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## **FINAL NOTICE**

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To: Barclays Bank Plc  
Reference Number: 122702  
Address: One Churchill Place, London, E14 5HP  
Date: 24 February 2022

### **1. ACTION**

- 1.1. For the reasons given in this Decision Notice, the Authority hereby imposes on Barclays a financial penalty of £783,800 pursuant to section 206 of the Act.
- 1.2. Barclays agreed to resolve this matter and qualified for a 30% (stage 1) discount under the Authority's executive settlement procedures. Were it not for this discount, the Authority would have imposed a financial penalty of £1,119,767 on Barclays.
- 1.3. Barclays has agreed to make an ex gratia payment of £10,076,943.75 to be distributed amongst Premier FX's customers pursuant to a plan agreed with the Authority.

## **2. SUMMARY OF REASONS**

- 2.1. The Authority considers that, in the oversight and monitoring of its business relationship with Premier FX, Barclays failed to conduct its business with due skill, care and diligence and thereby breached Principle 2.
- 2.2. Premier FX was an authorised payment institution ("API") which provided foreign exchange and money remittance services. Following the death of its sole shareholder and director, Mr Peter Rexstrew, in June 2018, serious shortfalls in monies held by Premier FX on behalf of its customers were identified. As a result, Premier FX was put into administration and then liquidation.
- 2.3. The Authority investigated Premier FX and determined that, at Mr Rexstrew's instigation, in addition to payment services for which it was authorised, the evidence indicated that Premier FX offered its customers services, including the secure holding of monies and attractive exchange rate deals. These activities may have involved deposit-taking and dealing in investments, which Premier FX was not permitted to conduct. The Authority determined that Premier FX did not hold customers' funds securely but used them for other purposes, meaning that they were not available when Premier FX was liquidated. The activities uncovered by the Authority were not known to Barclays during the relevant period.
- 2.4. As a result, 167 customers of Premier FX lost a total of £10,076,943.75.
- 2.5. The nature of their business means that banks are at particular risk of being used by their clients to facilitate financial crime. As a result, they are required to maintain policies and procedures which are sufficient for countering the financial crime risks to which they are exposed, which includes the risk of fraud by their own customers as well as by third parties. In relation to a corporate client, these policies should include measures to ensure that the bank understands the nature and risks of the business of its client and monitors its activities to ensure that they are consistent with the bank's understanding of its business. The necessary intensity and frequency of these measures will depend upon the particular risks presented by the client. As a result, banks should have a clear framework for assessing the risks of their clients.
- 2.6. Some clients, such as those which handle money on behalf of other people, may present particularly high risks and, as a result, the necessary measures may be comparatively stringent. Banks should have clear policies for how they monitor the activities of such high-risk clients. However, such policies will only be effective if

they are implemented in a manner which enables the bank to understand the client's business and to make further enquiry when the client's actual business activity does not appear to match that understanding.

- 2.7. From 2006, Premier FX had a banking relationship with Barclays. Barclays provided Premier FX with banking and foreign exchange services. Barclays charged Premier FX fees and benefited from the differences between the rates at which Barclays could exchange currency and those it offered to Premier FX. As a result, Barclays earned revenue from its relationship with Premier FX. Barclays was Premier FX's sole banker in the UK. Barclays categorised Premier FX as a money service business ("MSB").
- 2.8. Throughout the relevant period, Barclays assessed MSBs to be high-risk clients. Barclays understood that, due to the nature of the business that MSBs conduct and in the provision of payment services to their own underlying clients, MSBs are susceptible to increased money laundering risks and pose enhanced risk to Barclays in banking the sector. As such, to understand and hence mitigate the risks they presented, Barclays conducted periodic AML/EDD reviews of its MSB customers which required them (among other measures) to meet minimum standards. Barclays' policies required it to verify that these standards continued to be met on an ongoing basis, in particular through reviews which were to be conducted at least annually. These minimum standards included a requirement that the MSBs operated appropriate systems and controls including, from 2013, a specific requirement that the MSBs maintained robust internal controls to segregate client funds from company funds.
- 2.9. However, taking the below findings together, the Authority considers that Barclays did not act with due skill, care and diligence in carrying out its ongoing monitoring of Premier FX during the relevant period. In particular:
  - (1) Whilst Barclays conducted nine AML/EDD reviews through the relevant period, Barclays failed to finalise in a timely manner reviews of Premier FX in two calendar years, in breach of its own policies. This was due to delays in Premier FX providing Barclays with the requisite independent compliance reports, yet Barclays did not consider whether these delays should have prompted further questions to Premier FX's management.
  - (2) Much of the information contained in the AML/EDD review reports prepared for Premier FX by Barclays was repeated and included information cut and

pasted from previous reports, which included errors that Barclays did not identify and rectify.

- (3) Some of the records of the AML/EDD reviews did not accurately reflect the correct number of bank accounts operated by Premier FX. By the time of the final review in April 2018, the EDD report under-reported the number of accounts by 25.
- (4) In conducting EDD reviews in 2015, 2016 and 2018, Barclays did not adequately challenge the information it was given by Mr Rexstrew regarding his plans for the business or pay sufficient attention to the purpose of the accounts Premier FX operated at Barclays.
- (5) Barclays knew that Premier FX was heavily reliant on Mr Rexstrew yet failed to consider whether this presented risks, particularly in light of the rapid growth of Premier FX's business during the relevant period.
- (6) At Premier FX's request, Barclays opened several accounts for Premier FX on behalf of other APIs owned and operated by Mr Rexstrew, specifically Global Currency Service and Alacrity Payments. These "re" accounts were opened in Premier FX's name and operated by Premier FX on behalf of these associated companies. In opening these accounts for Premier FX, Barclays failed to consider or confirm with Premier FX how Premier FX's use of these "re" accounts affected the conduct of its business.
- (7) Premier FX opened three "re" accounts on behalf of Alacrity Payments in January 2014. Mr Rexstrew used the US dollar "re" account from the day after it was opened to receive the proceeds of Premier FX customers' funds and continued to use this account until January 2017. During this time, Mr Rexstrew provided various information in relation to Alacrity Payments, including initially that it had not begun trading and later (in April 2016) that it was being sold. Barclays did not make any enquiries to establish the ongoing purpose of Mr Rexstrew's use of these "re" accounts after it had been told that Alacrity Payments had been sold by April 2016.
- (8) From May 2013, the MSB Minimum Standards were introduced as one element of Barclays' oversight of MSB clients. The Minimum Standards included a checklist, which required the reviewer to confirm (by yes or no) that an MSB met certain threshold criteria. One such criterion was to confirm that the MSB was appropriately authorised or registered. Another was to

confirm that the MSB had "*robust internal controls to segregate client funds from company funds*". Despite this being a minimum requirement from May 2013, Barclays did not complete a review that included confirmation this criterion was met until January 2015.

- (9) Barclays first performed this assessment in relation to the review which commenced in 2014, but which was not completed until January 2015 due to delays in receiving Premier FX's independent compliance report. In practice, the reviewer considered this criterion to be fulfilled if the MSB held and operated currency accounts separate from the MSB's 'office' accounts and one or more safeguarding accounts without any further enquiries being made. Barclays did not therefore properly consider the number or type of accounts Premier FX held with it. Four of Premier FX's 74 bank accounts were designated as client accounts for safeguarding purposes: two pound sterling accounts (one of which was closed in 2011), a Moroccan dirhams account (which was closed in 2014) and a Kenyan shillings account. In addition, in its AML/EDD reviews, Barclays did not ask questions regarding Premier FX's use of its office account.
- (10) Although Barclays received information from Mr Rexstrew regarding his plans for the business and the purpose of the accounts Premier FX held at Barclays, including the Global Currency Service and Alacrity Payments "re" accounts, it did not seek further confirmation about how those accounts operated relative to its understanding of the business of Premier FX.
- (11) In April 2016, Barclays assessed that Premier FX was failing to meet Barclays' minimum threshold criterion for MSBs to have a minimum level of net tangible assets ("NTA"). Premier FX persuaded Barclays to keep the relationship open on the basis that the proceeds from the sale of Alacrity Payments and its expected profit for 2016 would be reinvested in Premier FX. However, Mr Rexstrew never sold Alacrity Payments and it was dissolved in 2017. Barclays satisfied itself that Premier FX's capital position had improved on the basis of its unaudited accounts for the year ending 2015 provided by Mr Rexstrew. These could not have included monies from the sale of Alacrity Payments since they covered a period prior to the alleged sale, yet Barclays failed to consider this.

2.10. The Authority considers that, taken together, these findings demonstrate Barclays' oversight and monitoring of Premier FX throughout the relevant period was

inadequate in that it failed to ensure it made appropriate further enquiries to ensure that Premier FX's actual business activity aligned with Barclays' expectation of its business activity based on its understanding of Premier FX and failed to identify that Premier FX's internal controls were deficient. This constituted a failure by Barclays to conduct its business with due skill, care and diligence in breach of Principle 2.

- 2.11. The Authority therefore imposes on Barclays a financial penalty of £783,800. This action supports the Authority's statutory objective of securing an appropriate degree of protection for consumers.

### **3. DEFINITIONS**

- 3.1. The definitions below are used in this Notice:

"the Act" means the Financial Services and Markets Act 2000;

"Alacrity Payments" means Alacrity Payments Limited (FRN 598643), an agent of Premier FX;

"AML" means anti-money laundering;

"API" means authorised payment institution, a firm authorised by the Authority to provide payment services under the PSRs 2009 or the PSRs 2017;

"the Authority" means the body corporate previously known as the Financial Services Authority and renamed on 1 April 2013 as the Financial Conduct Authority;

"Barclays" means Barclays Bank Plc (FRN 122702);

"the Client Account (GBP)" means the pounds sterling bank account called "Premier FX Limited Clients Account" with an account number ending in 9034 maintained by Premier FX at Barclays;

"customer turnover" means a term used by Barclays to describe the activity occurring across a customer's accounts held with Barclays, including the value of any foreign exchange trades settling across a customer's accounts and any inbound/outbound payment activity;

"DEPP" means the Decision Procedure and Penalties Manual, part of the Authority's Handbook of rules and guidance;

“Financial History Report” means a Barclays’ system-generated report that provided a summary of the customer turnover on an account or group of accounts over the prior 12-month period;

“the FMRF” means Barclays’ FIG (Financial Institutions Group) MSB Review Forum;

“the FSCS” means the Financial Services Compensation Scheme;

“Global Currency Service” means Global Currency Service Limited (in liquidation) (FRN 535671);

“the Kenyan Shillings Account” means the Kenyan shillings bank account with an account number ending in 8411 maintained by Premier FX at Barclays;

“KYC” means “Know Your Customer”;

“the MLRs” means the Money Laundering Regulations 2007 and their replacement the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017;

“MSB” means money service business, a term used by Barclays to refer to a particular client segment, of which Premier FX was part;

“NTA” means net tangible assets, i.e. the total assets of a customer’s business less all liabilities and intangible assets, used by Barclays as a metric to assess the size and capital adequacy of a customer’s business;

“the Office Account (GBP)” means the pounds sterling bank account called “Premier FX Limited GBP Office Account” with an account number ending in 5191 maintained by Premier FX at Barclays;

“Premier FX” means Premier FX Limited (in liquidation) (FRN 530712);

“the PSRs 2009” means the Payment Services Regulations 2009;

“the PSRs 2017” means the Payment Services Regulations 2017;

“the PSRs” means the PSRs 2009 and the PSRs 2017;

“relevant funds” means funds falling within the scope of regulation 19(1) of the PSRs 2009 and, subsequently, regulation 23(1) of the PSRs 2017;

“the relevant period” means 25 February 2011 to 13 August 2018;

“SYSC” means the part of the Authority’s Handbook of rules and guidance which has the title Senior Management Arrangements, Systems and Controls;

“the Tribunal” means the Upper Tribunal (Tax and Chancery Chamber); and

“the US Dollar Account” means the US Dollar Account called “Premier FX Ltd” with an account number ending in 2999 maintained by Premier FX at Barclays.

#### **4. FACTS AND MATTERS**

##### **Background to Barclays**

- 4.1. Barclays has been authorised by the Authority to provide regulated products and services, including banking services, since 1 December 2001.
- 4.2. Prior to 1 April 2018, Barclays offered products and services across the sectors of personal, corporate and investment banking, credit cards and wealth management. On 1 April 2018, Barclays restructured its operations to comply with the UK’s ring-fencing legislation, which required each UK bank to separate its retail banking activities from the rest of its business. Barclays Bank UK PLC now owns and operates the retail parts of the business. Barclays retained its Corporate Banking Division.

##### **Background to Premier FX**

- 4.3. Premier FX was incorporated as a company in England and Wales on 4 April 2006. Mr Rexstrew was the sole shareholder of Premier FX. Between 1 November 2009 and 17 June 2018, he was also its sole director.
- 4.4. Premier FX provided corporate and retail customers with foreign exchange and money remittance services. Although Premier FX offered services in respect of numerous currencies, its clients were frequently British citizens who either lived in Portugal or Spain, or who lived in the UK and had holiday homes in Portugal or Spain. These customers used Premier FX, for example, to transfer funds from their UK bank accounts to Portugal or Spain to fund property purchases and living costs, as well as to transfer to the UK the proceeds of the sale of Portuguese or Spanish properties. The nature of Premier FX’s business meant that it made and received payments, often in significant sums, numerous times per day. Premier FX did not handle cash, meaning that all its payment transactions were conducted electronically.



- 4.5. The size of its business meant that Premier FX was not required to have its accounts independently audited and its shareholder (Mr Rexstrew) did not require it to do so. As a result, its annual accounts were prepared based on information prepared by its director (i.e. Mr Rexstrew). The accounts were publicly available.

***Premier FX's obligations***

- 4.6. Premier FX was authorised by the Authority as an API and given permission to carry on payment services activities on 25 February 2011 after it satisfied the Authority that it had provided sufficient information required for authorisation at Schedule 2 of the PSRs 2009 (including, amongst other things, that it had taken adequate measures for the purpose of safeguarding payment service users' funds in accordance with the PSRs 2009). Premier FX was subsequently authorised by the Authority as an API under the PSRs 2017 with effect from 23 May 2018. The PSRs 2017 included conditions for authorisation that were substantially similar to those under the PSRs 2009.
- 4.7. The only payment service that Premier FX was permitted to provide during the relevant period was money remittance, i.e. the transmission of money from a payer to a payee without any payment accounts being created either in the name of the payer or the payee. It was not permitted to accept a customer's funds unless the customer also gave a payment order for the funds to be transferred onwards, whether immediately or on a future date. Premier FX was not permitted under the PSRs to retain customers' funds indefinitely.
- 4.8. Premier FX was not authorised to accept deposits nor to deal in investments, which are regulated activities under the Act. Providing such activities without authorisation under the Act is a criminal offence.
- 4.9. As an API, Premier FX was subject to requirements under the PSRs in respect of the maintenance of capital, robust governance and internal controls. It was also subject to the requirements of the MLRs.
- 4.10. In addition, Premier FX was required under the PSRs to safeguard "relevant funds", namely sums received from, or for the benefit of, a payment service user for the execution of a payment transaction. It claimed to the Authority and to Barclays that it did so using the "segregation method" (see paragraph 4.127 below). This meant that it was required to:

- (1) segregate relevant funds (i.e. keep them separate from all other funds it held) as soon as those funds were received;
- (2) if the relevant funds were still held at the end of the business day following the day on which they were received, deposit the funds in a separate account with an authorised credit institution (e.g. a bank);
- (3) ensure that the separate account was designated (i.e. named in such a way as to show that it was an account which was held for the purpose of safeguarding relevant funds);
- (4) ensure that the separate account was only used for holding relevant funds;
- (5) ensure that no other party (including the bank holding the account) had any interest in, or right over the relevant funds;
- (6) keep records of relevant funds; and
- (7) maintain organisational arrangements sufficient to minimise the risk of the loss or diminution of relevant funds through fraud, misuse, negligence or poor administration.

4.11. Not all the funds Premier FX received from its customers would have constituted relevant funds. For instance, funds transferred to Premier FX by a customer for the purpose of conducting spot FX transactions without remittance would not have constituted relevant funds. Accordingly, such funds would not have required safeguarding by Premier FX. Similarly, not all of the relevant funds held by Premier FX were required to be deposited into a safeguarded account. Relevant funds remitted onwards by Premier FX in accordance with the customer's instruction before the end of the business day following the date of receipt by Premier FX could instead be held in a currency account segregated from non-relevant funds. The PSRs do not require segregated currency accounts to be designated as safeguarded accounts or that these accounts should be protected against set-off.

***Authority's investigation of Premier FX***

4.12. Premier FX went into administration on 13 August 2018 in the circumstances described in paragraphs 4.25 to 4.27 below. Thereafter, the Authority conducted an investigation into its business. The Authority found that Mr Rexstrew controlled all aspects of Premier FX's operations, including the reconciliation of accounts and effecting transactions between and from Premier FX's bank accounts at Barclays

(95% of which he dealt with personally). In addition, the Authority uncovered failings that were not known to Barclays during the relevant period (as set out at paragraphs 4.13 to 4.23 below).

- 4.13. The Authority found that, in addition to its foreign exchange and money remittance services, Premier FX told customers that it was permitted to create accounts and to hold their funds indefinitely without the need for an onward payment order. Premier FX told its customers that their funds would be securely held in segregated client accounts separately from all other funds and that their funds would be protected by the FSCS. None of these matters were true and the Authority found that Premier FX had seriously misled its customers. As a result of these misrepresentations, many customers paid their funds to Premier FX (in some cases hundreds of thousands of pounds sterling, euros or US dollars) to hold without a payment order for onward transfer on the basis that the funds would be repayable on demand.
- 4.14. Premier FX specifically marketed to customers the fact that their monies would be held at Barclays as an indicator of their security in a document entitled "*Regulation & Client Account Security*", which stated: "*All funds transferred via or deposited with Premier FX are held in client accounts at Barclays Bank in London. There are strict rules regarding the security of client funds held in this way, and this document highlights the key factors to consider*".
- 4.15. Some customers were offered and were paid interest by Premier FX. Other customers were offered a "worst case exchange rate deal" in which an exchange rate was fixed at the rate on the day that the customer's funds were received by Premier FX but no future date for exchange and remittance was agreed. Whenever the customer subsequently decided to instruct Premier FX to remit the funds, Premier FX would exchange the funds at the higher of the spot rate on that day and the agreed fixed rate. Accordingly, the customer would benefit if the exchange rate had improved since the date they transferred their funds to Premier FX and would also benefit if the exchange rate had worsened since that date as the fixed rate acted as a floor. Several customers would often pay in a lump sum and withdraw smaller amounts on a monthly basis.
- 4.16. It is unclear how Premier FX expected to make a sufficient profit from foreign exchange or money remittance to offer its customers interest payments and "worst case exchange rate" deals. The Authority concluded that it is likely that Mr Rexstrew offered these deals to customers in order to entice them to pay their funds into

Premier FX. The Authority concluded that, once those funds arrived in Premier FX's accounts, they were likely used to settle other customers' payments. Mr Rexstrew went to great lengths to encourage customers to keep their funds in Premier FX, telling one customer on the day before he died that he was prepared to guarantee their funds over the FSCS limit.

- 4.17. Mr Rexstrew also used his personal bank accounts to conduct Premier FX's business. The Authority has identified many instances of Premier FX customers paying funds directly into his personal bank accounts in the UK, Portugal and Spain. In addition, approximately €260,000 in cash was deposited in one of his accounts in Portugal, as well as a number of cheques totalling approximately €890,000 (including one cheque for €278,000). It is not clear why he was receiving this significant amount of cash and cheques into his personal bank accounts nor whether these were payments from Premier FX customers. Further, while some of these funds were transferred to Premier FX, it does not appear that all of these funds were transferred into Premier FX's accounts.
- 4.18. The Authority has found no evidence to suggest that Barclays was aware (or should have been aware) of the statements or offers made by Premier FX to its customers described in paragraphs 4.13 and 4.15 above.
- 4.19. Although customers were told that their funds would be held securely, Premier FX failed to retain those funds. The Authority reviewed the movement of funds belonging to a sample of customers who each transferred a significant amount of euros into one of Premier FX's accounts for Premier FX to hold without a payment order for onward transfer. Each customer was told by Premier FX that their funds would be held in secure, segregated client accounts. However, the Authority's investigation found that none of the accounts which initially received their funds were designated as client accounts. On the day the customers paid their funds to Premier FX, the funds became indistinguishable from the funds of Premier FX. An amount equivalent to, or higher than, their payments was then transferred from the receiving account into another account of the same currency, either on the day on which they paid the funds to Premier FX, or a few days later. At this point it becomes difficult to trace the funds further. It appears from the account transactions that Premier FX used the balance in the second account to make payments to or on behalf of other customers. The Authority ultimately found that there is no clear explanation for how or why Premier FX moved funds between the bank accounts.

- 4.20. Although the Authority was unable to identify definitively why Mr Rexstrew operated Premier FX's accounts in this way, it concluded that it was likely that Premier FX had been loss-making for some years and that he needed new funds to meet existing debts or promises to customers. Premier FX's true financial position became evident within weeks of his death.
- 4.21. On 25 February 2021, the Authority published a Final Notice publicly censuring Premier FX. The Authority concluded that Premier FX had failed to comply with its requirements to safeguard relevant funds and to use payment accounts appropriately.
- 4.22. The Authority also concluded that the evidence indicated that, in the course of its business, Premier FX may have been carrying on the regulated activities of deposit-taking and dealing in investments as principal without permission. These activities constitute criminal offences.
- 4.23. The Authority considers that it is likely that failing to retain customer monies as promised, and instead using them for other purposes, involved the commission of criminal offences by Mr Rexstrew.
- 4.24. As noted above, the Authority has found no evidence to suggest that Barclays was aware (or should have been aware) that certain of Premier FX's activities may have constituted a criminal offence.

#### ***Insolvency of Premier FX***

- 4.25. On 15 June 2018, Mr Rexstrew underwent a heart bypass operation in a Lisbon hospital and died a few hours later the next day. Over the course of the following weeks, Premier FX staff were contacted by customers asking for confirmation of the balance of their funds held by Premier FX and, in some cases, requesting interest payments. Premier FX staff made genuine attempts to respond to these customers' queries. When an increasing number of customers came forward asking for confirmation of the balance of their funds held by Premier FX, the new directors of Premier FX realised that Premier FX held insufficient funds in its accounts to cover all of these claims.
- 4.26. On 27 July 2018, having sought insolvency and legal advice, the new directors announced on Premier FX's website their decision to suspend Premier FX's business, to put Premier FX into liquidation and, in the meantime, not to transact any new business or process any customer payments. The day before this announcement,

the new directors notified Barclays that they had decided to cease trading and, as Premier FX continued to receive funds from customers, requested that Barclays reject any incoming funds.

- 4.27. On 13 August 2018, on the application of the Authority, the High Court appointed administrators on the basis that Premier FX was unable to pay its debts as they fell due and was cashflow insolvent. At a Creditors Meeting on 18 October 2018, the creditors voted to appoint liquidators. The liquidators took office on 7 December 2018.

### ***Customer losses***

- 4.28. On 24 September 2021, the liquidators sent a Notice of Distribution to Premier FX's creditors in accordance with a distribution plan approved by the High Court on 19 May 2021. The Notice of Distribution stated that the liquidators had identified assets held by Premier FX with a value of £1,897,705.78 and had accepted claims with a total value of £11,173,639.25. Following the payment of the administrators' and liquidators' costs, the total sum to be distributed to creditors whose claims were accepted was £1,096,695.50. The rate of distribution was 9.815p in the pound.
- 4.29. Accordingly, Premier FX's customers suffered losses totalling £10,076,943.75.

### **Obligations of banks relating to API customers**

- 4.30. All authorised firms are required to maintain adequate policies and procedures sufficient for countering the risk that the firm might be used to further financial crime, which includes the risk of fraud by their own customers as well as by third parties. These must include systems and controls that are comprehensive and proportionate to the nature, scale and complexity of the firm's activities.
- 4.31. The nature of its business means that a bank is particularly susceptible to being used for the purposes of financial crime including money laundering. Banks are subject to specific requirements under the MLRs, including customer due diligence and ongoing monitoring of their clients.
- 4.32. Banks providing services to corporate clients should ascertain the nature of the client's business and how it will use the bank's services in the course of that business, taking reasonable steps, on a risk-sensitive basis, including obtaining evidence or verification where appropriate, to satisfy itself that the client's operations are lawful and to mitigate any risks that the bank may be involved in

criminality. Thereafter, the bank should monitor, to an extent and at a frequency informed by the risks presented by the client, the client's use of its services to ensure that they remain consistent with its initial assessment or, if there are changes, account is taken of them and/or a fresh assessment undertaken.

- 4.33. The risk of a corporate client that handles monies on behalf of other people being involved in financial crime is particularly acute. This is because other people may attempt to use such a firm to launder money or because weak internal controls may allow monies to be misappropriated without any obvious sign of the misappropriation. The risk is even greater in respect of payments firms whose business models depend on the frequent payment into and out of their bank accounts of large sums, meaning that banks' transaction monitoring systems may not be effective in identifying illegitimate transactions (because they may be indistinguishable from the many legitimate transactions conducted by the firm).

#### **Barclays' relationship with Premier FX**

- 4.34. Premier FX became a client of Barclays on 1 June 2006. Barclays provided Premier FX both with payment accounts, which allowed Premier FX to conduct its money remittance activities, and with foreign exchange services, through which Premier FX could exchange currency on commercial terms. Barclays earned revenue from its relationship with Premier FX both through charging Premier FX fees for the provision of banking services and through benefiting from the differences in currency exchange rates available to Barclays and those which it offered Premier FX. Between February 2011 and August 2018, Barclays earned over £1.1 million revenue as a result of its relationship with Premier FX. Barclays was Premier FX's sole banker in the UK, of which Barclays was aware. Barclays was aware of Premier FX's target customer base throughout the relevant period. Throughout the relevant period, Barclays classified Premier FX as a high-risk customer.
- 4.35. Barclays managed its relationship with Premier FX as part of its Corporate Banking Division's MSB customer segment. Barclays defined MSBs as non-bank financial institutions that generally provide products and services related to money orders, traveller's cheques, money transmission, cheque cashing, currency exchange, currency dealing or stored value. MSBs included money remittance firms, currency brokers, electronic money providers and bureaux de change.
- 4.36. Until 2013, Barclays' coverage of MSBs was split along geographical lines. From late 2013, management was centralised in a single team of specialist relationship directors. It was the responsibility of the relationship director to ensure compliance

with Barclays' ongoing monitoring requirements and to gather the information necessary from the customer.

- 4.37. Prior to 2015, AML reviews were not routinely escalated to a committee for discussion. However, Barclays' AML & Sanctions team undertook quality assurance testing on the AML reviews and a relationship director could escalate a particular question or concern to that team and request guidance.
- 4.38. Following its review of MSB business relationships between 2013 and 2014 (see paragraphs 4.111 to 4.119 below), relationship directors were overseen by the FMRF whose role was to approve the continuation of Barclays' banking relationship with the MSB. The FMRF provided centralised oversight and governance over processes for new customer acceptance, managing ongoing relationships, and declining or exiting customer relationships. All key decisions in relation to MSB customers were escalated to the FMRF for approval. Submissions to the FMRF required the relationship director to confirm whether Barclays' minimum requirements had been met, and if not, to explain why.
- 4.39. Barclays recognised that its MSB customers were susceptible to heightened money laundering and other risks, and thus presented a higher risk to Barclays. To reflect this, in addition to the general customer due diligence process required to be followed for Barclays Corporate customers, Barclays had in place a set of minimum requirements throughout the relevant period that were mandatory for any prospective or existing MSB customers.
- 4.40. The purpose of these minimum requirements was to ensure that MSB customers fell within Barclays' risk appetite. They included "*requiring the MSB customer to be of a sufficient size, authorised by the appropriate regulators and operating systems and controls designed to meet the regulatory requirements imposed on it*". They were considered throughout an MSB customer's lifecycle, forming a key part of Barclays' decision-making for customer acceptance, account opening, annual and trigger event-based review processes, as well as the processes for declining or exiting customer relationships.
- 4.41. In particular, prior to onboarding, MSB customers were required by Barclays to confirm their regulated status. In verifying the MSB's status, Barclays confirmed whether the MSB was likely to be subject to obligations under the PSRs to safeguard some customer funds.



- 4.42. As explained in paragraphs 4.76 to 4.118 below, Barclays changed these minimum requirements over the course of the relevant period to reflect changes in its risk appetite towards the MSB sector including, from May 2013, a specific requirement that the MSB had to demonstrate that it had robust internal controls to segregate client funds from its own funds. Barclays provided no written guidance on how this requirement should be verified but, according to Barclays, reviewers considered it to be fulfilled in practice by confirming that the MSB was appropriately authorised, and that the MSB held and operated currency accounts separate from the MSB's 'office' accounts and one or more designated safeguarding accounts without any further enquiry being made. If the MSB did not meet the criteria, Barclays could have terminated its offer of banking services, subject to any mitigating circumstances.
- 4.43. As outlined below, Barclays' oversight and monitoring of Premier FX, throughout the relevant period, failed to include appropriate further enquiries when it received information from Premier FX to ensure that Premier FX's actual business activity aligned with Barclays' expectation of its business activity based on its understanding of Premier FX and failed to identify that its controls were deficient.

### **Premier FX's bank accounts**

#### ***Overview of accounts***

- 4.44. During the relevant period, Premier FX maintained 74 bank accounts at Barclays, in 33 currencies. Barclays permitted the number of accounts operated by Premier FX to grow from a total of 33 accounts in February 2011 to 69 accounts in August 2018 (five accounts were closed during the relevant period). In particular:
- (1) Barclays facilitated the growth of Mr Rexstrew's other business ventures (e.g. Global Currency Service and Alacrity Payments) by allowing Premier FX to open and operate 13 "re" accounts on behalf of these other businesses (see paragraphs 4.52 to 4.67 below); and
  - (2) Barclays also opened 23 new accounts in October 2015 in currencies for which Premier FX already held accounts at Barclays to assist with its credit risk management (see paragraphs 4.68 and 4.69 below).
- 4.45. Four of the 74 accounts were designated a "client account" whereby Barclays had agreed not to exercise a right of set-off over the funds in those accounts under its terms and conditions:

- (1) the Client Account (GBP);
- (2) another pounds sterling account which was closed on 9 December 2011;
- (3) the Kenyan Shillings Account, which was relatively inactive during the relevant period; and
- (4) a Moroccan dirhams account which was completely inactive and was closed on 1 December 2014.

4.46. None of the other bank accounts maintained by Premier FX during the relevant period were otherwise designated in such a way as to show that they were accounts which were held for the purpose of safeguarding relevant funds in accordance with the PSRs. Premier FX did not inform Barclays that any of the 74 accounts contained relevant funds nor did it seek an acknowledgement from Barclays that the bank had no rights or interest over the funds in any of the accounts in the event of Premier FX's insolvency.

#### ***Transfers between Premier FX accounts***

- 4.47. In its EDD reviews Barclays recorded that the purpose of the Office Account (GBP) was to receive commissions from client transactions and pay Barclays' charges. However, it does not appear that Barclays reviewed payments between the Office Account (GBP) and other accounts held by Premier FX as part of its AML and EDD reviews, in particular the transfers made by Premier FX between the Client Account (GBP) and the Office Account (GBP), as such transfers were not considered a source of significant financial crime risk.
- 4.48. Had Barclays made appropriate enquiries about the operation of the Office Account (GBP) as part of its regular AML and EDD reviews of Premier FX, it may have ascertained that, during the relevant period, transfers were made by Premier FX between the Office Account (GBP) and other accounts for which, given the size and scale of Premier FX's operations, there was no clear, commercial rationale and which appeared to be inconsistent with the proper segregation of customer and company funds.
- 4.49. Between 28 August 2013 (when the Office Account (GBP) began operation) and 9 November 2018 (the last transaction on the account), Premier FX transferred approximately £28.96 million to the Office Account (GBP) from its other pounds sterling accounts, including approximately £27.39 million (95%) from the Client Account (GBP). The number and value of transfers from the Client Account (GBP)

to the Office Account (GBP) varied significantly over the course of this period. In particular, during 2014, Premier FX transferred approximately £11.66 million from the Client Account (GBP) to the Office Account (GBP), representing nearly 16% of the total amount debited from the Client Account (GBP) that year. This represented an increase in excess of four times the amount transferred in 2013 (£2.82 million). Further, in the same year, Premier FX also transferred approximately £9.48 million back from the Office Account (GBP) to the Client Account (GBP).

- 4.50. There is no obligation on a bank to attempt to verify the legitimacy of each transaction between a customer's accounts. However, it should have a broad understanding of how its customer is operating its accounts and ensure that the broad pattern of transactions at a high level is consistent with this understanding. The AML/EDD reviews provided an opportunity for Barclays to do this. However, because Barclays did not make appropriate enquiries about the operation of Premier FX's accounts, it was not in a position to appreciate the apparent inconsistency of the transfers with the appropriate segregation of funds by Premier FX's business.
- 4.51. Financial History Reports were used by relationship directors during the AML and EDD reviews to monitor account activity, but focussed on third party debits and credits on the basis that these posed the highest financial crime risk.

***Global Currency Service "re" accounts***

- 4.52. Global Currency Service was an API separately authorised by the Authority. Global Currency Service's business and customer base were distinct from those of Premier FX, as it focussed on customers from the film industry. It maintained its bank accounts with Barclays until, following a review of its MSB customer base, Barclays decided to terminate its banking relationship with effect from August 2013 on the basis that Global Currency Service did not meet Barclays' minimum NTA requirement.
- 4.53. However, the month before Barclays closed its accounts, Mr Rextrew proposed to Barclays on 7 July 2013 that Global Currency Service could instead operate through Premier FX's systems. The proposal was submitted to Barclays' AML & Sanctions team, which confirmed that the accounts could be opened on the condition that Premier FX ensured that its compliance function was sufficiently robust. This was conveyed to Mr Rextrew, following which Barclays opened three "re" accounts in pounds sterling, US dollars and euros that Premier FX would operate on behalf of Global Currency Service on 11 July 2013. According to Barclays, "re" accounts

*"signify that the account relates to a secondary party and is used to enable easier reconciliation and identification of transactions relating to that secondary party".*

- 4.54. In permitting this arrangement with Premier FX, Barclays appears not to have considered that Global Currency Service, as an API, was subject to its own safeguarding requirements under the PSRs, as it did not ask Premier FX to confirm that its accounts for Global Currency Service would not be used to hold relevant funds. Barclays also appears not to have considered what would happen to the funds of Global Currency Service's customers if Premier FX became insolvent. When Premier FX entered into administration on 13 August 2018, Global Currency Service (by then a wholly owned subsidiary of Premier FX) was unable to access any of the "re" accounts to process customer orders. This arrangement effectively caused the insolvency of Global Currency Service.

#### ***Alacrity Payments "re" accounts***

- 4.55. Mr Rexstrew established Alacrity Payments on 14 March 2013 and was its sole director and shareholder. On 21 June 2013, he sent a business plan to Barclays setting out how Alacrity Payments would seek to provide a secure online foreign exchange payment platform to other APIs, commercial and professional businesses, and high net worth individuals.
- 4.56. Premier FX registered Alacrity Payments with the Authority as its agent on 14 June 2013, but Mr Rexstrew intended that it have its own authorisation under the PSRs. Barclays opened four bank accounts for Alacrity Payments in November 2013 (a fifth account was opened in January 2014).
- 4.57. Pending full authorisation by the Authority, Barclays also agreed on 25 November 2013 in the interim to open "re" accounts for Alacrity Payments on the condition that it was registered with the Authority as Premier FX's agent (it already had been registered) and with HMRC. Barclays opened three Alacrity Payments "re" accounts in January 2014 in pounds sterling, euros and US dollars.
- 4.58. Alacrity Payments was authorised by the Authority as an API on 15 August 2014. From this time, there does not appear to have been a need for these "re" accounts to remain open and active.
- 4.59. In September 2015, the FMRF was informed that Premier FX had an offer from a Russian bank to sell Alacrity Payments for £50,000 with the sale expected to happen in October 2015. The FMRF instructed that the "account" should remain

inactive with no client monies to be received and that it should be closed as soon as possible after the sale's completion.

- 4.60. The relationship director asked Mr Rexstrew on several occasions about the sale of Alacrity in October and November 2015. Mr Rexstrew stated on 16 November 2015 that he had been paid "*half [of the] Alacrity money (25k) on [Friday] into a [sic] escrow account*".
- 4.61. Mr Rexstrew confirmed to Barclays in February and March 2016 that Alacrity Payments was still in the process of being sold, and he expected completion would take place as soon as the Authority's change of ownership document was completed. Mr Rexstrew therefore requested the closure of "*all the bank accounts we opened relating to Alacrity Payments*". Between March and June 2016, Barclays closed the five accounts it had opened for Alacrity Payments. However, it did not close the three "re" accounts that it had opened for Premier FX to operate on behalf of Alacrity Payments prior to its authorisation by the Authority. Barclays stated during the investigation that it thought Mr Rexstrew's request only related to the accounts directly held by Alacrity Payments and not the "re" accounts, but did not explain why the latter accounts should remain open if Premier FX had sold Alacrity Payments.
- 4.62. Barclays recorded in an EDD report prepared in April 2016 that Alacrity Payments had been sold, the sale was due to be completed in March 2016, and half of the £50,000 sale price had already been paid. It also stated that the accounts had been closed, which was incorrect even for the accounts directly held by Alacrity Payments because two were not closed until June 2016. The FMRF was told later in April that Alacrity Payments had been sold, the sale was completing that month, that the proceeds were to be received within four weeks and that the accounts were closed.
- 4.63. In reality, Mr Rexstrew did not sell Alacrity Payments and the business had failed by 2016. It was dissolved via compulsory strike-off on 23 May 2017.
- 4.64. If Barclays believed that Alacrity Payments had been sold in April 2016, it should have made further enquiries as to why Premier FX was using the "re" accounts following the purported sale in April 2016.
- 4.65. The pounds sterling and euro "re" accounts were not used, though the pounds sterling "re" account was not closed until 25 July 2017 and the euros "re" account remained open for the remainder of the relevant period, as no request was received from Premier FX to close the account.

- 4.66. However, Mr Rexstrew immediately began using the US dollar “re” account. Between January 2014 when the account was opened and April 2016 when Barclays was told Alacrity Payments had been sold, approximately \$4.47 million was credited to this account in settlement of foreign exchange deals transferred from other Premier FX bank accounts at Barclays. The majority of the US dollars were then transferred to the US Dollar Account or to one of the Global Currency Service “re” accounts (although some of the funds were exchanged into another currency and transferred to another Premier FX account).
- 4.67. The Authority understands that Alacrity Payments never commenced trading. Accordingly, it is unlikely that these transactions were connected with Alacrity Payments’ business. It appears that Mr Rexstrew was instead using the US dollar “re” account to receive the proceeds of Premier FX client funds following a foreign exchange. The FMRF’s instruction in September 2015 that no client monies were to be received was not followed up on. Indeed, Mr Rexstrew continued to use this account until January 2017.

#### ***BARX Live accounts***

- 4.68. On 27 October 2015, Barclays opened 23 additional accounts in 23 currencies for which Premier FX already had accounts. These accounts were opened as part of Premier FX’s migration from the BARX Corporate Platform to the BARX Live platform, the facility provided by Barclays that Premier FX used to conduct its FX trades. Mr Rexstrew was told by Barclays that these additional accounts were necessary to use BARX. However, Barclays subsequently clarified in the investigation that it was not necessary to open these additional accounts but they would have been expected to be established for credit risk management purposes in line with best practice.
- 4.69. Barclays did not record the existence of these accounts in any of its subsequent EDD reviews of Premier FX (see paragraphs 4.133, 4.137 and 4.148).

#### **Barclays’ processes for monitoring relationships with MSB customers (2011 to 2013)**

##### ***Business Activity Reviews***

- 4.70. Barclays completed an annual Business Activity Review of its corporate customers, including MSBs, as part of its annual reviews of customer due diligence information pursuant to its ongoing monitoring obligations. Barclays considered Business Activity Reviews to be the primary process through which a customer’s turnover

(i.e. the activity occurring across a customer's accounts) for the previous 12-month period and its predicted future activity was reviewed in order to confirm there had been no activity inconsistent with Barclays' knowledge of the customer's business and risk profile. Barclays used this information to decide if continuing the banking relationship was an acceptable anti-money laundering risk or whether further analysis or customer engagement was required to better understand customer turnover (e.g. carrying out an ad-hoc EDD review).

4.71. On the form that was required to be completed as part of the Business Activity Review:

- (1) Barclays would compare the expected customer turnover recorded in the previous Business Activity Review with the actual customer turnover across the MSB's bank accounts since the previous Business Activity Review (taken from the Financial History Report);
- (2) Barclays would then assess what the expected customer turnover would be for the forthcoming year following a dialogue with the customer on their future strategy and expectations; and
- (3) lastly, Barclays would attest that it had reviewed the customer relationship and was satisfied that it should continue.

4.72. Barclays carried out Business Activity Reviews on Premier FX on the following dates and forecast the following turnover (i.e. the activity occurring across all of Premier FX's accounts held with Barclays):

<b>Date of Business Activity Review</b>	<b>Projected turnover</b>	<b>% increase from previous review</b>
28 April 2011	£12 million	-
26 July 2012	£22 million	83%
13 August 2013	£45 million	105%
21 July 2014	£85 million	89%
1 December 2015	£100 million	18%
24 November 2016	£100 million	0%
30 January 2017	£150 million	50%
10 January 2018	£155 million	3%

4.73. Barclays therefore forecast that Premier FX's turnover would increase sevenfold between April 2011 and July 2014. There is no evidence that as a result of this expected significant growth, Barclays took any additional steps to monitor Premier

FX, including assessing what, if any, effect the increased business may have on the sufficiency of Premier FX's internal controls.

4.74. According to the statements made in the Business Activity Review reports, the main reason for the significant increase was the creation of Mr Rexstrew's associated business, Alacrity Payments:

(1) the August 2013 Business Activity Review report explained a projected 105% increase in turnover by stating that Mr Rexstrew was "*starting a new online FX broker company which is likely to increase flows through Premier FX*" (i.e. Alacrity Payments); and

(2) the July 2014 Business Activity Review report projected that Premier FX's turnover would increase by 89% to £85 million and noted that "*Online version/platform to be included 2014*".

4.75. As stated in paragraphs 4.59 to 4.63 above, Mr Rexstrew later told Barclays in 2015 and 2016 that he was selling and then had sold Alacrity Payments. In reality, however, Alacrity Payments was not sold and the Authority understands never commenced trading.

#### ***MSB Minimum Operating Standards October 2010 revision***

4.76. In October 2010, just prior to the start of the relevant period, Barclays implemented a new version of its MSB Minimum Operating Standards. This document set out a number of standards and requirements that focussed on mitigating the money laundering risks presented by MSB customers.

4.77. Among other things, the MSB Minimum Operating Standards required that an AML review be completed on MSB customers either quarterly, six monthly or annually. Barclays carried out five AML reviews of Premier FX between March 2011 and March 2013 (see paragraphs 4.81 to 4.110 below).

4.78. Barclays also issued in October 2010 a template to its relationship directors which set out the matters that needed to be considered as part of the AML review. As well as ascertaining whether the MSB was registered with the Authority and HMRC, Barclays required the AML review to (among other matters) describe in full the MSB's business, assess whether the foreign exchange rates used by the MSB were reasonable and consistent with market rates, and "critically" assess customer turnover.



- 4.79. In assessing the customer's turnover and checking for changes in the trends of account activity, the relationship director would consider the MSB's last Business Activity Review report (see paragraph 4.70 above), as well as a Financial History Report.
- 4.80. The relationship director would then meet with the customer at an AML review meeting to discuss whether the customer's business activity had changed or was out of line with the relationship director's understanding of the business. The Barclays relationship director typically arranged meetings with Mr Rexstrew at which they could gather the information needed for the review. At these meetings, Mr Rexstrew would show the relationship director documents in order to satisfy them that Premier FX met the relevant requirements. The relationship director did not always take copies of the documents viewed at the meetings and the reports did not fully detail the points discussed. Consequently, Barclays was unable to produce to the Authority copies of all the materials it relied on to complete the AML reviews that took place from 2011 to 2013.

#### ***March and September 2011 AML reviews***

- 4.81. The 15 March 2011 AML report followed the AML review template, although it did not record an assessment of Premier FX's turnover as required. The report identified Mr Rexstrew as the sole shareholder and director and as the only full-time employee. Mr Rexstrew was also identified as the 'AML officer'.
- 4.82. The next report on 13 September 2011 was essentially a copy of the previous review, albeit it reflected a 50% increase in personal clients (from 800 to 1,200) and a 750% increase in corporate clients (from 40 to 300) in the interim six-month period. There was again no assessment of Premier FX's turnover. There is no evidence that Barclays sought to verify these customer figures, nor that Barclays sought information about any enhanced AML controls employed by Premier FX to take account of the significant growth of its business.

#### ***MSB Minimum Operating Standards 2011 update***

- 4.83. During 2011, Barclays issued a new version of the MSB Minimum Operating Standards document. This version included an additional requirement that all MSBs had to be managed by a relationship director with relevant experience of the sector and who had undergone enhanced training with the AML team.

4.84. The requirements set out in the accompanying AML review template were also updated in late 2011 and contained further details on what information needed to be obtained from the MSB customer in the course of the review. For example, the AML review now required that Barclays:

- (1) obtain a *"fairly accurate"* numerical breakdown of the MSB's clients and where the MSB had relationships with business clients in high-risk industries, full details of EDD performed by the MSB on those clients so that Barclays had a clear understanding to assess the risks both from money laundering and sanctions perspectives relating to the MSB's client base; and
- (2) set out the activity in the customer's accounts clearly in the review, noting the types of transfers and whether the turnover changed during the course of the year.

4.85. The template also required Barclays to obtain *"testing of the MSB's own compliance programme"*, noting that, *"[w]here possible, if the MSB has a formal testing programme of its internal AML control, obtain evidence of it"*. This was described as *"a requirement of Group AML Policy"*. Additional text in the template stated that such a programme could either be *"internally performed (by an audit team or suchlike) or externally performed when an independent body looks at the controls and provides a written report to the directors...Informal visits and 'support'...do not count"*.

4.86. The Minimum Operating Standards stated that use of the template and provision of the information in line with the guidance notes was mandatory.

#### ***March 2012 AML review***

4.87. The 21 March 2012 AML report adopted the new format prescribed by the updated AML review template. The report recorded that:

- (1) Mr Rexstrew was the 100% shareholder, sole director and the MLRO;
- (2) in the previous six months Premier FX's personal client base had grown again from 1,200 to 1,800 (of whom 1,200 were active clients) and its corporate clients had grown from 300 to 350 (of whom 300 were active clients); and
- (3) under "Business Transaction Profile" that *"the flows are pretty much consistent year on year"* (notwithstanding that four months later Barclays

would estimate an 83% increase in customer turnover from the previous year in a Business Activity Review based upon information provided by Premier FX).

- 4.88. However, instead of recording whether or not Premier FX had a formal testing programme in place for its compliance programme, the relationship director retained the guidance language of the template and no substantive answer to the requirement was included in the report. As a result, it is unclear whether Barclays made enquiries of Premier FX and ascertained whether such testing programme existed or whether it failed to address the question.

***MSB Minimum Operating Standards July 2012 update***

- 4.89. Barclays updated its MSB Minimum Operating Standards document and the AML review template again in July 2012. The requirements in the MSB Minimum Operating Standards were substantially the same as for the 2011 version for existing customers, save for a new requirement that MSBs operating in the US or providing services to clients in the US had to be registered with the US Department of Treasury Financial Crimes Enforcement Network (FinCEN) and any relevant state-level regulators. It remained a requirement to use the AML review templates and to provide information in line with the guidance notes.

- 4.90. The new AML review template included several additional requirements. For example, it now required that Barclays:

- (1) review all of the MSB's bank accounts in order to describe the customer's activity accurately; and
- (2) for MSBs providing services to customers located within the US, either confirm FinCEN and US State registration, or confirm that they do not provide such services and explain how the MSB ensures it does not provide such services on an ongoing basis.

***September 2012 and March 2013 AML reviews***

- 4.91. The 10 September 2012 AML report, in purported compliance with these new requirements, recorded that:

- (1) Mr Rexstrew was the 100% shareholder, sole director and MLRO;

- (2) Premier FX's personal clients remained at 1,800 (of whom 1,200 were active) but that corporate clients had again grown from 350 to 400 (of whom 350 were active);
- (3) in relation to the need for FinCEN and US State licensing, no services were provided to customers located in the US;
- (4) in relation to the profile of Premier FX's transactions, "*All accounts have been reviewed and seemed to be accurate [sic] in line with trends and flows*" and (repeating the line from the previous AML report word for word) "*We see direct credits into the account via BIPS /CHAPS payments in or online banking payments in, no cash. You will see from the FHR that the flows are pretty much consistent year on year*"; and
- (5) in relation to obtaining additional details of Premier FX's transaction monitoring, "*Peter [Rexstrew] signs off every transaction. So he will monitor any link or transactions [sic] via the customer history that is stored on their systems. As advised, Peter signs off every transactions and EDD is performed on every transactions which will include source of funds [sic]*".

4.92. The AML report also responded to the requirement to obtain testing of the MSB's compliance programme by stating simply that Premier FX did not "*have a formal testing programme for its internal AML control process*". The contents of the report were otherwise, changes in format and minor updates aside, copied from the 21 March 2012 report.

4.93. According to Barclays, in assessing the customer's turnover and checking for changes in the trends of account activity, the relationship director would consider the MSB's last Business Activity Review. As at 10 September 2012, the last Business Activity Review had been carried out in July 2012. The July 2012 Business Activity Review stated that Premier FX's projected 83% increase in turnover was "*in line with AML reviews*" even though, as noted in paragraphs 4.82 and 4.83 above, on the face of the documents, there was no assessment of Premier FX's turnover in either of the AML reviews that took place in 2011 and the March 2012 AML review stated that "*the flows are pretty much consistent year on year*". This inconsistency was not resolved in the September 2012 AML review, which repeated that "*the flows are pretty much consistent year on year*" indicating that the Business Activity Review appears not to have been considered as part of the AML review.

4.94. The next AML review took place on 4 March 2013. The contents of the report were identical to the contents of the September 2012 AML report save that:

- (1) Premier FX's personal client base had further grown from 1,800 to 2,000 (of whom 1,400 were active) and its corporate clients had grown from 400 to 450 (of whom 400 were active); and
- (2) Premier FX had opened offices in Spain.

4.95. The report also confirmed that Premier FX still did not have a formal testing programme for its internal AML controls notwithstanding the continued growth of the firm.

***MSB Minimum Operating Standards May 2013 update***

4.96. Barclays updated its MSB minimum standards again in May 2013 when it issued a new document called "*Money Service Businesses - Minimum Standards*". This document was more detailed than the MSB Minimum Operating Standards documents issued over the previous three years. It required that, in addition to the requirements of Barclays' Corporate KYC process, each prospective and existing MSB customer had to demonstrate that:

- (1) it had robust internal controls to prevent and detect money laundering, terrorist financing or the circumvention of international sanctions;
- (2) it was registered with HMRC;
- (3) where required it had been authorised under the PSRs by the Authority;
- (4) it had a designated AML compliance officer appointed with appropriate seniority, independence and experience;
- (5) it had robust internal controls to segregate client funds from company funds; and
- (6) it met Barclays' minimum threshold in NTA.

4.97. According to Barclays, the minimum requirements that (1) the MSB customer should be authorised under the PSRs by the Authority and (2) that it should demonstrate robust internal controls to segregate client funds from company funds reflected its MSB customer's responsibility to safeguard funds.

- 4.98. This was the first time in the relevant period that the specific requirement that an MSB customer demonstrate robust internal controls to segregate client funds from company funds was referred to in any of the documents which set out Barclays' minimum requirements.
- 4.99. The "*Money Service Businesses - Minimum Standards*" document also contained a requirement that all MSB customers must be subject to an annual review of the relationship (as opposed to previous versions which required reviews to happen either quarterly, six monthly or annually as appropriate), such review to include:
- (1) a KYC refresh (in line with Corporate Banking KYC procedures);
  - (2) a review of the MSB's business and payment activity;
  - (3) a re-validation of whether the MSB was meeting the minimum standards (i.e. as set out in paragraph 4.78 and 4.96 above);
  - (4) completion and assessment of the AML review template to ensure the MSB continued to represent an acceptable risk; and
  - (5) an externally-conducted review (to be paid for by the MSB but addressed to Barclays) of the MSB's internal compliance controls.
- 4.100. Barclays revised the format of the AML review template in October 2013 which contained a number of additional requirements including the following:
- (1) the relationship director had to explain in the AML report the expected future business activity of the MSB until the next review, taking into account any plans that may have a material impact on the MSB's levels of activity;
  - (2) although the preceding version required a review of all of the MSB's accounts (see paragraph 4.90(1) above), this updated template only required the "*main client accounts*" to be reviewed to determine whether the turnover levels were in line with expectations; and
  - (3) a requirement to obtain a copy of any testing that the MSB had undertaken on its own compliance programme or a summary of that testing prepared by an independent party.
- 4.101. The AML review template also required the relationship director to consider whether the minimum standards had been met and, if not, "*provide the rationale for wanting to on-board or maintain the relationship (including risk rationale) and the MSB*

*Coverage Head's approval*". However, although the MSB Minimum Operating Standards included a requirement that the MSB customer must be able to demonstrate robust internal controls to segregate client funds, the AML review template was not updated at this point to require any information from the customer that would enable Barclays to assess the MSB against this minimum requirement. This was not included in the review template until 2014 when Barclays made further updates to the oversight of its MSB business (see paragraph 4.111 below).

***August 2013 review by Financial Crime Compliance***

- 4.102. Between August and December 2013, Barclays' Financial Crime Compliance Team carried out a review of Premier FX in line with the MSB Minimum Operating Standards which was prompted by Mr Rexstrew's request that Barclays open bank accounts for his separate business Alacrity Payments (see paragraph 4.56 above). During that review, the Financial Crime Compliance Team expressed a number of concerns about Premier FX and requested further information before they could approve Premier FX's EDD review.
- 4.103. One of those concerns was that Mr Rexstrew was the sole director, CEO, MLRO and shareholder and, in light of the size of the business, suggested that further details should be obtained on how Mr Rexstrew delegated and managed Premier FX's business.
- 4.104. Barclays raised these concerns with Premier FX and it was agreed that Premier FX would appoint an independent MLRO. Subsequently, Premier FX appointed as MLRO an independent regulatory compliance consultant with previous experience working with MSBs and e-Money clients. Barclays was aware that this person was a consultant who was not employed by Premier FX and did not work for it full-time but were aware that he had been involved with Premier FX's business for a number of years and were informed that he would be supported by a number of individuals from the compliance consultancy that he operated. Barclays considered this to be sufficient to address the concerns raised by the Financial Crime Compliance Team.
- 4.105. The Financial Crime Compliance Team also expressed concerns that Premier FX was providing services to US nationals without a FinCEN licence based on a review of Premier FX's website. As noted in paragraphs 4.89 and 4.90 above, Barclays introduced a minimum requirement in July 2012 requiring confirmation whether the MSB was operating in the US or providing services to clients in the US and, if so, whether the MSB was registered with FinCEN and any relevant US state-level

regulator. Barclays recorded in the September 2012 and March 2013 AML reviews that Premier FX did not provide services to customers located in the US.

4.106. Again, this appears to have been discussed with Mr Rexstrew who explained that while Premier FX's website software could have been configured to prevent US residents or passport holders registering as customers, this would have generated more telephone enquires so their applications were manually blocked instead. Although Compliance continued to express concern in October 2013 that Premier FX Limited appeared to be servicing US clients, they were satisfied with Premier FX's response on the basis that it used the software "*as a control to identify and reject US customers*".

4.107. Premier FX continued to tell Barclays in subsequent EDD reviews that it did not have any US-based clients. Had Barclays carried out a high-level review of activity on the US Dollar Account it would have identified that Premier FX made a series of payments to banks based in the US from the US Dollar Account. Between January and July 2013, Premier FX made 38 payments totalling approximately \$1.38 million, while between January 2013 and November 2016, Premier FX made 623 payments totalling approximately \$25.05 million. Although these transactions may have been payments made on the instructions of non-US based clients, Barclays ought to have confirmed this with Premier FX.

#### ***Summary of AML reviews 2011 to 2013***

4.108. In summary, therefore by the end of 2013:

- (1) Barclays was aware that Premier FX was owned and directed by one person, Mr Rexstrew, who also oversaw all its transactions;
- (2) Premier FX had told Barclays that its personal client base had grown 250% (from 800 to 2,000) and its corporate client base had grown over 1,100% (from 40 to 450) but there is no evidence that Barclays considered whether Premier FX's internal controls had changed in light of this rapid growth;
- (3) Barclays had not received any independent testing of Premier FX's compliance processes;
- (4) Barclays' assessment of Premier FX's account activity was not recorded in some of the reports and in other reports appears to have been inconsistent with the information contained in the Business Activity Reports; and



- (5) the contents of some reports were nearly identical to the contents of the previous report indicating that either fresh information was not sought from Premier FX or that Barclays did not carry out a review of account activity.

4.109. These matters indicate that Barclays took a superficial approach to reviewing its relationship with Premier FX during the period from 2011 to 2013. Premier FX grew significantly during this period and Barclays made limited enquiries as to whether Premier FX's internal controls were also improving.

4.110. Barclays was aware that Premier FX was authorised by the Authority as an API, and held and operated currency accounts separate from its 'office' accounts and one or more safeguarding accounts. As noted in paragraph 4.101 above, the MSB Minimum Operating Standards issued in May 2013 included a requirement that the MSB customer demonstrate robust internal controls to segregate client funds, and the AML review template was updated in October 2013 to require the relationship director to consider whether the minimum standards had been met and, if not, "*provide the rationale for wanting to on-board or maintain the relationship (including risk rationale) and the MSB Coverage Head's approval*". The review template was further updated in 2014 when Barclays introduced the updated EDD review template. The EDD review template included a 'Check List' of the minimum standards at the top of the document, with the question "*Standards Met?*".

### **Barclays' processes for monitoring relationships with MSB customers (2014 to 2018)**

#### ***Review of MSB processes 2013 to 2014***

4.111. Barclays carried out a review of its MSB business between 2013 and 2014. This review led to:

- (1) the introduction of a risk appetite document;
- (2) the replacement of the AML review template with an EDD review template; and
- (3) the introduction of the FMRF to oversee the ongoing monitoring of MSB customers.

4.112. Barclays' MSB risk appetite document set out the minimum requirements for different categories of MSB (money remitters, bureaux de change, FX brokers, etc.) which had previously been included in the "*Money Service Businesses - Minimum*

*Standards*” document produced in 2013. It defined FX brokers as a “*firm or individual who offers trading services to people who want to buy and sell currencies*” and which Barclays classed as high-risk. Premier FX was categorised by Barclays in its EDD reviews as an FX broker. Barclays reissued its MSB risk appetite document annually between 2015 and 2017. The minimum standards in the July 2015 and July 2016 versions were substantially the same as ones in the 2014 version.

4.113. The minimum requirements that FX brokers needed to meet in order for Barclays to continue the relationship included:

- (1) it complied with Barclays’ minimum threshold in NTA and income;
- (2) proof of regulated status;
- (3) externally audited transaction monitoring systems in place; and
- (4) an external due diligence audit at a frequency in line with risk policies.

4.114. In contrast to the “*Money Service Businesses - Minimum Standards*” document produced the previous year, the MSB risk appetite document did not, until November 2017, include a specific requirement that the MSB customer have “*robust internal controls to segregate client funds from company funds*”. However, Barclays also produced an EDD review template at some point in 2014, which contained a checklist of the minimum requirements that required the reviewer to confirm (by yes or no) that an MSB met certain threshold criteria.

4.115. In November 2017, Barclays updated its MSB risk appetite document following the implementation of the PSRs 2017 and included in the document a “*general criteria standard*” that the MSB “*must have robust systems and controls in place to segregate any of their client funds they hold from their own company cash flows*”.

4.116. The remainder of the EDD review template comprised a schedule of actions or items that needed to be done as part of the EDD review, with a brief summary for each action or item of what Barclays’ policy required, and instructions as to what evidence the relationship director needed to obtain. The schedule contained additional columns for the relationship director to add their commentary and to confirm completion of the action or item. Although Barclays categorised the review from that point in time as an “EDD review”, aside from the checklist which was at the beginning of the template, the schedule replicated the requirements in the October 2013 version AML review template virtually word for word.

- 4.117. The relationship director continued to be required to review a customer's turnover to determine if the activity appeared reasonable and in line with their expectations as part of the EDD review. As with the AML reviews, the relationship director was still required to consider the Business Activity Reviews and Financial History Reports, in light of their knowledge of the customer and their interactions with them, to complete the EDD review. The relationship director was expected to seek clarifications from the customer if its overall customer turnover had changed or was out of line with the relationship director's understanding of the business. They were required to retain copies of the documents needed to confirm that the customer met the minimum requirements to complete the review.
- 4.118. Barclays produced an updated version of the EDD review template in January 2015, the requirements of which were substantially the same as the requirements in the 2014 version.
- 4.119. Barclays conducted three EDD reviews between 2015 and 2018. Although Barclays' policies required it to conduct an EDD review annually, no review of Premier FX took place in 2014 and the first EDD review of Premier FX did not take place until January 2015, some 22 months since the preceding AML review. Barclays explained that while the EDD review was begun in 2014, it was delayed by Premier FX failing to provide an independent compliance review in a timely manner.

#### ***January 2015 EDD review***

- 4.120. The first EDD report was prepared in January 2015 and also covered Alacrity Payments which also held bank accounts at Barclays.
- 4.121. The EDD review recorded that Premier FX had 2,500 registered personal clients, 1,500 of whom were active, and 450 registered corporate clients, of which 400 were active. It stated that Premier FX had recently opened an office in Dubai.
- 4.122. The EDD review template required confirmation that the MSB customer had "*robust internal controls to segregate client funds from company funds*".
- 4.123. The EDD review template also provided for a review of Premier FX's bank accounts to be carried out. The template required Barclays "*to have some sight of customer activity to understand it and take a view on whether it appears reasonable*" and "*as a minimum*" to confirm that it had "*reviewed the main client accounts held and can confirm that turnover levels appears to be in line with expectations*".

4.124. At the time, Barclays knew that Premier FX held client accounts in pounds sterling (i.e. the Client Account (GBP)) and the Kenyan Shillings Account. Barclays recorded in the January 2015 EDD report that:

- (1) Premier FX held six pounds sterling and 35 currency accounts;
- (2) it held a client account in pounds sterling (there was no reference to the Kenyan Shillings Account);
- (3) clients' funds were received "*in GBP or to a currency account*" an FX transaction was undertaken and settled in the relevant currency account from which payments were made;
- (4) commissions received from clients and bank charges were applied to the Office Account (GBP);
- (5) turnover levels were increasing steadily year on year; and
- (6) pounds sterling and euros made up the bulk of transactions within the business.

4.125. The report did not mention the transfers between the Client Account (GBP) and the Office Account (GBP) and Barclays did not ask questions regarding Premier FX's use of its office account.

4.126. Barclays also required Premier FX for the first time to arrange an independent compliance review of its systems and controls for the 2014 EDD review which was finalised in January 2015 (see paragraph 4.113(4) above). A report was prepared by an independent compliance consultant on 16 December 2014 which Mr Rexstrew provided to Barclays on 23 December 2014. The report considered Premier FX's compliance with the requirements of the MLRs and the PSRs, including safeguarding. The report stated in its introduction that "*Due to time constraints, the scope of the review was one of a high-level overview rather than extensive, detailed, testing of all internal control mechanisms*".

4.127. In relation to safeguarding requirements, the compliance report stated that:

*"Premier FX uses the segregation method to safeguard funds. It holds a separate, safeguarding account with Barclays Bank Plc. The firm confirms that Barclays has no right of set off against its client account. [Mr Rexstrew] explained he is responsible for daily reconciliation and the IT system is used*

*to assist with this. Testing of the reconciliation method was not undertaken, due to time constraints."*

4.128. The compliance report also stated that Premier FX's accounts had not been requested as part of the review and suggested they should be checked and verified separately.

4.129. Barclays also considered Alacrity Payments' business plan as part of its January 2015 EDD report. It did so on the basis that Alacrity was still listed as an agent of Premier FX but was being de-registered. The business plan, which Mr Rexstrew had sent to Barclays in June 2013, contained a section called "Safeguarding" which stated that:

*"Both Premier FX and Alacrity will be banking with Barclays and will have correctly identified client accounts ring fenced from office accounts. A letter of instruction from both firms have been passed to Barclays which has responded to the company that these are dedicated client accounts and will not be called into account should either company face financial challenges."*

4.130. No consideration appears to have been given during the 2015 EDD review as to how Alacrity Payments or the fact that Mr Rexstrew was intending to set up and run a separate firm would affect Mr Rexstrew's conduct of Premier FX's business.

4.131. The EDD review template contained a "*Minimum Standards Check List*" which required confirmation of whether each of the standards within the check list had been met by Premier FX. In response to whether Premier FX had "*robust internal controls to segregate client funds from company funds*" the EDD report prepared in January 2015 stated "Yes". The EDD report further recorded that Premier FX was authorised by the Authority as an API and that it held and operated currency accounts separate from the MSB's 'office' accounts and one or more safeguarding accounts but did not provide any further detail of how Barclays assessed that Premier FX's controls were robust. The document submitted to the FMRF on 13 February 2015 stated in respect of the requirement that Premier FX have robust internal controls of client funds: "*Met - Segregated accounts in place*".

4.132. Barclays had no record of receiving a letter of instruction from Premier FX regarding the status of the funds in the Client Account (GBP) and the Kenyan Shillings Account. However, Barclays' customer agreement with Premier FX applied to all of Premier FX's accounts. The customer agreement included a clause to the effect that Barclays will not set off any credit balances on an account in circumstances where

the account is designated as a client account. As the Client Account (GBP) and the Kenyan Shillings Account had the word "Client" in the account name, it was clear to Barclays that the account had therefore been designated by Premier FX as a client account and as such, it held balances in the account on behalf of its customers. Barclays would therefore not have exercised, nor did it exercise, any right of set off against these accounts.

#### **April 2016 EDD review**

- 4.133. Barclays scheduled a further EDD Review for April 2016. The EDD Report prepared for the review recorded that Premier FX had 1,500 active private clients and 650 active corporate clients. It stated that Premier FX had "6 GBP & 35 currency accounts", precisely the same numbers and description used in the January 2015 EDD Report.
- 4.134. The FMRF was informed in April 2016 that Premier FX did not meet Barclays' minimum standards since it did not meet Barclays' minimum NTA threshold. However, it was recommended that Barclays carry on with the relationship given Mr Rexstrew's proposal to reinvest the sale proceeds of Alacrity Payments (£50,000) and Premier FX's 2016 profit (€220,000).
- 4.135. On the check list, the April 2016 EDD report assessed that Premier FX met the requirement to have "*robust internal controls to segregate client funds from company funds*". The EDD report recorded that Premier FX was authorised by the Authority as an API and that it held and operated currency accounts separate from the MSB's 'office' accounts and one or more safeguarding accounts. The document submitted to the FMRF on 18 April 2016 stated in respect of the requirement that Premier FX have robust internal controls of client funds: "*Met - Segregated accounts in place*". No further reasoning was given.
- 4.136. The results of the April 2016 EDD Review were submitted to the FMRF for approval on 25 April 2016. Whilst the EDD review was substantially complete, the review by an independent compliance consultant on Premier FX's controls had not yet been issued. As a result, the FMRF stated that Premier FX should be considered again by the FMRF once the independent compliance review was made available.

#### **September 2016 EDD Review**

- 4.137. Following the issuance of the independent compliance review, an updated EDD report was produced in September 2016. The September 2016 EDD report largely

reproduced the contents of the April 2016 EDD report. The report stated in error that Premier FX had "6 GBP & 35 currency accounts" (the same figures given in the January 2014 and April 2016 EDD Reports). In fact, by this time, Premier FX held an additional pounds sterling account and 20 additional currency accounts.

- 4.138. The September 2016 EDD report included the same conclusion that Premier FX had robust internal controls in respect of its segregation of client funds. Similarly, the EDD report further recorded that Premier FX was authorised by the Authority as an API and that it held and operated currency accounts separate from the MSB's 'office' accounts and one or more safeguarding accounts. The document submitted to the FMRF on 23 September 2016 stated in respect of the requirement that Premier FX have robust internal controls of client funds: "*Met - Segregated accounts in place*". No further reasoning was provided. The independent compliance report also did not consider Premier FX's safeguarding or segregation systems.
- 4.139. The September 2016 EDD report stated that Premier FX's NTA had increased to €749,000. This figure appears to have been based on figures recorded in Premier FX's abbreviated unaudited accounts for the year ended 31 December 2015, a copy of which appears to have been provided to Barclays for the purposes of the September 2016 EDD Review. These accounts were filed at Companies House on 29 September 2016.
- 4.140. The accounts recorded that Premier FX's current assets (stated to be cash at bank) had fallen from €8,476,522 at 31 December 2014 to €2,613,993 at 31 December 2015. Despite this, its net assets were stated to have grown during the same period from €414,400 to €749,146.
- 4.141. No comment was made in the September 2016 EDD Review as to any consideration given by Barclays to how these figures had been reached, in particular in light of the fact that they could not have accounted for the sale of Alacrity Payments which, on the basis of the information provided to Barclays, happened in 2016 and thus could not have affected the financial position of Premier FX at 31 December 2015.
- 4.142. The September 2016 EDD Report stated simply that Alacrity Payments "*has now been closed*". Barclays could have ascertained, by reference to Alacrity Payments' Companies House records, that no record of the sale of Alacrity Payments had been filed and, in fact, no sale of Alacrity Payments ever transpired.
- 4.143. When the FMRF met to consider the matter in October 2016, the committee agreed to retain Premier FX as a client and review it again in 2017. At the same meeting,

the FMRF agreed that Premier FX could open bank accounts for a joint venture between Premier FX and another company.

#### **April 2018 EDD Review**

- 4.144. Although the FMRF requested that Premier FX be reviewed again in 2017, and Barclays' policies provided for an annual review, the next EDD review for Premier FX did not take place until 18 April 2018, over 18 months later. According to Barclays, the reason for the delay was due in part to delays in the preparation of the independent compliance review by the external third party instructed by Premier FX.
- 4.145. In total, Premier FX caused the delay of three AML/EDD reviews during the relevant period by failing to produce an independent report in a timely manner. As well as the lack of a review in 2017:
- (1) no AML review was finalised in 2014 for this reason, although the review was completed in January 2015 (see paragraph 4.119 above); and
  - (2) the EDD review scheduled for April 2016 could not happen as the independent compliance report had not yet been delivered (see paragraph 4.136 above). Barclays had been told it was completed in March 2016 and agreed to defer the completion of the EDD review. The independent compliance report was in fact not finalised until 16 May 2016 and the EDD review was not completed until 3 October 2016.
- 4.146. A report from an independent compliance consultant was obtained for the purposes of the April 2018 EDD Review. This report considered the AML controls of Premier FX but specifically stated that reviews of its safeguarding and capital arrangements were "*out of scope*" and provided no information on them. This was consistent with Barclays' recommended scope for independent external reviews, which did not specify safeguarding should be within the scope of the review.
- 4.147. On the check list, the April 2018 EDD report assessed that Premier FX met the requirement to have "*robust internal controls to segregate client funds from company funds*". The EDD report further recorded that Premier FX was authorised by the Authority as an API and that it held and operated currency accounts separate from the MSB's 'office' accounts and one or more safeguarding accounts. The document submitted to the FMRF in April 2018 stated in respect of the requirement



that Premier FX have robust internal controls of client funds: "*Met - Segregated accounts in place*". No further reasoning was provided.

- 4.148. By the time of the April 2018 EDD Review, the report was still erroneously stating that Premier FX had "*6 GBP & 35 currency accounts*" whereas in reality it held seven pounds sterling accounts and 59 additional currency accounts.
- 4.149. On 23 May 2018, the Authority wrote to Mr Rexstrew to inform him that Premier FX had been granted authorisation to carry on payment services activities as an API under the PSRs 2017. The letter noted that the Authority had reviewed Premier FX's application and required Premier FX to make a small number of changes to its procedures. While these changes were not related to safeguarding, the Authority reminded Premier FX of its safeguarding obligations under the PSRs. Mr Rexstrew sent a copy of the letter to Barclays on 30 May 2018 along with a number of other documents requested as part of the EDD process.
- 4.150. When the new directors of Premier FX contacted Barclays on 31 July 2018, Barclays was unable to immediately confirm which accounts held by Premier FX were designated client accounts and responded three days later that it was "*still looking to retrieve account opening documentation*". Despite being chased for a response, Barclays took until 9 August 2018 to confirm that there were only two designated client accounts. The Authority considers that this delay in ascertaining what client accounts existed indicates that, with the exception of the Client Account (GBP) and Kenyan Shillings Account, no attempt to identify any additional client accounts had previously been made.

## **5. FAILINGS**

- 5.1. The regulatory provisions relevant to this Notice are referred to in Annex A.
- 5.2. Principle 2 of the FCA's Principles for Businesses requires that a firm must conduct its business with due skill, care and diligence.
- 5.3. On the basis of the facts and matters set out above, and for the reasons set out below, the Authority considers that, in respect of its oversight and monitoring of its business relationship with Premier FX, Barclays breached Principle 2 between February 2011 and August 2018.
- 5.4. Throughout the relevant period, Barclays was required to establish, implement and maintain adequate policies and procedures sufficient for countering the risk that it might be used to further financial crime. Barclays correctly recognised that clients

classified by it as MSBs presented high financial crime risks and, as a result, implemented policies in respect of MSBs that were designed to reduce these risks. These included policies requiring minimum standards which any current or prospective MSB customer of Barclays had to fulfil and regular reviews of the MSB customer to ensure that the minimum standards were met. As Barclays recognised, measures such as ensuring, on an ongoing basis, that the MSB had suitable compliance systems and maintained robust internal controls reduced the risk that its MSB customer may be involved in financial crime, thereby exposing Barclays to the risk of facilitating financial crime.

5.5. However, in respect of its relationship with Premier FX, Barclays failed to conduct its business with due skill, care and diligence, in that:

- (1) Whilst Barclays conducted nine AML/EDD reviews through the relevant period, Barclays failed to finalise in a timely manner reviews of Premier FX in two calendar years, in breach of its own policies. This was due to delays in Premier FX providing Barclays with the requisite independent compliance reports, yet Barclays did not consider whether these delays should have prompted further questions to Premier FX's management.
- (2) Much of the information contained in the AML/EDD review reports prepared for Premier FX by Barclays was repeated and included information cut and pasted from previous reports, which included errors that Barclays did not identify and rectify.
- (3) Throughout the relevant period, Barclays failed to take sufficient steps to understand the framework of accounts Premier FX operated and to challenge information it received. In particular:
  - (a) Barclays allowed Premier FX to open accounts on behalf of Global Currency Service, an API owned and operated by Mr Rexstrew. These "re" accounts were opened in Premier FX's name and operated by Premier FX on behalf of Global Currency Service. In opening these accounts for Premier FX, Barclays failed to consider or confirm with Premier FX Mr Rexstrew's use of these "re" accounts and how this affected his conduct of Premier FX's business;
  - (b) Some of the records of the AML/EDD reviews did not accurately reflect the correct number of bank accounts operated by Premier FX.

By the time of the final review in April 2018, the EDD report under-reported the number of accounts by 25;

- (c) Barclays failed to identify that, or to seek explanation from Premier FX as to, Premier FX making significant numbers of payments to banks based in the US, despite Mr Rexstrew having told Barclays that Premier FX had no US-based clients (although the Authority recognised that these transactions may have been payments made on the instructions of non-US based clients); and
  - (d) Barclays allowed Premier FX to open accounts on behalf of Alacrity Payments but failed to identify that these accounts continued to be used by Premier FX after Barclays was aware that Alacrity Payments was not operating. Barclays did not make any enquiries to establish the ongoing purpose of Mr Rexstrew's use of these "re" accounts after it had been told that Alacrity Payments had been sold by April 2016.
- (4) From May 2013, the MSB Minimum Standards were introduced as one element of Barclays' oversight of MSB customers. The Minimum Standards included a checklist, which required the reviewer to confirm (by yes or no) that an MSB met certain threshold criteria. One such criterion was to confirm that the MSB was appropriately authorised or registered. Another was to confirm that the MSB had "*robust internal controls to segregate client funds from company funds*". Despite this being a minimum requirement from May 2013, Barclays did not complete a review that included a confirmation that this criterion was met until January 2015.
- (5) In practice, the reviewer considered this criterion to be fulfilled by confirming that the MSB held and operated currency accounts separate from the MSB's 'office' accounts and one or more safeguarding accounts. Barclays therefore did not properly consider the number or types of accounts Premier FX held with it.
- (6) In addition, in its AML/EDD reviews, Barclays did not ask questions regarding Premier FX's use of its office account.
- (7) Although Barclays received information from Mr Rexstrew regarding his plans for the business and the purpose of the accounts Premier FX held at Barclays, including the Global Currency Service and Alacrity Payments "re"

accounts, it did not seek further confirmation about how those accounts operated relative to its understanding of the business of Premier FX.

- (8) Barclays failed to identify that Premier FX's controls were deficient. In particular:
- (a) Despite concerns having been expressed in 2013 by a Barclays compliance officer about Mr Rexstrew's role, and suggestions made that details should be obtained as to how he delegated and managed the business, the only substantive step taken was Mr Rexstrew's replacement as MLRO and no further investigations of Mr Rexstrew's management of the business were conducted by, or on behalf of, Barclays; and
  - (b) Barclays' consideration of Premier FX's controls failed to take into account apparently rapid growth in its turnover when assessing whether its internal controls were sufficiently robust.
- (9) Despite identifying in April 2016 that Premier FX did not meet its minimum NTA threshold, Premier FX persuaded Barclays to keep the relationship open on the basis that the proceeds from the sale of Alacrity Payments and its expected profit for 2016 would be reinvested in Premier FX. Barclays was subsequently told by Mr Rexstrew that Alacrity Payments had been sold and, in September 2016, Barclays assessed that Premier FX met its minimum NTA threshold. This assessment was repeated with the same result in 2018. However, in making these assessments:
- (a) Barclays failed to appreciate that the financial information provided to it by Premier FX in support of its improved capital position could not have taken account of the sale of Alacrity Payments since it covered a period prior to the sale;
  - (b) Barclays failed to seek confirmation of the sale of Alacrity Payments and/or the receipt of funds as a result, despite publicly available information suggesting that no sale had been made and that Alacrity Payments was dissolved in May 2017 without having been sold;
  - (c) Barclays failed to appreciate, and/or failed to make reasonable enquires into the fact, that the financial information provided to it by Premier FX showed unusual financial activity in its accounts; and

- (d) As a result, Barclays failed to appreciate, and/or make reasonable enquiries into the fact, that Mr Rextrew had seemingly provided Barclays with false information in relation to the sale of Alacrity.

5.6. Taking all of the above points into consideration together, the Authority considers that these findings demonstrate Barclays' oversight and monitoring of Premier FX, throughout the relevant period, failed to include appropriate further enquiries when it received information from Premier FX to ensure that Premier FX's actual business activity aligned with Barclays' expectation of its business activity based on its understanding of Premier FX and that Barclays failed to identify that Premier FX's controls were deficient.

## **6. SANCTION**

### **Financial penalty**

6.1. For the reasons set out in this Notice, the Authority has found that Barclays breached Principle 2. The Authority has considered the disciplinary and other options available to it and has concluded that a financial penalty is the appropriate sanction in the circumstances of this case.

6.2. The Authority's policy for imposing a financial penalty is set out in Chapter 6 of DEPP. In respect of conduct occurring on or after 6 March 2010, the Authority applies a five-step framework to determine the appropriate level of financial penalty. DEPP 6.5A sets out the details of the five-step framework that applies in respect of financial penalties imposed on firms.

#### Step 1: disgorgement

6.3. Pursuant to DEPP 6.5A.1G, at Step 1 the Authority seeks to deprive a firm of the financial benefit derived directly from the breach where it is practicable to quantify this.

6.4. The Authority has not identified any financial benefit that Barclays derived directly from its breach.

6.5. Step 1 is therefore £0.

#### Step 2: the seriousness of the breach

6.6. Pursuant to DEPP 6.5A.2G, at Step 2 the Authority determines a figure that reflects the seriousness of the breach. Where the amount of revenue generated by a firm

from a particular product line or business area is indicative of the harm or potential harm that its breach may cause, that figure will be based on a percentage of the firm's revenue from the relevant products or business area.

6.7. The Authority considers that the revenue generated by Barclays is indicative of the harm or potential harm caused by its breach. The Authority has therefore determined a figure based on a percentage of Barclays' relevant revenue. Barclays' relevant revenue is the revenue derived by Barclays from its relationship with Premier FX during the period of the breach. The period of Barclays' breach was from February 2011 to August 2018. The Authority considers Barclays' relevant revenue for this period to be £1,197,677.

6.8. In deciding on the percentage of the losses that form the basis of the Step 2 figure, the Authority considers the seriousness of the breach and chooses a percentage between 0% and 20%. This range is divided into five fixed levels which represent, on a sliding scale, the seriousness of the breach; the more serious the breach, the higher the level. For penalties imposed on firms there are the following five levels:

Level 1 – 0%

Level 2 – 5%

Level 3 – 10%

Level 4 – 15%

Level 5 – 20%

6.9. In assessing the seriousness level, the Authority takes into account various factors which reflect the impact and nature of the breach, and whether it was committed deliberately or recklessly. DEPP 6.5A.2G(11) lists factors likely to be considered 'level 4 or 5 factors'. Of these, the Authority considers the following factor to be relevant:

(1) Significant loss was caused to many customers of Premier FX who had paid funds into Premier FX's accounts prior to its administration. Taking into account the sums to be distributed under the plan (at a rate of 9.815p in the pound), their average individual loss was approximately £60,000 and 32 customers lost over £100,000.

6.10. DEPP 6.5A.2G(12) lists factors likely to be considered 'level 1, 2 or 3 factors'. Of these, the Authority considers the following factors to be relevant:

- (1) The breach was committed negligently and there is no evidence that it was committed deliberately or recklessly.

6.11. The Authority also considers that the following factors are relevant:

- (1) The breach had an effect on particularly vulnerable people who, in particular included retirees who had paid the proceeds of property sales or investments to Premier FX. Several individuals lost life-changing sums of money following Premier FX's insolvency, including customers who were unable to purchase properties that they had intended to buy.

6.12. Taking all of these factors into account, the Authority considers the seriousness of the breach to be level 3 and so the Step 2 figure is 10% of £1,197,677.

6.13. Step 2 is therefore £119,767.

Step 3: mitigating and aggravating factors

6.14. Pursuant to DEPP 6.5A.3G, at Step 3 the Authority may increase or decrease the amount of the financial penalty arrived at or after Step 2, but not including any amount to be disgorged as set out in Step 1, to take into account factors which aggravate or mitigate the breach.

6.15. The Authority considers that the following factors aggravate the breach:

- (1) The Authority has imposed significant financial penalties on Barclays on previous occasions in relation to misconduct:
  - (a) In August 2009, the Authority fined Barclays £2,450,000 for failing to submit accurate transaction reports in respect of an estimated 57.5 million transactions;
  - (b) In January 2011, the Authority fined Barclays £7,700,000 for failing to take reasonable care to ensure the suitability of its advice regarding certain funds for customers entitled to rely on its judgement. The customers were typically in or near retirement and included inexperienced investors, and a number of unsuitable sales were made;
  - (c) In June 2012, the Authority fined Barclays £59,500,000 for misconduct relating to its submissions of rates which formed part of LIBOR;

- (d) In May 2014, the Authority fined Barclays £26,033,500 for failing to manage conflicts of interest, as well as systems and controls failings, in relation to the Gold Fixing;
- (e) In September 2014, the Authority fined Barclays £37,745,000 for failing to protect approximately £16.5 billion of customers' safe custody assets between 1 November 2007 and 24 January 2012;
- (f) In May 2015, the Authority fined Barclays £284,432,000 for failing to take reasonable care to organise and manage its FX business effectively;
- (g) In November 2015, the Authority fined Barclays £72,069,400 for failing to minimise the risk of financial crime in connection with a multi-billion pound transaction; and
- (h) In December 2020, the Authority fined Barclays Bank UK PLC, Barclays and Clydesdale Financial Services Limited £26,056,400 for failing to show forbearance and due consideration to business and retail customers when they fell into arrears or experienced financial difficulties.

6.16. The Authority considers that Barclays' agreement to make an ex gratia payment to be distributed among the former customers of Premier FX who lost money as a result of its activities is a factor which mitigates the breach.

6.17. Having taken into account these aggravating and mitigating factors, the Authority considers that the Step 3 figure remains the same as the Step 2 figure.

6.18. Step 3 is therefore £119,767.

#### Step 4: adjustment for deterrence

6.19. Pursuant to DEPP 6.5A.4G, if the Authority considers the figure arrived at after Step 3 is insufficient to deter the firm who committed the breach, or others, from committing further or similar breaches, then the Authority may increase the penalty.

6.20. The Authority does not consider that the Step 3 figure of £119,767 represents a sufficient deterrent to Barclays and others in the circumstances of this case.



- 6.21. Banks play an important role in the fight against financial crime in the financial services sector and the Authority expects them, having established a reasonable risk and control framework, to adhere to that framework and act with appropriate due diligence in monitoring high-risk customers, which include MSBs. The Step 3 figure of £119,767 is significantly less than the amount of revenue Barclays earned from Premier FX and substantially less than the level of harm caused to Premier FX's customers.
- 6.22. The Authority therefore considers that in order to achieve credible deterrence the Step 3 figure should be increased by £1,000,000. In determining the appropriate increase, the Authority has had regard to the fact that Barclays has agreed to make an ex gratia payment for distribution among the former customers of Premier FX who lost money as a result of its activities. Had it not been for this agreement, the Authority would have determined that the appropriate increase at Step 4 would have been significantly more.
- 6.23. Step 4 is therefore £1,119,767.

#### Step 5: settlement discount

- 6.24. Pursuant to DEPP 6.5A.5G, if the Authority and the firm on whom a penalty is to be imposed agree the amount of the financial penalty and other terms, DEPP 6.7 provides that the amount of the financial penalty which might otherwise have been payable will be reduced to reflect the stage at which the Authority and the firm reached agreement. The settlement discount does not apply to the disgorgement of any benefit calculated at Step 1.
- 6.25. The Authority and Barclays reached agreement at Stage 1 and so a 30% discount applies to the Step 4 figure.
- 6.26. Step 5 is therefore £783,837. Rounded down to the nearest £100, this is £783,800.

#### Penalty

- 6.27. The Authority therefore hereby imposes a total financial penalty of £783,800 on Barclays for breaching Principle 2.

## **7. PROCEDURAL MATTERS**

7.1. This Notice is given to Barclays under and in accordance with section 390 of the Act.

7.2. The following statutory rights are important.

### **Decision maker**

7.3. The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.

### **Manner and time for payment**

7.4. The financial penalty must be paid in full by Barclays to the Authority no later than 11 March 2022.

### **If the financial penalty is not paid**

7.5. If all or any of the financial penalty is outstanding on 14 March 2022, the Authority may recover the outstanding amount as a debt owed by Barclays and due to the Authority.

### **Publicity**

7.6. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this Notice relates. Under those provisions, the Authority must publish such information about the matter to which this notice relates as the Authority considers appropriate. The information may be published in such manner as the Authority considers appropriate. However, the Authority may not publish information if such publication would, in the opinion of the Authority, be unfair to you or prejudicial to the interests of consumers or detrimental to the stability of the UK financial system.

7.7. The Authority intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

### **Authority contacts**

- 7.8. For more information concerning this matter generally, contact Mark Lewis at the Authority (direct line: 020 7066 8442/email: [mark.lewis2@fca.org.uk](mailto:mark.lewis2@fca.org.uk)).

A handwritten signature in black ink, appearing to read 'Kate Tuckley', with a stylized, cursive script.

Kate Tuckley

Head of Department (Acting)

Financial Conduct Authority, Enforcement and Market Oversight Division

## **ANNEX A**

### **RELEVANT STATUTORY PROVISIONS**

1. The Authority's operational objectives, set out in section 1B(3) of the Act, include securing an appropriate degree of protection for consumers.
2. Section 206(1) of the Act states:  
  
"If the appropriate regulator considers that an authorised person has contravened a relevant requirement imposed on the person, it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate."

### **RELEVANT REGULATORY PROVISIONS**

3. Principle 2 of the Principles for Businesses (a rule made by the Authority under the Act) requires that "A firm must conduct its business with due skill, care and diligence."
4. SYSC 6.1.1R requires that "A firm must establish, implement and maintain adequate policies and procedures sufficient... for countering the risk that the firm might be used to further financial crime."
5. SYSC 6.3.1R requires that "A firm must ensure that the policies and procedures established under SYSC 6.1.1R include systems and controls that...(2) are comprehensive and proportionate to the nature, scale and complexity of its activities".
6. Financial crime is defined in the Authority's Handbook (in accordance with section 1H of the Act) as "any kind of criminal conduct relating to money or to financial services or markets, including any offence involving: (a) fraud or dishonesty; or (b) misconduct in, or misuse of information relating to, a financial market; or (c) handling the proceeds of crime; or (d) the financing of terrorism".

### **DEPP**

7. Chapter 6 of DEPP, which forms part of the Authority's Handbook, sets out the Authority's statement of policy with respect to the imposition and amount of financial penalties under the Act.

### The Enforcement Guide

8. The Enforcement Guide sets out the Authority's approach to exercising its main enforcement powers under the Act.
9. Chapter 7 of the Enforcement Guide sets out the Authority's approach to exercising its power to impose a financial penalty.