FCA FINANCIAL CONDUCT AUTHORITY

Anti-money laundering
Annual report 2018/19

Anti-money laundering
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Introduction

Money laundering harms society. It enables criminal activity and undermines the reputation of the UK financial services sector. The breadth and depth of Britain's financial markets make them attractive, not only to legitimate businesses, but also to money launderers and other criminals. We continue to strive to make the UK's financial sector a tough target by ensuring that the firms we regulate establish and maintain effective systems and controls for countering the risk of being exploited by criminals.

FCA is one of the three UK statutory anti-money laundering supervisors in the UK under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (the MLRs), and regulates 19,620 firms subject to the regulations. We also have powers under the Financial Services and Markets Act 2000 (FSMA) to help ensure that all firms within our remit, approximately 59,000, have appropriate systems and controls, including in relation to financial crime.

Since the creation of the Office for Professional Body AML Supervision (OPBAS), situated within the FCA, we are also responsible for the supervision of the professional bodies recognised under the MLRs. We therefore also, through OPBAS, play an important role in ensuring high and consistent standards of supervision of the legal and accountancy sectors.

Combatting money laundering requires a multi-agency approach and we ensure our work contributes to the UK's overall effort to counter economic crime. The landscape FCA is operating in is evolving. In October 2018, the National Economic Crime Centre (NECC) was created. In January 2019, the Economic Crime Strategic Board (ECSB), overseen by the Chancellor and Home Secretary, was also established to provide oversight of the economic crime threat and coordinate the plan to respond to it. This draws together both public and private sector partners.

The cross-border nature of money laundering and other economic crimes requires a strong and co-ordinated international response. Information exchange, lesson-sharing and close working co-operation with major international partners are a key part of our daily work. We have also looked to help build capacity abroad, recognising the global threat from illicit finance and the need for all countries to build strong anti-money laundering regimes.

International Standard Setting and Evaluation

We played a full role in developing, and promoting, international standards on anti-money laundering, counter-terrorist financing and counter-proliferation financing at the Financial Action Task Force (FATF) and other international bodies.

- We have participated in developing standards on a wide number of areas such as: cryptoassets and developing a risk-based approach for lawyers, accountants and Trust Company Service Providers

- We have had an active role in international peer evaluations: for example, in respect of Greece.

- The FATF Mutual Evaluation Review of the UK completed in this period and was published December 2018. FCA provided recommendations and follow-up work is currently in train. This will be reported on in due course.

- We have been active participants in the Anti-Money Laundering Expert Group of the Basel Committee and the Anti-Money Laundering Committee of the Joint European Supervisory Authorities.

National Economic Crime Centre (NECC) and domestic partnerships

The NECC was established in October 2018. It brings together law enforcement agencies, government departments, regulatory bodies and the private sector with the shared objective of driving down serious and organised economic crime in the UK. As a founder partner, the FCA contributed resource during the design phase of the NECC and provides secondees to support its ongoing operation. Since its launch, we have referred and received cases to/from the NECC as part of efforts to enhance the response to cases requiring multi-agency support.

Joint Money Laundering Intelligence Taskforce (JMLIT)

Launched in 2015, the JMLIT is a partnership between law enforcement and the financial sector to exchange intelligence and information relating to money laundering and wider economic crime threats. The FCA sits on the JMLIT's management board and plays an active role in the operational group, which aims to improve access to financial intelligence and inter-agency co-operation on specific cases. It also provides representatives to many of its expert working groups, which produce strategic and tactical products to increase private sector awareness of particular money laundering typologies.

Economic Crime Reform

In January 2019, the ECSB decided to prepare a joint public and private sector threat update and economic crime plan. FCA has input actively to the development of both the update and the plan to ensure that we have the best possible understanding of the evolving threat and clarity on what we and other partners can do to address it.

One component of the plan is considering reform of the UK's suspicious activity reporting regime, led by the Home Office. The FCA has contributed actively to the initial design phase of the programme through 2018 and early 2019.

2 Supervisory approach and outcomes

We are keen to ensure that we respond to emerging threats. We helped develop the UK's latest National Risk Assessment of Money Laundering and Terrorism Financing (NRA), which was published in Autumn 2017. This identified the UK's capital markets to be potentially exposed to a high money laundering risk. Since then, a FCA thematic review to further understand the emerging risks cited in the NRA was undertaken and published in June 2019.

In our thematic review of capital markets, the money laundering risks that we identified are mitigated to an extent by the nature of the firms in the market, however there remain some risks that are particular to the capital markets.

We found that some firms that we visited needed to be more aware of the money laundering risks in the capital markets and many were in the early stages of their thinking in relation to these risks and needed to do more to fully understand their exposure.

We also found that effective customer risk assessment and customer due diligence are key to reducing opportunities for money laundering, particularly in the capital markets due to the nature of the transactions.

We identified a wide range of approaches to anti-money laundering transaction monitoring and our report highlights some specific challenges and risks relating to this.

Some participants were not clear on their obligations to report Suspicious Activity Reports and that accountability and ownership of money laundering risk in the first line of defence needs to increase, rather than being viewed as a compliance, or back-office responsibility.

The Annex to our thematic report on capital markets contains a non-exhaustive set of typologies which may help inform risk assessments, transaction monitoring and training.

Our approach to Financial Crime Supervision is risk-based, in line with our broader supervisory approach. We look for the most effective and proportionate means to ensure good anti-financial crime standards in regulated firms. Firms' responses to the financial crime data return and other intelligence sources help us to identify risk. We are also developing our use of analytics to ensure we are able to allocate resources to focus most closely on those firms and activities that present the highest risks of being used for money laundering.

We have continued to deliver our programme of regular anti-money laundering assessments of firms, focusing on those firms and areas that present the highest inherent risk of money laundering.

Our supervisory reviews of larger firms have identified some improvements in anti-money laundering controls, although in some cases we consider that the progress has been too slow. Anti-bribery controls were not as well developed and tended to receive less senior management attention. Where the failings were significant we have used a range of regulatory tools to ensure these are rectified, including in some cases, launching investigations. Where we consider that there is ongoing harm we may put in place business restrictions until such time we are satisfied that the firm is managing its financial crime risks effectively.

In October 2018, we also published a thematic review of risks in the e-money sector for products such as prepaid cards and e-wallets. Most e-money firms we visited had broadly effective AML systems and controls. For example, electronic identification and verification processes, ongoing customer due diligence and adequate oversight of programme managers.

In November 2018, we published the first year's results of the FCA annual financial crime data return. The return was completed by over 2,000 firms, including all UK-based banks and building societies. The results show how much work the financial sector is doing to tackle financial crime. There are 11,500 people employed in dedicated financial crime roles across the UK for example, and financial firms responded to over 123,000 investigative orders requiring them to help the police and other law enforcement agencies. The report includes the industry's collective view of the countries that are most often identified by firms as posing a high financial crime risk. It also captures their views about which types of fraud are most prevalent. We are now using this data to help focus our supervisory effort where we judge risks to be greatest. This is an example of us becoming more data-driven, using different information sources to help us assess the inherent dangers posed by firms' business models.

3 Outbound call campaign

Since early 2017, our Contact Centre has been contacting a number of smaller firms to talk about how they are taking forward their responsibilities relating to financial crime. These discussions give us a valuable window into the challenges smaller businesses face. They also give us data on the AML approach and controls within regulated firms. This data gives us a clearer view of the wider approach to AML across different sectors.

4   Reactive work

We receive information from a variety of sources, including whistleblowers, law enforcement, international agencies and regulators, or self-reporting by firms. This year our specialists have considered 101 referrals and taken action on 72 cases. This work often involves liaising with our partners. We have worked with other agencies and law enforcement bodies and this has resulted in a number of outcomes, from the appointment of skilled persons to enforcement action.

Chapter 5
Ensuring strong anti-money
laundering standards in
professional body supervision

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5 Ensuring strong anti-money laundering standards in professional body supervision

Last year, the Government set up the Office for Professional Body AML Supervision (OPBAS). Situated within the FCA, OPBAS oversees the 22 Professional Body AML Supervisors (PBSs) in the legal and accountancy sectors, as listed in the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs). The 2 key objectives of OPBAS are to reduce harm of money laundering and terrorist financing by (i) aiming to ensure a robust and consistently high standard of supervision by the 22 PBSs and (ii) facilitating collaboration, and information and intelligence sharing between PBSs, statutory supervisors and law enforcement agencies.

We have completed our first year of supervisory assessments of the PBSs. We visited 13 PBSs in the accountancy sector and 12 PBSs in the legal sector (including 3 bodies which have delegated supervisory responsibilities). We have published a report setting out our anonymised findings. We identified some clear weaknesses, most notably the accountancy sector and many smaller professional bodies focus more on representing their members rather than robustly supervising standards, nearly a quarter of professional bodies undertook no form of supervision and not enough are sharing intelligence on money laundering risks. The PBSs have action plans in place to address weaknesses and we will be monitoring the timely implementation of these, taking robust and proportionate action if required.

OPBAS is working to improve information and intelligence sharing between professional body AML supervisors, statutory supervisors, and law enforcement agencies. We expect PBSs to actively share intelligence with other supervisors and law enforcement agencies. We established an Expert Working Group (EWG) between the NCA, HMRC and the accountancy professional bodies to facilitate collaboration and sharing of information and intelligence. The Working Group has met twice and is attended by the NCA, several of the accountancy PBSs and HMRC. We are looking to set up a similar EWG for the legal sector PBSs. We have also monitored, and will continue to monitor, PBSs' membership of, and contribution to, the existing information sharing arrangements, Shared Intelligence System (SIS) and FIN-NET. We are also working closely with HM Treasury regarding the PBSs' response to the FATF Mutual Evaluation Report.

6 Building on findings of the Financial Action Task Force

The Financial Action Task Force Mutual Evaluation Report published in December 2018 was a strong report for the UK. We are, however, not complacent and are addressing FATF's findings to ensure that our approach evolves to meet new challenges. We will report back on the progress we have made as part of the FATF follow-up process. We have, and continue, to develop a sophisticated risk-based approach to identifying the areas and firms that carry the greatest financial crime risk, including through our intelligence and data-led approaches. This allows us to intervene in an agile and flexible way, using the most efficient tools available to us. We believe this is the right approach and is the most efficient and effective way to oversee one of the largest and diverse financial centres in the world. We will continue to be mindful of the Report's findings as our approach evolves to meet new challenges and emerging areas of risk.

7   Enforcement approach

The FCA has extensive powers to impose sanctions. These include suspensions and restrictions, prohibitions, public censures and disgorgement. We seek to use these powers in a manner that is transparent, proportionate, responsive to the issue and consistent with our policies.

Since 2012 the FCA, and previously the FSA, has concluded 18 anti-money laundering enforcement cases relating to 12 firms and 6 individuals. Since 2009, we have also taken enforcement action against 4 wholesale insurance intermediaries for failure to adequately manage corruption risk. So, in total, across our total AML and Anti- Bribery and Corruption (ABC) enforcement action, as a regulator, we have taken 22 enforcement investigations to conclusion.

We have evolved our approach to enforcement over the last 3 years. In the past, we have opened investigations on either a regulatory or criminal basis. In some of our anti-money laundering investigations we are now also using a 'dual track' method, that is we investigate on both a regulatory and criminal basis. This helps us to fully understand what happened, what action to take and which tools to use.

As a result, and as part of our broader portfolio of financial crime investigations, we have begun a small number of ongoing investigations into firms' systems and controls where there may have been misconduct that might justify a criminal prosecution under the MLRs. We have over 60 ongoing AML investigations.

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Chapter 8
Collaborating with our partners
and other agencies on technology

8   Collaborating with our partners and other agencies on technology

In May 2018, we held an International Anti-Money Laundering and Financial Crime TechSprint. The event focused on how new technology can be used more effectively to combat money laundering and financial crime.

260 participants from 105 firms spanning 16 countries worked in teams to develop solutions to various problems. The solutions were then presented to an audience of senior representatives from international regulators, regulated firms, and technology companies. In total, over 600 people attended the event.

One of the key themes that emerged was the importance of information sharing to help relevant bodies detect and prevent money laundering and financial crime. Our ambition is that the TechSprint will serve as a catalyst for further international efforts by deepening international and cross-industry dialogue on the role of modern technology.

In July 2019, we will hold a follow-up TechSprint to explore the potential for new technologies to enhance information-sharing among relevant bodies to detect and prevent money laundering and financial crime. We will report on the outcomes of this in due course.

9 Monitoring change

Where we have found significant failings in firms, we have used a range of regulatory tools to ensure these are rectified, including in some cases, launching investigations. We have continued to ensure proportionate, dissuasive and effective sanctions are applied in these cases. In April, we announced that we had fined Standard Chartered Bank £102,163,200 for AML breaches.

Case study: Standard Chartered Bank

In April 2019, we fined Standard Chartered Bank (SCB) £102.2m for AML breaches in 'higher risk' areas of its business. This is the second largest financial penalty for AML controls failings we have ever imposed.

We investigated the SCB's UK Wholesale Bank Correspondent banking business (from November 2010 to July 2013) and its United Arab Emirates (UAE) branches (from November 2009 to December 2014). We found serious and sustained shortcomings in SCB's AML controls for customer due diligence and ongoing monitoring. SCB had failed to establish and maintain risk-sensitive policies and procedures, and failed to ensure its UAE branches applied UK equivalent AML and counter-terrorist financing controls.

Under the Money Laundering Regulations 2007, SCB was required to establish and maintain appropriate and risk sensitive policies and procedures to reduce the risk of the bank being used to launder the proceeds of crime.

In one instance, we found that an account had been opened with 3 million UAE Dirham in cash (approximately £500,000) in a suitcase with little evidence that the origin of the funds had been investigated.

SCB also failed to collect sufficient information on a customer exporting a commercial product which could potentially have had a military application. This product was exported to over 75 countries, including 2 jurisdictions where armed conflict was taking place or was likely to be taking place.

SCB agreed to accept our findings meaning that it qualified for a 30% discount, as otherwise a penalty of £145,947,500 could have been imposed.

The US authorities have also taken action against SCB for significant violations of US Sanctions laws and regulations. We worked alongside international authorities during the investigation, such as US Department of Justice and US Office of Foreign Assets Control and acknowledged the help of the UAE Central Bank.

Findings from our thematic review of risks in the e-money sector relating to products such as prepaid cards and e-wallets were broadly positive and findings from our risk assurance work show that we are continuing to focus resources in highest risk areas.

10 Future monitoring activity

Over the coming year, we will continue to monitor firms' progress on improving AML controls as one indicator of whether the potential harm to consumers and market integrity is likely to have reduced. We will also use returns from our Annual Financial Crime Data Return and other information sources to monitor changes in risk over time.

The Financial Crime Data return was published in November 2018 and covers the first year of submission (2017) from firms subject to the Money Laundering Regulations 2017. It includes all deposit takers but excluding all other firms with revenue of less than £5m. The data was drawn from over 2000 firms including all UK-based banks and building societies. The data from the financial crime return is used to focus our supervisory work on areas of greatest risk. It gives a fuller view of the risks that individual firms face as well as industry-wide views on for example, fraud trends.

We will continue to review our approach to AML supervision, using the information from our new data and in line with the FATF Mutual Evaluation Report's key findings and recommended actions.

We will also continue to work in partnership with all the other stakeholders in the UK's AML regime, in both the public and the private sectors, to improve the UK's defences against money launderers and contribute to the Government's broader economic crime agenda.

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