

# Anti-money laundering and countering the financing of terrorism:

## **Supervision Report 2020-22**

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# Foreword

The Russian invasion of Ukraine has brought the need to stymie the flow of illicit finance through the UK's financial system to the forefront of our collective minds. Businesses serve as the first line of defence in our response to money laundering and terrorist financing and play a critical role in protecting our economy from being exploited by malicious actors. An effective anti-money laundering and countering the financing of terrorism (AML/CFT) supervisory and regulatory system is key to supporting businesses in this work. The Government remains committed to strengthening and improving the UK's regime wherever possible.

The recent review of the UK's AML/CFT regulatory and supervisory regime published earlier this year evaluated the health of our current system and explored how best to strengthen our approach in the future. The forthcoming second Economic Crime Plan will build on the successes of the first Economic Crime Plan and further promote a joint approach to preventing and disrupting economic crime across both the public and private sectors.

Effective supervision is key not just to tackling economic crime, but also to providing a streamlined regulatory environment in which businesses can operate and grow. Supervisors achieve this through guidance and support to their regulated firms, as well as through taking decisive and robust action where necessary to dissuade and punish negligent or complicit firms.

This report provides information about the performance of the UK's AML/CFT supervisors between 6<sup>th</sup> April 2020 – 5<sup>th</sup> April 2022 and fulfils the Treasury's obligation, under Section 51 of the Money Laundering Regulations, to publish a report on supervisory activity. This report includes supervisory and enforcement data on both the statutory and Professional Body Supervisors, highlighting notable changes in supervisory and enforcement activity that have occurred over the past two years.

Although there have been significant improvements in both supervision and enforcement since the period covered by last year's report, there remains work to be done to make the UK's economy more resilient to those seeking to launder dirty money. As laid out in this year's review, the Treasury will consult on ambitious options for reforming the supervisory landscape.

I would like to thank the AML/CFT supervisors for their contributions to this report, their ongoing work to combat illicit finance, and their collaboration with HM Treasury.



Baroness Penn, Treasury Lords Minister

# Introduction

1.1 The UK has developed a comprehensive anti-money laundering (AML) and countering the financing of terrorism (CFT) supervisory regime. The AML/CFT regime seeks to regulate and supervise sectors and firms from money laundering and terrorist financing through a risk-based approach. HM Treasury works closely with both statutory supervisors (the Financial Conduct Authority, His Majesty's Revenue and Customs, and the Gambling Commission) and the 22 legal and accountancy Professional Body Supervisors (PBSs)<sup>1</sup>, as well as with the Office for Professional Body Anti-Money Laundering Supervision (OPBAS), to deliver this. Success requires a balance between applying dissuasive sanctioning powers and ensuring that burdens on regulated firms are proportionate.

1.2 This is HM Treasury's tenth report on AML and CFT supervision. Unlike previous supervision reports, this report will look at supervisory and enforcement data for both the 2020-2021 period (6th April 2020 – 5th April 2021) and the 2021-2022 period (6th April 2021 – 5th April 2022), rather than just data for a single year. The two years have been combined to address delays in reporting that developed during the pandemic. This report provides information on the performance of AML/CFT supervisors and fulfils HM Treasury's obligation, under Section 51 of the Money Laundering Regulations (MLRs), to publish an annual report on supervisory activity through information requested from supervisors.

1.3 Each chapter of the report considers a specific area:

- Chapter 2 outlines the methodology HM Treasury used to develop this report
- Chapter 3 details the supervisory activities carried out by AML/CFT supervisors in the reporting period
- Chapter 4 considers supervisors' promotion and enforcement of compliance with the AML/CFT standards among their supervised population

## The role of supervision in a systematic approach to tackling economic crime

1.4 In December 2018, the Financial Action Task Force (FATF), the international standards-setter for AML/CFT, published its Mutual Evaluation Report (MER) of the United Kingdom<sup>2</sup>. The MER recognised that the UK's AML/CFT regime is the strongest of over one hundred countries assessed by FATF and its regional bodies to date.

1.5 Whilst the UK achieved a high rating, 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

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<sup>1</sup> The full list of PBSs is defined by Schedule 1 of the MLRs and copied in Annex A of this report.

<sup>2</sup> [Financial Action Task Force. 'Mutual Evaluation of the United Kingdom.' December 2018](#)

among all the UK AML/CFT supervisors, with the exception of the Gambling Commission. The MER also highlighted particular concerns surrounding the approach to supervision taken by the PBSs, which have formed the basis of OPBAS's work over the past four years to drive improvements in this area.

1.6 In July 2019, the Government and the private sector published a landmark Economic Crime Plan<sup>3</sup> which responds to FATF's MER recommendations and commits the Government to a number of actions to enhance the AML/CFT regime, including:

- Conducting new National Risk Assessments on money laundering, terrorist financing, and proliferation financing
- Improving information-sharing between AML/CFT supervisors and law enforcement
- Transposing the Fifth Money Laundering Directive into UK law, bringing cryptoasset providers, letting agents, and art dealers into the regulated sector
- Publishing post-implementation reviews of the MLRs and OPBAS regulations
- Introducing requirements to report discrepancies of beneficial ownership information

1.7 Building on the good progress made under the Plan, the Government has announced that a second Economic Crime Plan will be published to continue strengthening the UK's approach to economic crime. This will further develop the Government's overall strategy in this area and lay out a series of objectives and metrics against which the UK's counter-economic crime regime can more easily be evaluated.

1.8 Whilst this report shows significant improvements in several areas of supervision over the reporting period, HM Treasury and AML/CFT supervisors remain committed to strengthening the UK's approach to defending against money laundering. Close partnership-working will be central to efforts to enhance the proportionality and effectiveness of the AML/CFT regime.

## OPBAS

1.9 OPBAS's objectives are to ensure a robust and consistently high standard of supervision by PBSs and to facilitate collaboration and information and intelligence sharing between PBSs, statutory AML supervisors and law enforcement agencies. Should a PBS fail to meet their obligations, OPBAS will take action, either using supervisory tools or by way of publicly censuring a PBS or by making a recommendation to HM Treasury to remove them as a supervisor. These powers and tools help to ensure that consistently high standards of supervision are achieved.

1.10 OPBAS has published three reports to date detailing their work under their two operational objectives. In their most recent report published in

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<sup>3</sup> [HM Government & UK Finance. 'Economic Crime Plan 2019-22.' July 2019](#)

September 2021<sup>4</sup>, OPBAS highlighted several strong areas in the supervision provided by PBSs, including:

- Effective provision of information and guidance for members to help them understand their high-level obligations
- Improvements in the quality and accuracy of information and guidance provided to members
- Appropriate amendments to PBSs' risk-based approach to factor in specific challenges resulting from the COVID-19 pandemic

1.11 Despite these positive conclusions from OPBAS's report, several areas for improvement were also identified, including:

- Many PBSs had not implemented a risk-based approach that effectively prioritised their AML supervisory and enforcement work
- Gaps and inconsistencies in many PBSs' approaches to information sharing that limited their overall effectiveness in the area
- Gaps in most PBSs' enforcement frameworks

1.12 OPBAS continues to develop its approach to ensure that consistently high standards of supervision are achieved. This includes the prioritisation of supervisory activity in high-risk areas, such as Trust and Company Service Provider (TCSP) supervision. OPBAS also recently consulted on proposals to update its Sourcebook to more fully outline the robust standards it expects of the PBSs, and to better align with more outcomes-focused supervision. It is considering all feedback and aims to publish the revised Sourcebook in early 2023. OPBAS continues to support the Intelligence Sharing Expert Working Groups (ISEWGs), including introducing devolved nation ISEWGs in Edinburgh and Belfast to understand geographically specific risks and has also undertaken a range of proactive engagement with PBSs, the Government, law enforcement and others in relation to sanctions exposure and compliance.

1.13 Regulation 46A of the MLRs now requires that PBSs publish their own annual reports on their AML/CFT supervisory activity. OPBAS and HM Treasury jointly chaired a workshop in 2021 to discuss expectations around how the PBSs should meet this requirement. This resulted in an update being published, outlining good practice and suggested inclusions for the reports.

1.14 One of the aims of publishing these reports is to provide additional information to support the data published in HM Treasury's own annual supervision report. It will also provide a valuable opportunity for the PBSs to add context to their roles in the supervisory landscape and further demonstrate their overall effectiveness.

1.15 HM Treasury and OPBAS continue to hold regular discussions and open dialogue to monitor and improve the quality of supervision among the 22 PBSs.

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<sup>4</sup> [Office for Professional Body AML Supervision, 'Anti-Money Laundering Supervision by the Legal and Accountancy Professional Body Supervisors: Progress and themes from our 2020/21 supervisory assessments.' September 2021](#)



## Further reform of the UK's supervisory regime

1.16 As part of HM Treasury's overall oversight of the UK's supervisory regime, it had a legal obligation to conduct a review of the MLRs and OPBAS regulations by 26 June 2022, set out in action 33 of the Economic Crime Plan.

1.17 To help meet this obligation, in July 2021 HM Treasury published a Call for Evidence<sup>5</sup> seeking views on a broad set of questions on the overall effectiveness of the supervisory regime, the extent to which businesses can effectively pursue a risk-based approach, and how enforcement measures are applied under the MLRs. This consultation ran between July 2021 and October 2021, attracting nearly 100 responses.

1.18 The outcome of the review<sup>6</sup> was published in June 2022 and explored the various strengths and weaknesses of the UK's AML/CFT regulatory and supervisory regime. As part of the review, HM Treasury laid out several key steps it will take in the coming years to increase the effectiveness of the current regime. These include:

- Developing a revised set of priority metrics with the aim of providing clearer feedback on the overall effectiveness of the MLRs in achieving their objectives
- Committing to consulting with supervisors and industry on future potential amendments to the MLRs to ensure that any changes taken by the Government are effectively responding to emerging risks and issues within the regulated sectors

1.19 The MLRs Review also recommended more fundamental reform of the supervisory regime and laid out four short-listed options. The Government is committed to ensuring that industry and supervisors can provide their views on any proposed reforms and will issue a further consultation before committing to a specific model. The short-listed options are:

- **OPBAS+** - extend OPBAS's remit by granting it increased powers to intervene where it identifies deficiencies in PBS supervision. The Government will consider whether additional powers, including a power to issue financial penalties, would be appropriate to strengthen OPBAS's impact.
- **PBS consolidation** – consolidate the 22 existing PBSs into between 2 and 6 remaining PBSs in order to improve the consistency in approach between the PBSs and improve intelligence and information sharing across the accountancy and legal sectors.
- **Single professional services supervisor (SPSS)** - create a new statutory body to provide supervision to the accountancy and legal sectors, granting them similar statutory powers as those granted to HMRC and the FCA by the MLRs. The Government would consult on the extent of professional services that should be encompassed by the SPSS, with its

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<sup>5</sup> HM Treasury, 'Call for Evidence: Review of the UK's AML/CFT regulatory and supervisory regime,' July 2021

<sup>6</sup> HM Treasury, 'Review of the UK's AML/CFT regulatory and supervisory regime,' June 2022

remit potentially being extended to also include sectors such as estate and letting agents.

- **Single AML supervisor (SAS)** - create a new statutory body to provide supervision to the entirety of the regulated sector, absorbing the remits of both the PBSs and the currently existing statutory supervisors (HMRC, the FCA, and the Gambling Commission).

1.20 The Government laid a Statutory Instrument (SI) on 15 June 2022 to make some time-sensitive changes to the MLRs, which came into force on 21 July 2022. The amendments enhance the supervisory regime by:

- Granting increased powers to supervisory bodies to tackle money laundering threats from cryptoasset firms
- Improving the ability for supervisors to monitor trust and company service providers (TCSPs)
- Allowing supervisors to directly request Suspicious Activity Reports (SARs) from their members, should it serve their supervisory functions
- Removing areas from scope of the MLRs where they present a sufficiently low risk
- Granting additional powers to HMRC and the FCA to enhance their supervisory capabilities

## Impact of COVID-19 on supervision

1.21 The data analysed in this report spans the period from April 2020-April 2022, during which time the Government imposed various restrictions in response to the global coronavirus pandemic. As part of these restrictions, limits were placed on household mixing, which had a significant impact on the ability of AML/CFT supervisors to carry out onsite visits. The number of onsite visits for 2020-21 and 2021-22 are significantly lower than they were in the last supervision report for 2019-20.

1.22 AML/CFT supervisors took steps to limit the impact of being unable to carry out onsite visits. Some supervisors increased the depth, breadth, and intensity of their desk-based reviews to bring them in line with onsite visits, whereas others carried out 'remote' onsite visits where possible, inspecting the premises of a firm virtually and conducting interviews over digital platforms to try and emulate an in-person visit. Many supervisors also invested in and improved their electronic case management and filing systems to ensure that their supervisory staff could carry out their duties as effectively as possible whilst working remotely.

1.23 Several supervisors also noted that, along with the other difficulties for supervision caused by restrictions, they were heavily impacted by staff sickness during the pandemic. As a result, the amount of overall supervisory activity taking place has decreased compared to 2019-20 due to lower staff availability.

1.24 AML/CFT supervisors took various steps to promote better understanding of COVID-19-related economic crime risks amongst their supervised populations throughout the pandemic. The Government's introduction of financial support schemes such as furlough and bounce-back business loans presented potential new opportunities for criminals to launder money through businesses. In response, supervisors issued COVID-19 specific

guidance and ran sessions relating to these schemes to promote better risk understanding amongst their supervised populations.

1.25 Many supervisors also held online sessions with their supervised populations to help them to tailor their policies, controls, and procedures for the specific risks that emerged as a result of the pandemic and lockdown restrictions. These included:

- Sessions on tailoring risk assessments to appropriately address COVID-19 related risks
- Webinars on setting up IT equipment and systems to be able to carry out effective AML controls virtually
- Forums for supervised populations to discuss with their supervisor any difficulties they had encountered as a result of the pandemic

## The role of supervision in sanctions

1.26 Following the Russian invasion of Ukraine in February 2022, the Government acted quickly to impose an unprecedented package of coordinated sanctions, targeting the strategic interests of the Russian state, including Russian banks, the energy sector, and individuals with close ties to the Kremlin. The UK's AML/CFT supervisory regime plays a key role in the enforcement of these sanctions, with supervised firms being required to monitor lists of designated persons and entities to ensure they are not providing services to sanctioned individuals and entities. Supervisors consider the systems and controls that a firm has in place to mitigate the risks of breaching relevant sanctions as part of their AML compliance checks. As part of their role in overseeing financial institutions, the FCA has developed a sanctions screening tool to allow them to test the operation of firms' sanction screening systems more effectively.

# Chapter 2

## Methodology

2.1 The MLRs require all AML/CFT supervisors to provide HM Treasury with information to inform this report. The data that supervisors are required to collect and submit to HM Treasury are set out in Schedule 4 of the MLRs, but future data requests are subject to change.

2.2 As with previous reports, HM Treasury asked supervisors to provide information using a standard questionnaire. The questionnaire includes questions on the number of regulated firms and persons supervised; the supervisory activities carried out; the number of breaches of the MLRs; the sanctions employed using powers provided under the MLRs; and case studies demonstrating effective use of supervisory powers.

2.3 As this report is for a two-year period, two separate questionnaires were issued. The first questionnaire asked supervisors to provide information for the period 6 April 2020 to 5 April 2021, and the second questionnaire asked for information for the period 6 April 2021 to 5 April 2022. Both sets of data, alongside the data from the 2019-20 report for comparison, will be presented in this report.

2.4 HM Treasury sought both quantitative and qualitative evidence to inform this report. Due to the differences between the supervisory bodies, such as size of supervised population and distribution of ML/TF risk, it is not always appropriate to compare supervisors based on quantitative data alone. It should also be noted that updates to how supervisors collect data on their supervised populations has meant that it can be difficult to carry out year-on-year comparisons.

2.5 HM Treasury has sought to capture the data reported by supervisors as accurately as possible, issuing clarification requests to supervisors where information was unclear or different to previous returns.

# Chapter 3

## Supervisory activities

### Risk-based approach to supervision

3.1 The MLRs require AML/CFT supervisors to take a risk-based approach to the supervision of their population. Supervisors must understand the ML/TF risks of their supervised populations to effectively target resources on the activities that are most likely to be exploited by criminals. This approach ensures that supervision is focused where it will have the greatest impact in detecting, deterring, and disrupting criminal activity whilst minimising unnecessary burdens on businesses.

3.2 An effective risk-based approach requires a deep understanding of the supervised population; successfully differentiating between types of firms, the services they provide, their clients, and other sector-specific factors. In addition to supervisors' own activities and knowledge of their sectors, there are various resources published by the Government, law enforcement agencies, and leading international AML bodies to assist supervisors in building an understanding of ML/TF risks within their regulatory population. These include the National Crime Agency's (NCA) risk assessments and briefings, the OPBAS sourcebook, and publications from the FATF.

3.3 The MLRs require supervisors to refer to the National Risk Assessment of Money Laundering and Terrorist Financing (NRA) when they carry out their own AML/CFT risk assessments. The third NRA<sup>7</sup> was jointly published by HM Treasury and the Home Office in December 2020 and has continued to support supervisors in building a robust intelligence picture of relevant sectors.

3.4 Supervisors use a range of approaches to ensure that the firms they supervise are implementing appropriate controls. These techniques are key to shaping the risk-based approach required under the MLRs and draw on powers such as the ability to request information and attendance at interview, and to access firms' premises. Supervisory activities help supervisors to improve their understanding of ML/TF risk within their supervised population and refine their approach to focus resources on areas where they will have the greatest impact.

3.5 Collaboration and information sharing among AML/CFT supervisors, law enforcement, and the private sector is key to sharing skills, knowledge, and experience. In addition to improving supervisors' monitoring of their members, these relationships also enable supervisors to aid law enforcement investigations and to better mitigate risks through shared understanding of common risk factors within their populations. Supervisors and law enforcement also collaborate to help businesses within the regulated sectors better understand how to produce high quality SARs that can provide law enforcement with actionable intelligence. This ensures that prevention

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<sup>7</sup> [HM Treasury & Home Office, 'National risk assessment of money laundering and terrorist financing 2020,' December 2020](#)

opportunities are maximised; criminals are successfully identified and prosecuted; and that there is increased intelligence and information sharing between PBSs, statutory supervisors, law enforcement, and other agencies for this purpose.

3.6 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.

### Onsite visits and desk-based reviews

3.7 Supervisors have a range of onsite and off-site supervisory tools available to them to monitor supervised populations, including:

- Meeting senior management
- Desk-based reviews (DBRs)
- Questionnaires and information requests

3.8 The MLRs require supervisors to monitor their supervised populations effectively and to vary the frequency and intensity of their supervision based on the different risk profiles within their supervised populations.

3.9 This section of the report sets out data provided to HMT by AML/CFT supervisors, as part of their annual returns, on the number of supervisory interventions (onsite visits and DBRs) they carried out. Also included are the supervisors' assessments of their obliged entities' compliance with the MLRs. For all tables in this chapter, the data for the 2019-20 period is included as a means of comparison with the data covered in the previous supervision report. It should be noted that due to the specific attributes and differences between the regulated sectors – including size of supervised population and differences in risk distribution within the population – it is not always appropriate to compare supervisors based on quantitative data alone. In addition, the data does not reflect the scope and intensity of the onsite visits and DBRs undertaken.

3.10 There has been a decrease in the overall number of supervisory actions taken by supervisors over the past two years compared to 2019-20, largely due to lockdown restrictions placing limits on the abilities of supervisors to carry out onsite visits. During 2020-21 and 2021-22, there were 4,555 and 7,785 direct supervisory actions (desk-based reviews and onsite visits) conducted, respectively, compared to 10,550 in 2019-20. This represents 4.5% and 7.7% of supervised firms being subject to direct supervisory action in 2020-21 and 2021-22, respectively, compared to 10.8% in 2019-20.

3.11 According to supervisory returns, approximately 9% and 11% of the population were identified as high risk in 2020-21 and 2021-22, respectively, compared to approximately 12% in 2019-20. This is likely due to supervisors recalibrating their risk assessments to ensure that they are targeting their activity towards the highest risk firms within their supervised populations, as well as a general increase in the number of supervised firms over the past two years.

## FCA's supervisory activity

3.12 The Financial Conduct Authority (FCA) is the supervisory authority for approximately 21,500 financial services firms in the UK.

3.13 In 2020-21 and 2021-22 there was the equivalent of 47 and 40, respectively, full-time employees dedicated to AML/CFT supervision at the FCA. These employees were supported by sector supervisors who were also responsible for assessing FCA-supervised firms' compliance with AML requirements alongside their wider regulatory obligations.

3.14 Based on sector risk assessments, the FCA's view is that retail banking, payments and digital assets, wholesale financial markets, and wealth management remain particularly vulnerable to financial crime and pose the greatest risk of being exploited for money laundering.

3.15 The FCA's supervisory approach is intended to be agile, risk-based, and targeted so its resources are directed towards firms where there is the greatest risk of money laundering. It looks for the most effective and proportionate means to ensure good AML standards in regulated firms. In line with its commitments in the Economic Crime Plan, the FCA has implemented changes to its proactive work programmes as part of its new data-led approach to AML supervision. The key strands of the FCA's AML strategy are:

- **REP-CRIM Extension** – In 2016, the FCA introduced its annual financial crime data return, known as the REP-CRIM. From April 2022, the FCA extended the REP-CRIM to approximately 4,500 additional firms, including cryptoasset businesses. This will enable the FCA to better understand the intrinsic financial crime risk within their supervised population.
- **Modular Assessment Proactive Programme (MAPP)** – This new, modular approach replaces the FCA's previous Systematic AML Programme (SAMPLP). The MAPP will review financial crime systems and controls in relation to specific risks over multiple firms at the same time. This will enable the FCA to review the largest, most systematically important firms more frequently and will enable it to compare the mitigation of the risk across their supervised population. These modules will be quicker to complete and provide a more in-depth assessment on specific risks than the previous SAMLP strategy.
- **Proactive AML Programme (PAMPLP)** – The FCA has developed data analytical tools that use REP-CRIM and other available data sources (such as SARs and whistle-blower intelligence) to analyse large amounts of firm data to identify hotspots, outliers, and emerging themes that drive supervisory attention to where risks are most likely to occur.
- **Focused Supervisory Interventions (FSI)** – As part of increasing the breadth of the FCA's proactive AML supervision, the FCA has targeted engagement with firms on specific issues or risk indicators. These issues are identified through assessing firm-related data and intelligence.

3.16 As of January 2020, the FCA became the AML supervisor for cryptoasset businesses, such as exchanges and custodian wallets, that are active in the UK. As part of the FCA's risk based approach, it applies a robust assessment process



at the registration gateway for these businesses, and has identified significant weaknesses in firms' controls, resulting in almost 90% of firms withdrawing their applications or being rejected or refused by the FCA.

3.17 From February 2022, the FCA diverted resources to mitigate the risks arising from the Russian invasion of Ukraine. The FCA sent direct communications to over 10,000 regulated firms that were considered higher risk from a sanctions evasion viewpoint. All firms were instructed to report to the FCA any notifications made to the Office of Financial Sanctions Implementation (OFSI) regarding asset freezes, designated persons, and suspected breaches, enabling the FCA to form a picture of potential exposure to sanctions risk across the supervised population. The FCA has also conducted work on developing supervisory processes to assess firms' systems and controls around sanctions, as well as rolling out an automated sanctions screening testing tool to assess the adequacy of firms' screening capabilities.

3.18 During the 2020-21 and 2021-22 reporting periods, the FCA conducted a total of 210 and 78 DBRs, respectively. The FCA did not conduct any onsite visits in either of the reporting periods, primarily due to COVID-19 related social distancing restrictions. Of the 210 DBRs in 2020-21, 181 were completed on high-risk firms, 27 on medium-risk firms, and 2 on low-risk firms. Of the 78 DBRs in 2021-22, 51 were completed on high-risk firms, 7 on medium-risk firms, and 20 on low-risk firms.

3.19 In addition to the 78 DBRs, as part of the FCA's new data-led proactive AML supervision programme, the FCA wrote to 643 firms regarding significant turnover in the firms' Money Laundering Reporting Officer (MLRO) function over the last three years. For 2021/22, the wider supervisory teams outside the dedicated financial crime supervision teams have opened an additional 201 cases related to financial crime, 87 related to financial sanctions, and 147 in relation to cryptoassets as part of the registration process. The FCA also published a review of challenger banks in April 2022.

3.20 Overall, approximately 1% of the FCA's population were subject to a DBR in 2020-21, and approximately 0.4% of the FCA's population were subject to a DBR in 2021-22.

3.21 The FCA reported that of the firms subject to a DBR in 2020-21, 28% were compliant, 65% generally compliant, and 7% non-compliant. Of the firms subject to a DBR in 2021-22, 36% were compliant, 13% generally compliant, and 22% non-compliant, with the remaining 29% awaiting an outcome at the time of this report's publication. Frequent breaches identified by the FCA include:

- Inadequate customer due diligence (CDD) procedures
- Inadequate enhanced due diligence (EDD), specifically in relation to Politically Exposed Persons (PEPs)
- Inadequate client risk assessments
- Inadequate firm-wide risk assessments
- Inadequate training of staff responsible for AML supervision
- Inadequate documentation of risk-assessments and measures taken to monitor risk



3.22 Firms that were found non-compliant established remediation plans to address their specific deficiencies. For those with significant failings, formal action was taken. The FCA took formal action on approximately 7% of firms subject to a DBR in 2020-21, and on approximately 17% of firms subject to a DBR in 2021-22.

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

The FCA received intelligence to suggest that an overseas bank had failed to maintain adequate AML systems and controls and had failed to take sufficient steps to remedy persistent weaknesses, despite being notified of these shortcomings.

The FCA investigated further and found significant failures that affected almost all levels of its business and governance structure, including senior management, governance, oversight, and AML systems and controls.

Given the significant and persistent nature of the failures along with the inherent risk of the business, the FCA appointed a skilled person to review and recommend solutions for a sustainable, robust AML framework.

This work led to the bank agreeing to the voluntary imposition of requirements to restrict its business while they remediate their control framework, and the bank also voluntarily closed a significant number of accounts to minimise its money laundering risk exposure.

## Gambling Commission's supervisory activity

3.23 The Gambling Commission is the AML/CFT supervisory authority for all online (remote) and land-based (non-remote) casinos operating in Great Britain or providing casino facilities to British customers. The Gambling Commission is also the regulator for other gambling businesses operating in Great Britain or providing gambling services to British customers, including betting, lotteries, bingo, and arcades.

3.24 Any gambling company operating in Great Britain, or with customers based in Great Britain, 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 licences issued by the Gambling Commission. Holders of personal management licenses and personal functional licenses are subject to a five-year maintenance cycle where, every five years, their identity, integrity, and criminality is reassessed.

3.25 During the 2020-21 and 2021-22 reporting periods, the total size of the Gambling Commission's supervised population was 210 and 265, respectively. For both reporting periods, the majority of supervised casinos were remote casino operators. Many remote and non-remote casinos have part, or all, of their ownership structure based outside of the UK. These jurisdictions vary, but the Gambling Commission frequently sees companies, holding companies, trusts, and beneficial owners based in the British Virgin Islands, Cyprus, Malta, Sweden, Israel, and the United States.

3.26 During the 2020-21 and 2021-22 reporting periods, the Gambling Commission had the equivalent of four full-time employees dedicated to AML/CFT. However, AML/CFT work is integrated into the wider work of the Gambling Commission, with employees in the digital, finance, legal, intelligence, licensing, compliance, and enforcement areas also assisting with supervision. Across these areas, there were 120 employees in 2020-21 and 170 employees in 2021-22.

3.27 The Gambling Commission's risk assessment classified the casino sector as a whole as high risk. In the 2020-21 reporting period, there were 69 'very high', 13 'high', 10 'medium', and 116 'low' risk firms identified. In the 2021-22 reporting period, there were 51 'very high', 25 'high', 12 'medium', and 142 'low' risk firms identified. The Gambling Commission's methodology for assessing risk involves rating ML/TF risk in terms of both likelihood and impact based on gross gambling yield.

3.28 The Gambling Commission's most recent risk assessment identifies remote gambling (particularly casino and betting) and non-remote casino and off-course betting as being exposed to a high risk of money laundering. The risk assessment also identified gambling as having a low risk of being exposed to terrorist financing.

3.29 The Gambling Commission has powers of entry to inspect, question, access written or electronic records, and remove and retain any items relevant to a suspected offence under the Gambling Act 2005, or a breach of licence condition. Any gambling company operating in Great Britain or providing gambling services to British customers must hold the appropriate licence.

3.30 For the 2020-21 and 2021-22 reporting periods, the Gambling Commission published, respectively, sanctions against 14 and 2 holders of personal management licences for AML/CFT failings.

3.31 During the 2020-21 and 2021-22 reporting periods, the Gambling Commission carried out 51 and 32 DBRs, respectively. For onsite visits, the Gambling Commission carried out none in 2020-21 due to the COVID-19 pandemic, and 9 in 2021-22. In addition to this supervisory activity, the Gambling Commission completes thematic pieces of work relating to their supervised population, has a programme of regular and ad hoc outreach work, and requires annual assurance statements from their highest impact operators. These statements are intended to be a concise self-assessment of the risks to the licensing objectives posed by the business, how well the business is managing those risks, where the business needs to improve, and how it will do so.

3.32 During the 2020-21 and 2021-22 reporting periods, the Gambling Commission found that 71% and 53%, respectively, of firms subject to a DBR were non-compliant. For the onsite visits carried out in 2021-22, 44% were non-compliant.

3.33 The most common causes of non-compliance identified by the Gambling Commission over the two reporting periods were:

- Inadequate documented policies and procedures
- Inadequate staff training programmes for AML/CFT
- Inadequate customer risk profiling
- Lack of ongoing customer monitoring
- Failure to apply EDD on a risk-sensitive basis
- Inadequate record keeping
- Failure to tailor risk assessments adequately to the specific risks pertinent to their business
- No periodic review of compliance with the MLRs
- Insufficient resources allocated to AML practices
- AML concerns being outweighed by commercial concerns

3.34 Following supervisory activity, the Gambling Commission took formal or informal action against approximately 57% of the firms subject to a DBR in 2020-21, and against approximately 46% of the firms subject to a DBR or onsite visit in 2021-22. The firms which were non-compliant but did not receive a formal or informal action over the two reporting periods were found to have minor breaches that could be remedied through the Gambling Commission's regular supervisory work.

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

A large UK non-remote casino operator underwent a review of their operating licence with a number of failings being identified by the Gambling Commission, including:

- Ineffective policies and procedures for customer interaction
- Failure to notify the Commission of specified key events
- Failure to provide the Commission with information about the use of facilities
- Ineffective policies and procedures for the use of cash and cash equivalents
- Failure to assess the local risks to licensing objectives at each of their premises

These failures led to a financial penalty of £13m being imposed by the Commission. Following this, a number of the premises owned by the operator were visited by three separate compliance teams to assess their AML compliance and see how the operator had addressed the failures that led to the penalty. A set of follow-up interviews with relevant key staff were also conducted before and after the premises assessments.

No AML breaches were identified from the follow-up assessments, with the operator taking on board the failures identified by the review and making significant improvements in governance, culture, policies, procedures, and delivery.

## HMRC's supervisory activity

3.35 HMRC is the supervisory body for estate and letting agency businesses, art market participants, high value dealers<sup>8</sup>, money service businesses, trust and company service providers (TCSPs) who are not supervised by the FCA or PBSs, and accountants who are not supervised by one of the accountancy PBSs.

3.36 The total size of the population supervised by HMRC was 37,194 in 2020-21 and 36,960 in 2021-22. This population consisted of 27,081 firms and 10,113 sole practitioners in 2020-21 and 27,636 firms and 9,324 sole practitioners in 2021-22.

3.37 HMRC had 298 and 343 full-time employees dedicated to AML supervision in 2020-21 and 2021-22, respectively. This demonstrates a year-on-year increase in supervisory staff from the 266 full-time employees that HMRC dedicated to AML supervision in 2019-20.

3.38 HMRC has identified art market participants, money service businesses, and the TCSP sectors as presenting the highest inherent risks for money laundering. Money service businesses were also identified as presenting the highest inherent risk of being exploited for terrorist financing.

3.39 Overall, HMRC reported that the majority of firms within their supervised population were low risk for both 2020-21 and 2021-22 but classified roughly 5% and 7% of firms and sole practitioners as high-risk for 2020-21 and 2021-22, respectively.

3.40 In accordance with the risk-based approach, supervisors are required to vary the frequency and intensity of their supervision based on the different risk profiles identified within their supervised populations. HMRC targets compliance work at thematic risks to drive up compliance levels and enables them to develop a deeper understanding of sub-sector risks. HMRC regularly updates its sector risk assessments and adjusts them as necessary to reflect changes in circumstance that present changes in risk levels, such as the Russian invasion of Ukraine or the 2021 Afghan crisis.

3.41 HMRC has also undertaken considerable outreach activity to drive understanding of risk within their supervised population. This includes emails, webinars, attendance at industry events, and the launching of a film in joint production with the Institute of Chartered Accountants in England and Wales (ICAEW), 'All Too Familiar'.

3.42 During the 2020-21 and 2021-22 reporting periods, HMRC conducted 843 and 1,426 DBRs, as well as 153 and 289 onsite visits, respectively. This means that in the 2020-21 and 2021-22 reporting periods, roughly 2% and 5% of HMRC's supervised population were subject to supervisory action, respectively. This is a decrease from the 6% that were subject to either a DBR or onsite visit in 2019-20, but this is largely due to the impact of COVID on supervisory activity.

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<sup>8</sup> [A high value dealer is defined as 'a firm or sole trader who by way of business trades in goods \(including an auctioneer dealing in goods\), when the trader makes or receives, in respect of any transaction, a payment or payments in cash of at least 10,000 Euros in total, whether the transaction is executed in a single operation or in several operations which appear to be linked'](#)

3.43 Of the 996 and 1,715 direct supervisory actions taken in 2020-21 and 2021-22, 178 were assessed as non-compliant in 2020-21 and 531 in 2021-22. However, 524 cases in 2020-21 and 801 in 2021-22 did not have a compliance rating given to them at the time of this report's publication.

3.44 HMRC also carried out a number of 'policing the perimeter' investigations, where they identified firms operating within the regulated sector that were not registered with HMRC when they were required to be. These cases are included in HMRC's figures for DBRs, undertaking 149 in both 2020-21 and 2021-22.

3.45 The most frequent forms of non-compliance identified by HMRC during the reporting periods included:

- Inadequate customer risk assessment
- Inadequate firm-wide risk assessment
- Inadequate policies, controls, and procedures
- Inadequate understanding of risk, both firm-wide and for individual customers

3.46 In the 2020-21 and 2021-22 reporting periods, HMRC took formal action against 100% of firms that were found to be non-compliant. These formal actions included financial penalties, suspension or removal of authorisation to operate, or a formal warning letter.

**Table 3.A FCA's supervisory activity, 2019-22**

Year	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
2021-22	21,500	78	28	10	17	10	13	0	0	0	0	0	0
2020-21	22,000	210	58	137	15	137	15	0	0	0	0	0	0
2019-20	22,000	147	90	48	9	48	9	30	1	14	15	14	15

Source: HMT Return from FCA



**Table 3.B Gambling Commission’s supervisory activity, 2019-22**

Year	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
2021-22	265	32	5	10	17	12	5	9	3	2	4	2	0
2020-21	210	51	13	2	36	7	22	0	0	0	0	0	0
2019-20	250	66	16	15	35	4	4	48	15	6	27	7	8

Source: HMT Return from Gambling Commission

**Table 3.C HMRC's supervisory activity, 2019-22**

Year	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
2021-22	36,960	1,426	111	243	511	354	511	289	8	21	20	29	20
2020-21	37,194	843	107	160	140	267	140	153	12	15	38	27	38
2019-20	32,827	999	243	424	194	667	194	817	45	93	245	138	245

Source: HMT Return from HMRC

## PBSs' supervisory activity

3.47 The 22 Professional Body Supervisors (PBSs) are responsible for AML/CFT supervision for the accountancy and legal sectors. These cover a range of services including accountancy, auditing, bookkeeping, legal, and notarial. The sizes of PBSs' supervised populations vary between 0 and 10,476. Some PBSs supervise both firms and sole practitioners, whereas others solely supervise one of these types of business.

3.48 During the 2020-21 reporting period, there were 33,486 supervised entities in the accountancy sector and 8,573 in the legal sector. Of the obliged entities in the accountancy sector, 57% were firms and 43% were sole practitioners. Of the obliged entities in the legal sector, 73% were firms and 27% were sole practitioners. Of these, 22,147 firms and sole practitioners acted as TCSPs.

3.49 During the 2021-22 reporting period, there were 33,911 supervised entities in the accountancy sector and 8,462 in the legal sector. Of the obliged entities in the accountancy sector, 57% were firms and 43% were sole practitioners. Of the obliged entities in the legal sector, 72% were firms and 28% were sole practitioners. Of these, 22,330 firms and sole practitioners acted as TCSPs.

3.50 Across the PBSs, there was the equivalent of 109.2 full-time employees dedicated to AML/CFT supervision in 2020-21, and the equivalent of 120.8 full-time employees dedicated to AML/CFT supervision in 2021-22. This represents a year-on-year increase from the reporting period covered in the previous supervision report.

3.51 Overall, of the population supervised by PBSs in 2020-21, 6% were identified as high risk, 38% as medium risk, and 56% as low risk. In 2021-22, 7% were identified as high risk, 42% as medium risk, and 51% as low risk. Due to the diverse nature of their populations and distribution of ML/TF risk within their supervised populations, percentages of obliged entities in each risk category vary significantly between PBSs.

3.52 PBSs conducted a total of 2,330 DBRs and 968 onsite visits during the 2020-21 reporting period, meaning that roughly 8% of their supervised population was subject to direct supervisory activity. During the 2021-22 reporting period, PBSs conducted a total of 2,090 DBRs and 1,287 onsite visits, meaning that roughly 8% of their supervised population was subject to direct supervisory activity.

3.53 Across the two reporting periods covered by this report, accountancy and legal PBSs reported the most common breaches identified as:

- Inadequate documented policies and procedures
- Inadequate CDD procedures
- Inadequate EDD procedures
- No ongoing CDD monitoring
- No periodic review of compliance with MLRs
- Inadequate firm-wide risk assessment
- No or inadequate staff training on AML compliance
- Inadequate record keeping
- Use of third-party policies that were not adequately tailored to the specific firm's individual risk profile
- Inadequate resource allocated to AML compliance

3.54 Many PBSs also noted that non-compliance and poor AML procedures were most common with smaller firms and sole practitioners, who often failed to understand the importance of having adequate AML controls in place. A long-standing relationship

between a client and a business leading to insufficient checks was also noted by many PBSs as being a common theme identified in non-compliant members of their supervised population.

3.55 In the 2020-21 reporting period, accountancy PBSs reported that, on average, 9% of those subject to a DBR and 26% of those subject to an onsite visit were non-compliant with the MLRs. Legal PBSs reported that, on average, 12% of those subject to a DBR and 12% of those subject to an onsite visit were given a non-compliant rating.

3.56 In the 2021-22 reporting period, accountancy PBSs reported that 17% of those subject to a DBR and 25% of those subject to an onsite visit were non-compliant with the MLRs. Legal PBSs reported that 7% of those subject to a DBR and 18% of those subject to an onsite visit were given a non-compliant rating.

3.57 Supervisory activity is not consistent across all 22 PBSs. Some PBSs carried out 0 DBRs and onsite visits, while others carried out nearly 1,000. This is due to the varying supervised population sizes between PBSs, with some supervising zero entities that are relevant to the MLRs, and others supervising thousands. This variation in size extends to the two sectors supervised by PBSs, with the accountancy sector being almost four times larger than the legal sector.

3.58 PBSs took informal action against 21% of those who received a DBR/onsite visit in 2020-21, and against 29% of those who received a DBR/onsite visit in 2021-22. Formal action was taken by PBSs against 21% of those who received a DBR/onsite visit in 2020-21, and against 18% of those who received a DBR/onsite visit in 2021-22.

3.59 Alongside DBRs and onsite visits, PBSs also carried out a wide range of supervisory activity to promote compliance within their supervised populations. These include:

- Outreach work through webinars, forums, emails, training, and events
- Periodic reviews of clients' records for AML compliance through online systems
- Provision of tools to supervised populations to aid in AML compliance, such as risk assessment templates or compliance software
- Publishing of guidance on AML compliance

**Table 3.D Accountancy PBSs' supervisory activity, 2019-22**

2021-22 2020-21 2019-20	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
Association of Chartered Certified Accountants	6,846 6,637 6,649	299 156 44	0 1 6	271 132 30	28 23 8	299 156 38	17 19 0	0 0 24	0 0 0	0 0 19	0 0 5	0 0 24	0 0 6
Association of International Accountants	314 310 294	18 15 2	0 2 0	16 11 2	2 2 0	16 12 2	2 3 0	0 0 14	0 0 5	0 0 4	0 0 5	0 0 9	0 0 6
Chartered Institute of Management Accountants	1,598 1,547 1,459	3 0 139	1 0 139	2 0 0	0 0 0	2 0 45	0 0 0	21 20 23	3 1 3	5 13 11	13 6 9	17 20 23	2 0 1
Chartered Institute of Taxation	889 868 848	49 51 5	24 16 3	13 20 2	12 15 0	25 35 2	0 0 0	0 0 49	0 0 12	0 0 24	0 0 13	0 0 37	0 0 1
Association of Taxation Technicians	590 543 564	24 29 8	15 10 2	4 15 2	5 4 4	9 19 6	0 0 0	0 0 34	0 0 8	0 0 14	0 0 12	0 0 26	0 0 0
Institute of Chartered Accountants of	10,476 10,530	568 980	114 126	396 808	58 46	48 35	10 11	424 386	38 63	301 262	85 61	56 43	29 18

England & Wales	10,849	1,039	589	385	65	40	25	998	515	329	154	94	60
Institute of Chartered Accountants of Ireland	462	5	4	0	1	0	1	51	46	2	1	0	1
	457	4	3	0	1	0	1	40	34	4	2	4	2
	468	7	6	1	0	1	0	44	32	6	6	6	6
Institute of Chartered Accountants of Scotland	881	40	18	18	4	0	16	30	6	14	10	0	14
	922	81	65	12	4	0	16	9	5	3	1	0	4
	946	18	16	2	0	0	2	71	37	34	0	0	34
Institute of Certified Bookkeepers	3,036	32	5	0	27	1	26	113	39	0	74	6	65
	3,197	286	68	0	218	0	218	122	16	23	83	8	98
	3,592	145	0	145	0	0	145	92	29	34	29	34	29
Institute of Financial Accountants	1,983	173	27	81	65	65	4	0	0	0	0	0	0
	1,846	221	76	79	66	66	11	0	0	0	0	0	0
	1,761	135	21	54	60	60	0	63	9	16	38	38	9
Association of Accounting Technicians	5,856	125	92	24	9	86	33	109	71	15	23	71	29
	5,593	124	87	29	8	37	12	70	30	29	11	34	11
	5,195	141	86	37	18	45	10	95	41	30	24	40	14
International Association of Bookkeepers	704	36	0	11	25	0	26	255	86	118	51	32	233
	686	14	0	14	0	0	14	204	64	86	54	7	196
	815	0	0	0	0	0	0	33	6	26	1	1	32
Insolvency Practitioners Association	276	38	32	6	0	32	6	12	10	2	0	12	2
	260	5	1	2	2	2	2	0	0	0	0	0	0
	148	3	2	1	0	1	0	26	12	10	4	26	1

Source: HMT Returns from accountancy professional body supervisors

**Table 3.E Legal PBSs' supervisory activity, 2019-22**

2021-22 2020-21 2019-20	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	6,408	132	9	33	10	33	10	164	38	77	18	77	18
Regulation Authority	6,516	168	48	79	16	79	16	85	16	45	8	45	8
	6,539	431	325	55	51	93	15	75	12	43	7	54	8
Law Society of Northern Ireland	450	105	68	29	8	29	8	51	24	13	12	13	12
	457	54	43	9	2	9	2	11	3	4	4	4	4
	459	11	0	0	0	0	0	135	33	30	46	27	15
Law Society of Scotland	721	49	19	8	22	15	10	14	5	3	6	1	5
	696	57	23	28	9	9	8	0	0	0	0	0	0
	746	5	1	2	2	3	2	132	40	79	13	5	10
Council for Licensed Conveyancers	226	17	3	6	8	14	0	25	7	6	12	15	2
	226	44	4	22	18	40	4	7	0	5	2	7	0
	225	3	1	2	0	2	0	53	1	19	33	52	0
The Bar Standards Board	489	278	1	0	0	0	0	0	0	0	0	0	0
	490	10	10	0	0	0	1	0	0	0	0	0	0
	582	13	9	3	1	0	13	2	0	0	2	0	2
General Council of the Bar of Northern 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
	0	0	0	0	0	0	0	0	0	0	0	0	0

Chartered Institute of Legal Executives Regulation	28	28	22	6	0	6	0	0	0	0	0	0	0	0
Faculty of Advocates	7	7	7	0	0	2	0	0	0	0	0	0	0	0
Faculty Office of the Archbishop of Canterbury	133	64	64	0	0	0	0	18	15	2	1	2	1	1
	156	0	0	0	0	0	0	14	13	1	0	1	0	0
	158	70	20	50	0	29	0	12	12	0	0	0	0	0

Source: HMT Returns from legal professional body supervisors



### **Box 3.C: Case study**

An accountancy PBS visited a firm and performed a full monitoring review, identifying weaknesses with the firm's policies and procedures, and their implementation. The firm lacked procedures to report any discrepancies in the persons with significant control register that they found during their onboarding of corporate clients. The supervisor's sample of file reviews found that the firm had not always documented who the beneficial owners of their clients were, how they had verified the identity of the beneficial owners, and their risk assessments. The supervisor also found that the firm was not always documenting their ongoing customer due diligence (CDD) and had not recorded sufficient CDD for clients where the firm considered there should be enhanced due diligence or had complex structures.

The firm gave strong undertakings to address the significant matters noted during the visit, and generally with reasonable deadlines. The supervisor noted that the firm's AML procedures were good at their previous visit and assessed that the deterioration was due to partner changes at the firm. The firm's responses addressed the matters raised but to ensure the firm keep tighter control over this area, the supervisor asked for an update on progress with CDD documentation and for submission of the firm's next AML compliance review. Once the supervisor is satisfied that the firm has returned to strong compliance, they will release it from ongoing monitoring.

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

An accountancy PBS' automated risk assessment indicated that a firm was low risk. However, due to the type of service provided by this firm, they were included in the supervisor's sample for manual risk assessment to ensure that they were appropriately reviewed. The supervisor subsequently revised the firm's risk rating to high risk and conducted an onsite visit on the firm.

The supervisor carried out the visit and found that the firm was non-compliant as it had no practice risk assessment document in place and their policies and procedures had not been updated to reflect the 2017 MLRs and subsequent legislative changes. The discussion during the visit made it clear that although the firm lacked an updated risk assessment, they did have an understanding of the risks involved with their clients. The supervisor provided the firm with links to their example policies and procedures and risk assessment documents. These assisted the firm in dealing with the action points arising from the visit and the supervisor was able to confirm the firm's compliance with the MLRs.

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

A legal PBS carried out a DBR of a low-risk firm to assess their compliance with the MLRs. The firm had in place an inadequate firm-wide risk assessment that required further tailoring to the risks that the firm had identified. The firm's AML policy was also missing certain key elements, such as enhanced due diligence, source of funds checks, and politically exposed persons checks.

The supervisor issued a compliance plan and educated the firm on why it was important to remedy these breaches. As part of the compliance plan, the supervisor also provided instructions to the firm on how they could improve their AML controls. The plan outlined a list of actions and documents which the firm had to provide to the supervisor for review by certain dates. The firm subsequently produced a detailed firm-wide risk assessment and an updated client risk assessment form and updated all active files within scope of the MLRs to include a client risk assessment.

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

A legal PBS conducted AML review work on a firm as part of an investigation into fraud allegations. The senior partner of the firm had been approved by the supervisor in accordance with Regulation 26 of the MLRs, but the review identified that the firm's website described a different employee as CEO. The supervisor concluded that the firm had employed an officer of the firm for a lengthy period of time providing services within the scope of the MLRs without being approved by the supervisor.

The firm described this as a mistake, prompting the supervisor to review other materials and emails from the firm to ascertain what role this employee held. Following this review, the supervisor did not accept the provided explanation and referred the matter to law enforcement.

## Cooperation, coordination, and information sharing

3.60 As part of the first Economic Crime Plan, improving information-sharing between AML/CFT supervisors and law enforcement agencies was highlighted as a key action required to improve the effectiveness of the UK's supervisory regime. Efficient information sharing is crucial to combatting illicit finance as it ensures that all parts of the UK's counter-illicit finance regime are working together effectively and towards the same aims.

3.61 The MLRs contain a specific provision under Regulation 52 for intelligence and information sharing from supervisory authorities to other relevant authorities. This provision was enhanced by the recent statutory instrument laid by HM Treasury, which aimed to improve the effectiveness of information sharing by:

- Expanding the information and intelligence sharing gateway to allow for reciprocal sharing between supervisors and relevant authorities (including law enforcement)
- Expanding the list of 'relevant authorities' explicitly to include other Government agencies, such as the Department for Business, Energy & Industrial Strategy (BEIS) and Companies House
- Enabling the FCA to disclose the confidential information it receives, in relation to its MLRs duties, more widely

3.62 Regulation 50(1) of the MLRs requires all AML/CFT supervisors to take appropriate steps to:

- Cooperate with other supervisory authorities, HM Treasury, and law enforcement authorities in relation to the development and implementation of policies to counter money laundering and terrorist financing
- Coordinate activities to counter money laundering and terrorist financing with other supervisory authorities and law enforcement authorities
- Cooperate 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

3.63 In their annual returns, supervisors highlighted their regular attendance at a range of forums and discussion groups to coordinate AML/CFT activities, including:

- The Anti-Money Laundering Supervisors' Forum (AMLSF), which all supervisors are invited to attend. HM Treasury, the Home Office, the National Crime Agency and OPBAS are also invited to attend and contribute
- The Public Sector Affinity Group (PSAG), which is a co-operation group to share information and support and learn from other supervisors
- The Accountancy Anti-Money Laundering Supervisors' Group (AASG), previously the Accountancy Affinity Group, which is attended by accountancy sector professional bodies and HMRC

- The Legal Sector Affinity Group (LSAG), 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 forums

3.64 Several supervisors also noted in their returns their contributions to the Intelligence Sharing Expert Working Groups (ISEWGs), set up by OPBAS in conjunction with the National Economic Crime Centre, for the accountancy and legal sectors. ISEWGs serve to share tactical intelligence between PBSs, statutory supervisors, and law enforcement. The types of intelligence shared includes typology reports, alerts, and anonymised case studies. ISEWGs form a key component of the supervisory regime by fostering an environment in which supervisors can work collaboratively to improve intelligence sharing arrangements, build trust with one another, and agree on a consistent approach to AML supervision.

3.65 A number of supervisors also noted their membership of the Financial Crime Information Network (FIN-NET), an intelligence-sharing network established by the FCA which meets every two months. FIN-NET helps to facilitate the sharing of operational information between law enforcement, the Government, and supervisors.

3.66 The Shared Intelligence Service (SIS) was also identified, typically by larger supervisors, as a useful tool for facilitating information and intelligence sharing between supervisory bodies. Membership of the SIS enables PBSs to proactively share intelligence between themselves and law enforcement, assisting in cooperation across the AML/CFT regime.

# Chapter 4

## Promoting and ensuring compliance

4.1 The MLRs (Regulation 49(1)(d)) require supervisors to ensure that regulated firms who breach the Regulations are liable to effective, proportionate, and dissuasive measures. This means that disciplinary measures should be effective at ensuring future compliance by sanctioned businesses, proportionate to the severity of the breach, and dissuasive of non-compliance by others.

4.2 Supervisors have a wide range of sanctioning powers available to them to achieve this, including:

- Fines
- Public censures
- Suspension or cancellation of registration
- Referral to law enforcement agencies

4.3 The FCA and Gambling Commission derive other sanctioning powers from pieces of legislation other than the MLRs (such as the Proceeds of Crime Act, Financial Services and Markets Act, and the Gambling Act), but these are only included in this section where these powers have been used in response to money laundering control breaches.

4.4 Direct comparisons between supervisors on levels of fines and numbers of cancellations/suspensions may not be appropriate due to the differing population sizes and risk categorisations of each supervisor's supervised population.

4.5 HM Treasury approves one piece of guidance for each sector, drafted by experts, to advise firms on how to detect, deter, and disrupt criminals and terrorists efficiently and effectively. This guidance also advises firms on how to best target their resources in a risk-based manner whilst reducing unnecessary burdens on their business activities. Under the MLRs, supervisors and law enforcement authorities should consider whether a firm has followed its sector specific guidance when deciding if they have breached their AML obligations.

4.6 Under the MLRs (Regulations 17(1), 47(1), 47(3)), supervisors are also required to provide up-to-date and appropriate information on AML/CFT requirements to their supervised populations. Most supervisors provide this online, through webinars, hosting forums, and posting updates to their websites or mailing lists, whilst others offer other forms of communication with their supervised populations, such as a telephone line to call with AML-related enquiries, membership magazines, provision of training events, or AML/CFT sessions at professional conferences. The number of these in-person events has

reduced over the past two years due to the COVID-19 pandemic and lockdown restrictions.

## Refusing licences to provide services

4.7 Statutory supervisors subject key staff in regulated firms to tests to determine whether it is in the public interest that an individual be permitted to operate in their role. Several factors are considered when making this decision, including any potential risks that the individual may facilitate money laundering or terrorist financing. During the 2020-21 and 2021-22 reporting periods, the FCA received 368 and 270 applications for AML supervision, and approved 111 and 211 of these, respectively.

4.8 The Gambling Commission and FCA often issue 'minded to refuse' letters prior to declining an application for a license to practice, which often leads to a firm withdrawing its application for supervision before a formal rejection.

4.9 The Gambling Commission has the power to issue licences to operate under the Gambling Act 2005 and, through specialist guidance and support from their AML team, considers AML compliance when assessing new licence applications. The Gambling Commission also issues licences and regulates individuals who work within the casino sector. In the 2020-21 reporting period, this amounted to 12,902 personal functional licences and 1,431 personal management licences associated with the casino sector. In the 2021-22 reporting period, the figures for these two licences were 12,121 and 1,674, respectively.

4.10 HMRC is not a membership organisation, and therefore the application to register for AML supervision is often the first contact that HMRC will have with an applicant and the first opportunity they have to refuse the right to practice. In 2020-21 and 2021-22, HMRC received 8,595 and 13,196 applications for registration and approved 7,475 and 9,831, respectively.

4.11 HMRC also conducts fit and proper tests on certain individuals within Money Service Businesses and Trust and Company Service Providers as part of its supervisory strategy. In addition, HMRC are also required to carry out criminality tests for key individuals in accountancy service providers, art market participants, high value dealers, and estate and letting agency businesses to ensure that individuals with a relevant criminal conviction are not able to hold relevant positions.

4.12 In the 2020-21 and 2021-22 reporting periods, HMRC received 16,949 and 15,611 applications for individuals to become beneficial owners or managers with 11,368 and 13,036 of these being approved, respectively.

4.13 Under Regulation 26 of the MLRs, supervisors have a responsibility to approve beneficial owners, officers, or managers of firms. The processes used by PBSs to evaluate applications for new regulated entities and to determine whether to provide them with the authority to practice in the legal and accountancy sectors vary from supervisor to supervisor, but some examples are:

- Requiring evidence of staff having received sufficient AML training
- Requiring evidence of staff holding certain qualifications

- Requiring evidence of staff having relevant work experience in the AML sector

4.14 PBSs must also receive sufficient information to determine whether an individual applying for approval has been convicted of a relevant criminal offence, which would include evidence of a criminality check.

4.15 As a result of these checks imposed prior to approval, prospective members of PBSs may be rejected for AML supervision due to their potential money laundering and/or terrorist financing risks. In the 2020-21 and 2021-22 reporting periods, PBSs received 3,090 and 3,049 applications for AML supervision, with 2,845 and 2,771 being approved, respectively. PBSs also received 9,286 and 9,889 applications for BOOM approval across the two reporting periods, with 9,188 and 9,700 being approved, respectively.

4.16 Some PBSs, such as the Council for Licensed Conveyancers and the Bar Standards Board, authorise firms to practice rather than provide membership.

### Enforcement action

4.17 All supervisors have a range of enforcement tools, as listed earlier, and are expected to investigate any failure to comply with the MLRs and to consider using an effective, proportionate, and dissuasive sanction in response.

4.18 The total sum of fines across all 25 supervisors in 2020-21 and 2021-22 was £109,015,480 and £503,595,085, respectively. This marks a significant increase from the previous reporting period of 2019-20, where the total value of fines was just £53,231,997.

4.19 The average fine amount in 2020-21 and 2021-22 was £299,493 and £820,187, respectively. The substantial increase in 2021-22 is largely driven by the FCA's £264m fine of NatWest, although the average fine issued by PBSs has also seen an increase from £2,202 in 2020-21 to £2,977 in 2021-22.

**Table 4.A Enforcement action by all supervisors, 2019-2022**

Year	Expulsion/withdrawal of membership	Suspension of membership	No. of fines	Total value of fines
2021-22	40	6	614	£503,595,085
2020-21	40	18	364	£109,015,480
2019-20	40	9	270	£53,231,997

### Enforcement action by the FCA

4.20 The FCA derives its enforcement powers from both the MLRs and the Financial Services and Markets Act 2000 (FSMA). Both acts provide the FCA with extensive powers to impose sanctions on supervised firms within its remit, including:

- Suspensions and restrictions
- Prohibition of practice
- Public censure

- Disgorgement (fining a firm to negate any profit made from a transaction that breached AML standards)
- Prosecution of firms and individuals who undertake regulated activities without authorisation

4.21 In the relevant reporting periods, the FCA issued seven fines under the MLRs and the FSMA for a total sum of over £500m.

4.22 In addition to financial penalties, the FCA also has powers under the MLRs and the FSMA to issue public censures and pursue criminal prosecutions. The FCA publishes all its enforcement decisions in a Final Notice or, if relevant misconduct comes under the MLRs, in the form of a Decision Notice. The Notices make clear the basis for the FCA findings, including the facts of the investigation and areas of deficiencies identified, and the FCA's reasoning for concluding serious misconduct has occurred. These documents enable the FCA to communicate its expectations and positions, and for the regulated sector to understand how deficiencies arise and how they can mitigate the risk of it occurring in their firms.

4.23 During the 2021-22 reporting period, the FCA brought its first criminal prosecution of a regulated firm under the MLRs, charging NatWest with three offences in connection with its failure to properly monitor the activity of a commercial customer<sup>9</sup>. NatWest entered guilty pleas at Southwark Crown Court and was fined £264.8m, including a reduction for the early guilty plea. West Yorkshire Police led a separate investigation connected to the NatWest client which has resulted in 11 convictions and a further 13 individuals due to stand trial for other matters related to the case.

4.24 The FCA currently has 38 AML investigations open, and 75 investigations open into suspicions of insider dealing, as part of their agenda to promote clear and fair markets. They have also submitted over 650 SARs to the National Crime Agency over the past two years.

**Table 4.B Enforcement action by the Financial Conduct Authority, 2019-22**

Year	Expulsion/withdrawal of membership	Suspension of membership	No. of fines	Total amount of fines
2021-22	0	0	5	£476,730,020
2020-21	0	0	2	£86,113,800
2019-20	0	0	0	£0

Source: HMT Returns from the FCA

<sup>9</sup> The Statement of Facts in this case can be found here: <https://www.fca.org.uk/publication/corporate/agreed-statement-facts-fca-national-westminster-bank.pdf>



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

The FCA fined a bank nearly £64m for failings in its AML processes. The bank used automated processes to monitor hundreds of millions of transactions a month to identify possible financial crime. However, the FCA found that three key parts of the bank's transaction monitoring systems showed serious weaknesses over a period of eight years, including not:

- Considering whether the scenarios used to identify indicators of money laundering or terrorist financing covered relevant risks until 2014
- Carrying out timely risk assessments for new scenarios after 2016
- Appropriately testing and updating the parameters within the systems that were used to determine whether a transaction was indicative of potentially suspicious activity
- Checking the accuracy and completeness of the data being fed into, and contained within, monitoring systems

## Enforcement action by the Gambling Commission

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 CFT breaches. The Gambling Commission derives its powers to do so from the Gambling Act 2005, and these powers include:

- Entering a firm’s premises to inspect, question, access written or electronic records, and remove and retain any items relevant to a suspected offence or a breach of a licence condition
- Amending licence conditions
- Revoking licences
- Imposing financial penalties

4.26 The Gambling Commission issued ten fines in both the 2020-21 and 2021-22 reporting periods, which marks a slight decrease from the eleven that were issued in the reporting period covered by the previous supervision report. The Gambling Commission attributes the reduction in financial penalties from the 2019-20 reporting period to the financial impacts of the COVID-19 pandemic to the casino sector – one penalty issued in 2020-21 was reduced from £1.8m to £652,500 due to the financial difficulties caused by COVID-19 and lockdown restrictions.

**Table 4.C Enforcement action by the Gambling Commission, 2019-22**

Year	Expulsion/withdrawal of membership	Suspension of membership	No. of fines	Total amount of fines
2021-22	0	0	10	£23,421,923
2020-21	0	0	10	£19,138,652
2019-20	0	0	11	£43,670,071

Source: HMT Returns from the Gambling Commission

4.27 In addition to financial penalties, the Gambling Commission also utilised other forms of enforcement action in response to AML breaches between 2020-22, including:

- Regulatory settlements
- Formal warnings
- Impositions of additional conditions on a licence holder
- Suspension of operation
- Revocation of licences

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

A remote casino business based outside of the UK was fined £6m and ordered to undergo extensive auditing by the Gambling Commission following an assessment which revealed significant AML and social responsibility failures, including:

- Allowing customers to deposit significant sums of money without sufficient AML checks being conducted
- Insufficient source of funds checks, with payslips and invoices presented as evidence of source of funds not corroborated with bank statements or other evidence
- Bank statements not being assessed appropriately
- Inadequate checks of documentation for authenticity
- No assessment or limit of how much a customer should be allowed to spend based on known income, wealth, or any other risk factors
- Winnings from other gambling operators were accepted as source of funds, without further investigation
- Not ensuring that its policies, procedures, and controls were implemented effectively, kept under review, and revised appropriately to ensure they remain effective and take into account any applicable learning or guidelines published by the Commission

## Enforcement action by HMRC

4.28 HMRC uses a wide range of enforcement tools to drive compliance in their supervised population, including:

- Financial penalties
- Withdrawal of a key person's 'fit and proper' status
- Public censure
- Referral to law enforcement
- Suspension or cancellation of a business' registration

4.29 In 2020-21 and 2021-22, HMRC issued 41 and 283 financial penalties with a total value of £3,078,182 and £2,502,415, respectively. The relatively lower average fine amount in 2021-22 is due to HMRC issuing a large number of penalties as part of their 'policing the perimeter' work, which carries a lower penalty value than fines for other breaches of the MLRs.

4.30 Alongside these enforcement powers, HMRC can also pursue prosecutions through its law enforcement powers under the MLRs or the Proceeds of Crime Act 2002. HMRC made three referrals to law enforcement for money laundering related matters over the past two years.

**Table 4.D Enforcement action by HMRC, 2019-22**

Year	Expulsion/withdrawal of membership	Suspension of membership	No. of fines	Total amount of fines
2021-22	0	0	283	£2,502,415
2020-21	0	0	41	£3,078,182
2019-20	0	0	31	£1,912,727

Source: HMT Returns from HMRC

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

During February 2022, HMRC and Thames Valley Police, Hampshire Constabulary, Surrey Police and Sussex Police (all police forces served by The South-East Regional Organised Crime Unit (SEROUCU)) undertook four days of intelligence-led joint operational activity focusing on UK Money Service Businesses (MSBs) being, or at risk of being, used by serious and organised criminals to launder the proceeds of crime. Key objectives were:

- Effective data and intelligence sharing between agencies for identification of risk,
- Reinforce Anti Money Laundering (AML) protocols and educate MSB operators to potential risks
- Protect the Southeast from the threats of cash-based money laundering and the risk of exploitation
- Pursue criminal and regulatory breaches.

It was identified early in the planning stage that HMRC and the Police forces could undertake a number of supervisory visits to MSBs registered in selected geographical areas with a high number (density) of MSBs and/or with an identified risk (city centre etc.). The aim was to conduct unannounced educational visits to 152 registered MSBs (30 principals and 122 agents) across the four locations.

Joint teams of HMRC/ police officers entered each premises and highlighted the potential risks within the sector. Copies of a specifically designed educational leaflet were left at each business. HMRC also undertook unannounced full supervisory interventions to eight MSBs utilising powers under Regulation 69. In each of these, it was considered that there were sufficient grounds to justify an unannounced visit. After each of the days of action, feedback to HMRC was positive.

The police forces generally considered it helpful for them to learn about MSBs and how they operate and get an understanding of where the vulnerabilities are for victims.

The exercise was repeated in Sheffield with South Yorkshire Police in March 2022 across 21 MSBs, involving leaflet drops. Officers who conducted the leaflet drop visits in all locations were praised as 'being good to work with' and for their professionalism and positivity. Further outcomes are being assessed following the full interventions undertaken with some further evaluation by HMRC risking and authorisations teams to review questions around registration.

## Enforcement action by PBSs

4.31 PBSs have a range of enforcement tools available to them under the MLRs, including:

- Public censures
- Financial penalties
- Suspension, restriction, or withdrawal of membership or authorisation to practice
- The ability to direct members to take action to remedy non-compliance

4.32 PBSs have made significant improvements in the last two years to their approach to enforcement, with the total sum of fines issued in 2021-22 being nearly double the figure from the 2019-20 reporting period. The number of fines issued has also increased significantly, from 228 in 2019-20 to 311 and 316 in 2020-21 and 2021-22, respectively.

4.33 PBSs have also taken a stricter approach to approvals for AML supervision, with the number of applications rejected by PBSs increasing from 66 (1.8%) in 2019-20 to 184 (6%) and 168 (5.5%) in 2020-21 and 2021-22, respectively.

4.34 The population sizes, risk categorisations, and levels of non-compliance vary significantly between the 22 PBSs, with some supervisors not finding a single member within their supervised population to be non-compliant, and therefore not issuing any fines, suspensions, or cancellations.

**Table 4.E Enforcement action by accountancy PBSs, 2019-22**

	2021-22 2020-21 2019-20	Memberships cancelled	Memberships suspended	Number of fines	Total value of fines
Association of Chartered Certified Accountants		0 1 2	0 0 0	12 6 3	£56,000 £18,000 £2,500
Association of International Accountants		7 3 0	1 9 9	18 14 5	£10,600 £2,900 £1,000
Chartered Institute of Management Accountants		0 1 1	1 4 0	0 1 1	£0 £250 £20,000
Chartered Institute of Taxation		1 0 0	0 0 0	8 11 40	£3,728 £5,090 £12,814

Association of Taxation Technicians	0	0	6	£3,448
	0	1	8	£4,539
	0	0	36	£10,575
Institute of Chartered Accountants of England & Wales	7	0	53	£267,002
	6	0	59	£178,947
	10	0	39	£117,720
Institute of Chartered Accountants of Ireland	0	0	0	£0
	0	0	2	£1,350
	0	0	2	£10,250
Institute of Chartered Accountants of Scotland	0	0	2	£20,000
	0	0	0	£0
	0	0	0	£0
Institute of Certified Bookkeepers	1	0	91	£121,400
	1	0	98	£233,650
	2	0	29	£39,762
Institute of Financial Accountants	1	0	3	£5,250
	1	1	9	£19,100
	0	0	9	£13,800
Association of Accounting Technicians	14	0	44	£43,436
	18	0	32	£27,620
	16	0	43	£48,046
International Association of Bookkeepers	2	0	39	£6,700
	1	0	53	£15,000
	0	0	0	£0
Insolvency Practitioners Association	0	0	2	£13,500
	0	0	2	£13,500
	0	0	2	£3,500

Source: HMT Returns from accountancy PBSs

**Table 4.F Enforcement action by legal PBSs, 2019-22**

2021-22 2020-21 2019-20	Memberships cancelled	Memberships suspended	Number of fines	Total value of fines
Solicitors	6	3	35	£385,476
Regulation Authority	7	3	14	£163,400
	9	0	16	£190,500
Law Society of Northern Ireland	0	0	0	£0
	0	0	1	£500
	0	0	1	£1,750
Law Society of Scotland	0	0	2	£3,000
	1	0	1	£1,000
	0	0	2	£3,000
Council for Licensed Conveyancers	1	0	1	£1,188
	0	0	0	£0
	0	0	0	£0
Bar Standards Board	0	0	0	£0
	1	0	0	£0
	0	0	0	£0
General Council of the Bar of Northern Ireland	0	0	0	£0
	0	0	0	£0
	0	0	0	£0
Chartered Institute of Legal Executives Regulation	0	0	0	£0
	0	0	0	£0
	0	0	0	£0
Faculty of Advocates	0	0	0	£0
	0	0	0	£0
	0	0	0	£0
Faculty Office of the Archbishop of Canterbury	0	1	0	£0
	0	0	0	£0
	0	0	0	£0

Source: HMT Returns



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

An accountancy PBS carried out a member review on a sole practitioner that it supervised. The review found that the member had no clients inputted on the supervisor's online AML portal, which was a requirement of membership of the supervisor. Further research was carried out by the supervisor which identified that the practice had a number of clients, leading to the supervisor carrying out an investigation on the member.

On inspection, it was identified that the member had 146 clients who had not been inputted into the online AML portal or risk assessed. A number of AML failures were identified as part of this inspection, including a lack of AML training being undertaken, no firm-wide risk assessment, no policies and procedures document, and no CDD had been carried out on any clients.

The member was provided with an action plan to rectify the AML failures and given a time period in which to do so. Three months following the initial inspection, the member was re-inspected and was found to have made very little progress in becoming compliant with the MLRs.

The supervisor took the decision to cancel the member's practice licence.

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

An accountancy PBS carried out an onsite visit on a sole practitioner within its supervised population. During the visit, the member repeatedly failed to adhere to requests from the supervisor for documentation and assurances that there were adequate internal AML controls in place. A number of other failures were also identified during the visit, including a lack of evidence of training, insufficient Disclosure and Barring Service checks, and issues with data protection.

The supervisor removed the member from their register of supervised members and ordered them to pay a fine of £1,500, as well as costs to the sum of £1,521.

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

A legal PBS carried out an inspection on a firm's overall AML compliance and on a specific case that the firm had been involved in. The supervisor found that inadequate CDD documents had been obtained as part of the firm's relationship with one of their clients as the client relationship involved companies in high-risk jurisdictions, therefore requiring enhanced due diligence to be carried out alongside ongoing monitoring of the customer.

The member at the firm who was responsible for this case admitted breaches of the MLRs and accepted a fine of £17,500.

Alongside this failing, the supervisor also identified other matters at the firm where there was evidence of AML failings. Examples of failings identified include failure to secure full CDD before carrying out transactions, as well as failures to retain copies of CDD information relating to the ultimate beneficial owner of a transaction. The firm also failed to have a firm-wide risk assessment in place for a period of time whilst it was operating in scope of the MLRs.

The firm admitted breaches of the MLRs, as well as several breaches of the supervisor's own internal regulations, and accepted a fine of £232,500.

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

A legal PBS assessed a firm's AML compliance as part of a thematic review of a number of firms within their supervised population. The review found a number of failings, including a lack of understanding of fundamental AML concepts, no AML systems or processes, poor CDD practices, poor source of funds and wealth checks, and poor record keeping.

The supervisor then conducted an in-depth investigation of the firm, its overall AML compliance, and individual matters to determine whether the poor AML approach at firm level had caused failings and breaches on individual cases. The firm closed following the supervisor's investigation.

The sole remaining partner at the firm at the time of investigation admitted to the breaches of the MLRs identified by the supervisor and was suspended from practicing as a solicitor for nine months, and for two years thereafter agreed to not be a manager or owner of a firm, not hold a compliance role at a firm, and to not hold or receive client money. The member was also made to complete AML training by the supervisor.

# Annex A

## List of supervisors

### Accountancy Sector Professional Body AML/CFT 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 Sector Professional Body AML/CFT 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 / Bar Standards Board
- General Council of the Bar of Northern Ireland
- Law Society of England and Wales / Solicitors Regulation Authority
- Law Society of Northern Ireland
- Law Society of Scotland

## Statutory AML/CFT Supervisors

- His Majesty's Revenue and Customs
- The Financial Conduct Authority
- The Gambling Commission

## Annex B

# Definitions of sanctions and 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

# Key findings of the National Risk Assessment 2020

- The areas where there is high-risk of money laundering remain the same as has traditionally been the case. These include financial services, money service businesses, professional services (including legal and accountancy) and cash.
- There has been an increase in cash-based money laundering and this is still characterised by use of cash-intensive businesses to disguise criminal sources of wealth, or by smuggling large amounts to the UK.
- There have been recent regulatory changes that have recognised the expanding and changing cryptoasset ecosystem that present increased money laundering risks. Art market participants are also newly regulated entities although there is a lack of complete understanding of the vulnerabilities in the art market.
- Professional services remain attractive for criminals as a means of carrying out money laundering. This is because professional services provide a means to create and operate corporate structures, invest, and transfer funds to disguise their origin, and lend layers of legitimacy to criminal operations.

## Annex D

# Key findings of the Review of the UK's AML/CFT regulatory and supervisory regime 2022

- Money laundering and terrorist financing continue to be significant threats to the UK, to its economy, stability, and the welfare of its citizens, as well as to people overseas. The threat continues to evolve, and while the UK has some of the strongest AML controls in the world, there remains more to be done to make our AML regime more effective.
- This review has deepened the government's understanding of the barriers to an effective AML system. While some of these may have legislative solutions, many do not, and there are also those for which the solutions are not yet clear. In these cases, the government has proposed further work, or further engagement to improve the implementation of the regulatory framework.
- On supervision, the government is clear that reform is needed, but the best scale and type of reform to improve effectiveness and solve the problems that have been identified is not yet clear. The government has laid out a shortlist and will consult further on options for reform.
- On the specific regulations, the government is confident that most of the requirements and provisions currently in the MLRs are the right ones. The government is committed to continuing to align with and champion the FATF's recommendations. Where the government is confident that changes will improve the effectiveness of the regulations, including the risk-based approach, they have been proposed in this review. However, there are other areas for change that will need to remain under consideration as the government continues to gather evidence and better understand some of the risks and drawbacks.
- On objectives, the government will set out clear new objectives to the MLRs, in line with the FATF's methodology and embedding a renewed definition of effectiveness. Measuring effectiveness remains difficult, but the government is committed to setting out an improved set of metrics to move forward in this area.
- On risks, the government will use existing processes including the NRA to consider emerging ML/TF risks and consider sectors for addition to the MLRs. The government will not set out National Priorities at this

time but will instead focus on a system-wide effort to improve risk understanding and information sharing around risks and threats.

- On wider levers for effectiveness, the government continues to engage with stakeholders to deepen our understanding of the application of new technologies, the challenges faced by small or newly regulated firms, the incentives of the current system and the supervisory approach to the risk-based approach. The review has also assessed the MLRs' approach to gatekeeping, and concluded a radical overhaul is not required at this time.
- On guidance, the government will not overhaul the current guidance arrangements but will seek to make the existing guidance more streamlined, consistent, and clear, and consider requests for further guidance on a case-by-case basis.
- Taken together, these steps comprise the government's key areas of focus for the next phase of the development of the MLRs and the wider AML regime that sits around them. This review has made clear that some of our most powerful levers for change are those which are wider than the regulations, including how we work with partners in law enforcement and beyond. The government is due to publish its second Economic Crime Plan later this year, and many areas of interest from this review will naturally flow into that wider forum.



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This document can be downloaded from [www.gov.uk](http://www.gov.uk)

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