listings on national security grounds	HMT
Enhanced capabilities	
20. Continue to develop the NECC as a genuine public-private hub for combatting serious and organised economic crime	NECC
21. Understand and enhance capabilities	NECC, Cabinet Office, UK Finance
22. Develop public-private action plans to combat economic crime threats	NECC, Home Office, HMT, UK Finance
23. Develop a sustainable, long-term resourcing model for economic crime reform	Home Office, with support of HMT, NCA, UK Finance, Cabinet Office
24. Launch flagship economic crime court in central London	HM Courts and Tribunal Service, Ministry of Justice, with support of City of London Corporation
25. Consider how the payments systems can help tackle economic crime	Pay.UK, with support of Payment Systems Regulator, FCA, HMT, UK Finance; Bank of England
26. Improve the policing response to fraud	Home Office, with support of City of London Police, NECC
27. Improve support for victims of fraud	Home Office

28. Close the vulnerabilities that criminals exploit to conduct fraud	JFT
29. Build our Government Counter Fraud Profession	Cabinet Office
30. Deliver first tranche of SARs IT transformation and design the target operating model for the future of the SARs regime	SARs Transformation Programme, NCA, Home Office, with support of HMT
31. Deliver greater feedback and engagement on SARs	SARs Transformation Programme, UKFIU, Home Office
32. Ensure the confidentiality of the SARs regime	Home Office, UKFIU, with support of HMT
Risk-based supervision and risk management	
33. Review the MLRs and OPBAS regulations	HMT
34. Enhance FCA supervision and engagement	FCA, with support of Pensions Regulator
35. Enhance HMRC supervision	HMRC, with support of OPBAS, HMT
36. Strengthen the consistency of professional body AML/CTF supervision	OPBAS, accountancy and legal professional body supervisors
37. Establish the FCA as the supervisor of the future cryptoassets AML/CTF regime	FCA
38. Support innovation in regulatory compliance for AML/CTF	FCA, HMT, UK Finance with the support of Home Office, Corporation of the City of London
39. Enhance firms' holistic response to economic crime	UK Finance, with support of other relevant industry associations
40. Promote digital identity services	HMT, with support of the Digital Identity Unit, Joint Money Laundering Steering Group, HMRC, Gambling Commission, LSAG, the Consultative Committee of Accountancy Bodies
41. Education and awareness-raising on economic crime threats and the recovery of criminal assets	NECC, UK Finance, Home Office with support of LSAG, AAG
Transparency of ownership	
42. Reform Companies House	BEIS, with support of Companies House

43. Introduce a requirement to report discrepancies of beneficial ownership information	HMT
44. (i) Enhance transparency of overseas ownership of UK property and	(i) BEIS, with support of Companies House
(ii) reform limited partnerships	(ii) BEIS
International strategy	
45. Improve understanding of the nature and impact of the international threat	NECC, UKFIU, Home Office, DFID
46. Joint work on meeting international standards	Home Office, HMT, UK Finance, DFID, with support from Corporation of the City of London, FCO, Government Digital Service
47. Enhance overseas capabilities	DFID, International Centre of Excellence, Home Office, DFID, FCO, FCA, HMRC, Gambling Commission, HMT, OPBAS, NECC, UKFIU, Cabinet Office
48. Strengthen capability to investigate and prosecute bribery and corruption overseas	DFID, NCA, CPS, FCO
49. Promote integrity in business internationally	DFID, Department for International Trade, FCO, with support from Corporation of the City of London
Governance and public-private partnership	
50. Review the economic crime governance	Home Office, HMT
51. Develop stronger public-private and private-private partnerships	Home Office, HMT, UK Finance with support from LSAG, AAG, Corporation of the City of London
52. Enhance engagement with civil society	Home Office, HMT