

OPBAS

OFFICE FOR PROFESSIONAL BODY AML SUPERVISION
FINANCIAL CONDUCT AUTHORITY



Anti-Money Laundering Supervision by the Legal and Accountancy Professional Body Supervisors:

Progress and themes from our
2022/23 supervisory work

April 2023

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Chapter 1

Introduction

- 1.1** The Russian invasion of Ukraine has exposed the risks of money laundering and illicit finance. The growing threat from economic crime means all participants need to work harder, now, to improve the difference we make.
- 1.2** The Office for Professional Body Anti-Money Laundering Supervision (OPBAS) supervises the 22 Professional Body Supervisors (PBSs) in the accountancy and legal sectors (plus 3 who have delegated regulatory functions). Our key objectives are to:
- ensure a robust and consistently high standard of supervision by PBSs
 - facilitate collaboration and information and intelligence sharing between PBSs, statutory anti-money laundering (AML) supervisors and law enforcement agencies
- 1.3** The AML supervision undertaken by PBSs is vital in ensuring that the accountancy and legal professions play an effective role as responsible gatekeepers to the legitimate economy.
- 1.4** The Government has established actions to strengthen the UK AML regime further, such as the Economic Crime and Corporate Transparency Bill and the second national Economic Crime Plan (ECP2), to be delivered jointly with other stakeholders, which includes action on AML supervisory reform.
- 1.5** OPBAS is actively playing its part. OPBAS made a commitment as part of the FCA's 2022/25 strategy that our outcome-focused work would contribute to reducing and preventing financial crime by improving the effectiveness of AML supervision by PBSs. To support this outcome, we published a revised sourcebook in January 2023. It provides additional guidance for PBSs on OPBAS's expectations, and the outcomes PBSs need to achieve to improve the consistency and effectiveness of their AML supervision. We have also continued to drive improvements in information and intelligence sharing. For example, through the Intelligence Sharing Expert Working Groups (ISEWGs) we established with the National Economic Crime Centre (NECC).
- 1.6** Our fourth report shows that PBSs continue to show good levels of compliance with their obligations under the Money Laundering Regulations 2017 (MLRs). But there is still more effort and action needed to achieve full and consistent effectiveness.

The case for AML supervisory reform

- 1.7** Our view is that PBSs continue to deliver iterative improvements in effectiveness. The improvements observed, though positive, are not yet where we want them to be. This is partly because OPBAS is consciously raising the standard on the outcomes we expect. Clarifying and raising standards is not intended to make it harder for PBSs to achieve a full level of effectiveness but it is vital to tackling financial crime. Only a few PBSs remain partially effective in certain areas, and a minority are ineffective in a small number of

areas. With our increasing focus on effectiveness and speed of progress, we are looking to make greater use of our enforcement tools where appropriate and needed. However, in the current compliance-focused AML legislative regime, our levers to improve effectiveness often rely on cooperation rather than compulsion. Over the last 5 years, using a mix of the supervisory tools at our disposal, including a very directive approach at times, we have started to drive improved effectiveness. But measurable change through this approach takes more time and effort to achieve. In the absence of evidence of consistent effectiveness across all PBSs, there is rightly a challenge on the impact of the current framework. This is making a stronger case for more material supervisory system reform.

- 1.8** The Treasury's review of the UK's AML/CFT regulatory and supervisory regime noted that, while strong progress had been made in recent years, there was scope to go further. The Treasury has stated it will consult on proposals for AML supervisory reform, with options ranging from expanding OPBAS's powers and remit to the creation of a single AML supervisor across all regulated sectors. We will be engaging with the Treasury on its consultation to identify the most impactful opportunities for reform.
- 1.9** However, significant reform in the supervisory landscape could take several years to implement. So, it is important that all participants continue to identify actions that will improve effectiveness within our current AML framework. OPBAS will continue to push for ongoing improvements in PBS supervisory effectiveness using our current tools and powers. This is alongside our wider work to enhance the AML ecosystem through improved information and intelligence sharing, and cross-cutting strategic and policy work. For example, input on the Economic Crime Plan 2 (ECP2) and the National Risk Assessment (NRA).
- 1.10** This report sets out the findings from our 2022/23 assessments and what we intend to do to enhance effectiveness of the PBSs' AML supervision within the current supervisory framework.

Chapter 2

Executive Summary

- 2.1** Since its inception in 2018, OPBAS has driven improvements in the AML supervision of the accountancy and legal sectors. Consistent with the findings set out in our previous reports, this year we have found that PBSs' ongoing compliance with their obligations remains high and that PBSs continue to deliver iterative improvements in effectiveness. We should not lose sight of this progress. But we need to acknowledge that the improvements in effectiveness are not consistent in pace or scale across all PBSs.
- 2.2** While a few PBSs are already largely effective, though still with a scope for improvement, we want them to be more ambitious and strive for full effectiveness. This is especially so in the core areas of governance, supervision and the risk-based approach, enforcement and information and intelligence sharing. There are also some PBSs which are outliers to their peers, which is unacceptable to OPBAS. They need to step up their efforts if they are effectively to fulfil their role as the first line of supervisory defence against AML threats. We expect to see material improvements in effectiveness in the coming round of PBS assessments, following the revisions to the OPBAS sourcebook.
- 2.3** This report provides an overview of AML supervision by the PBSs as of March 2023. As set out in Chapter 2 of the OPBAS sourcebook and consistent with Financial Action Task Force (FATF) methodology, when assessing PBSs' effectiveness, we use a 4-point scale: (1) effective, (2) largely effective, (3) partially effective and (4) ineffective. Our assessments are proportionate and take account of the differences in risk to which PBSs and their supervised populations are exposed. This means we do not expect all PBSs to put the same measures in place to address a specific risk or achieve an identified outcome, and what we assess as effective will vary based on the specific circumstances.
- 2.4** This report reflects the more agile, risk-based supervisory approach we have adopted to assessing the level of PBS effectiveness and targeting our work where the risk is highest. We carried out supervisory assessments of 9 PBSs, covering nearly 80% of Beneficial Owners, Officers or Managers (BOOMs) subject to the MLRs. We also conducted more proactive multi-PBS supervisory activity in high-risk areas such as trust and company service providers (TCSPs), extensive work to support sanctions implementation, as well as our regular, ongoing supervisory monitoring and responsive intervention.
- 2.5** As part of our supervisory assessments, we have analysed data from other sources, such as PBSs' annual returns to the Treasury, and the reports PBSs publish under Reg 46A of the Money Laundering Regulations (Regulation 46A reports) to build a more holistic view of the effectiveness of AML supervision across all PBSs.
- 2.6** Below we highlight the key findings from our supervisory work, incorporating data provided by the Treasury and Regulation 46A reports.
- 2.7** **The PBSs we assessed have still not implemented a fully effective risk-based approach that prioritises their AML supervisory and enforcement work.** Some PBSs have improved their risk-based approaches since our last assessments, but more effort is required to achieve the necessary levels of effectiveness. A large proportion were only

partially effective in developing and recording risk profiles for their sector and carrying out regular appraisals and reviews of AML risks. Many lacked an evidential basis for their risk assessments. This was also reflected in our Multi-PBS project on TCSP risk (our TCSP report) which found inconsistencies in PBSs' assessments of TCSP risk factors within their supervised populations, with most PBSs assessing TCSP risks as relatively low, contrary to the National Risk Assessment 2020. Most PBSs tended to adopt a risk-based approach to supervising high-risk supervised populations, but many lacked adequate processes to monitor their medium to low-risk population. In many cases the process for assessing risk was based on fixed and extended supervisory cycles, without sufficient touchpoints to allow identification of emerging risks. We will continue to focus on this significant area of concern to support improvements and will be assessing PBSs against the new risk-based approach outcomes we set out in the updated sourcebook.

2.8 Significant weaknesses remain in many PBSs' supervisory activity. Most PBSs we assessed were only partially effective in taking timely and adequate corrective actions. Some PBSs still tend to give their supervised population too much time to rectify their AML deficiencies before a more robust intervention. Others lacked clear guidance on the type of intervention to take to address deficiencies. Gaps in some PBSs' supervisory policies and procedures impacted on ensuring timely, predictable, and proportionate interventions. Our findings are in line with the consolidated data from the Treasury's annual AML supervision report 2022 (Treasury's 2022 report) which shows the number of informal actions taken by PBSs after supervisory visits (both desk-based reviews and onsite assessments) has slightly increased, but the number of formal actions has declined for the reporting period 2021-22. Weakness in PBSs' risk-based approach have impacted the effectiveness of their supervision. Some did not flex the frequency and intensity of their inspections to reflect the risk classification of their supervised population. We expect PBSs to take effective, proportionate and dissuasive action to correct the AML deficiencies within their supervised populations.

2.9 None of the PBSs we assessed maintained fully effective intelligence and information sharing arrangements. All PBSs took part in AML information sharing groups like the AML Supervisors Forum (AMLSF) and the ISEWGs. But less effective PBSs could not evidence the outcomes from attending these groups, such as consistent information sharing with other PBSs, law enforcement and other AML supervisors. PBSs' engagement with intelligence and information sharing platforms such as the FCA's Shared Intelligence Service (SIS) and the Financial Crime Information Network (FIN-NET) also varied. It was positive to see that the number of SIS uploads registered by PBSs in 2022 more than doubled from our 2021 report, with some PBSs increasing uploads of active investigations. However, there were outliers who did not conduct any searches on SIS for extended periods and failed to upload any live investigations. PBSs need a cultural shift in their approach to intelligence and information sharing. They need a fuller focus on how the information they hold might support others' work to combat economic crime. We have set out enhanced expectations on information and intelligence sharing arrangements in the updated sourcebook. We expect PBSs to demonstrate improvement over our next cycle of supervisory assessments.

- 2.10** **PBSs have made some progress in enforcement action, but still need to improve the overall level of effectiveness of their enforcement frameworks.** The Treasury's 2022 report notes the total sum of fines issued in 2021-22 nearly doubled from the 2019-20 reporting period. However, a large proportion of PBSs only had a partially effective enforcement framework without a clear set of criteria to enable them to take appropriate action in a consistent way. Some PBSs were only partially effective in using their information gathering and investigative powers to monitor and assess compliance. We welcome the progress in taking enforcement action. But we will be looking for further improvements to ensure PBSs' enforcement is supported by an effective risk-based approach and effective supervision.
- 2.11** **PBSs have contributed to the implementation of sanctions following the Russian invasion of Ukraine.** PBSs, with proactive engagement from OPBAS, supported the work of the Office of Financial Sanctions Implementation (OFSI). OPBAS ensured through roundtables and bilateral supervisory engagement that PBSs quickly took appropriate steps to raise awareness and promote compliance with the financial sanctions regime within their supervised populations. PBSs responded positively, undertaking targeted sanctions work, thematic projects and data collection, and issuing guidance and information to their supervised populations. There is scope to improve further sanctions risk monitoring as part of PBSs' wider AML supervision. Enhanced flow of sanctions information from OFSI relevant to PBSs could help their risk-based supervisory approach. OPBAS will maintain our engagement with PBSs, OFSI and other stakeholders to contribute to the effective implementation and enforcement of sanctions in the UK.

Next steps

- 2.12** OPBAS will continue to take a proactive, risk-based supervisory approach, targeting our actions on areas which will drive the largest improvements in the consistency and effectiveness of PBSs' AML supervision.
- 2.13** From May 2023, we will start our supervisory assessments of PBSs against the updated OPBAS sourcebook. The guidance we set out there on the outcomes PBSs need to achieve should improve the effectiveness of PBSs' AML supervision, especially in the areas of identified weaknesses.
- 2.14** We will continue to focus our multi-PBS project work in high-risk areas. As a follow up to our TCSP report, we will monitor progress, especially of PBSs' understanding of risk indicators and supply chain risk, and on the agreement, collection and use of key TCSP data. We will continue to work closely with HMRC to ensure a joined-up approach on areas of common interest such as TCSPs. We will also participate in the Tax Crime Alliance and maintain strong working relations with our supervisory counterparts. We will be engaging further with PBSs on our multi-PBS project on risk identification and verification. This includes further exploration of some of the key risks identified by the PBSs.

2.15 Using our position as a 'supervisor of supervisors', we will support the Treasury with its consultation on AML supervision reform. We will also contribute to the broader system-wide economic crime agenda, including through implementation of ECP2 and the next NRA. For example, we will be using the information gathered through our TCSP project and our wider supervisory work to input into the next NRA so that it can inform wider government understanding of the risks posed, and ways to mitigate them. We will be co-chairing a NECC Cell on professional enablers as part of wider professional-enabler focused workstreams in ECP2.

Chapter 3

Key themes from our supervisory work

Methodology

- 3.1** Our 2022/23 supervisory cycle reflects our risk-based approach to assessment. We conducted detailed supervisory assessments of 9 PBSs, covering nearly 80% of BOOMs, considering factors such as the size and risk of supervised populations, services offered by the PBS's sector, geographical risk, as well as areas of weaknesses identified in our supervisory work. In line with our risk-based approach we included in the sample a mixture of PBSs that needed to improve most and PBSs with some areas for improvements. For this reason, we did not assess all 9 PBSs from the sample against all areas of the sourcebook. We intentionally focused on key areas identified for improvements from our previous assessments such as risk-based approach, supervision, intelligence and information sharing, and enforcement. There is evidence that our targeted approach has had an impact, as some PBSs have made progress in these areas since our last assessments, but still more effort is required to achieve the necessary levels of effectiveness.
- 3.2** Our effectiveness findings in Table 1 include only the PBSs we assessed, and do not represent the full population of PBSs. The table outlines our overall ratings across each sourcebook area for the 9 PBSs we assessed. In this chapter we also provide more granular ratings including scoring for various criteria of each sourcebook area assessed. Our assessments involved onsite attendance and in person meetings.

Table 1: Performance ratings of effectiveness for 9 PBSs assessed by OPBAS in 2022/23

Assessment Area	PBS 1	PBS 2	PBS 3	PBS 4	PBS 5	PBS 6	PBS 7	PBS 8	PBS 9
Governance	3	2	NA	NA	1	3	NA	3	2
RBA	3	3	2	2	2	3	3	2	3
Supervision	3	2	NA	3	2	3	2	3	3
Intelligence and information sharing	3	2	2	2	2	3	3	2	3
Information and Guidance	4	2	NA	NA	1	3	NA	3	2

Assessment Area	PBS 1	PBS 2	PBS 3	PBS 4	PBS 5	PBS 6	PBS 7	PBS 8	PBS 9
Staff competence and training	4	2	NA	NA	2	3	2	NA	3
Enforcement	3	3	2	2	2	3	3	2	3
Record keeping	4	2	NA	3	1	NA	NA	NA	3

1 Effective

2 Largely Effective

3 Partially Effective

4 Ineffective

NA Not Assessed

3.3 We consider all available regulatory tools to address the areas of weakness identified, especially with outliers like PBS1. We issue findings letters to *all* PBSs post assessment, which set out areas for improvement and a timetable, and we require PBSs to develop action plans, the implementation of which we monitor regularly. Following the revisions to the OPBAS sourcebook, we will be focusing on increasing the speed of progress of PBSs' effectiveness and will not hesitate to make a greater use of our enforcement tools where appropriate and needed. While we focused our supervisory assessments on 9 PBSs this time, these monitoring touchpoints continue regularly with each PBS throughout the year.

3.4 To build a more holistic supervisory view of PBS effectiveness, we combined our supervisory assessments with data from our multi-PBS project work on TCSPs, which covered all 22 regulatory PBSs. We also analysed secondary sources including the [Treasury's 2022 report](#), the FCA's SIS and FIN-NET data and the NCA's Suspicious Activity Reports (SARs).

Governance

3.5 Regulation 49 of the MLRs requires PBSs to exercise their AML supervisory functions independently of other functions and have adequate resources to carry out their supervisory functions. Our expectations on governance are set out in Section 3 of the OPBAS sourcebook.

3.6 Strong governance underpins effective AML supervision and helps to ensure that a PBS has effective management policies, controls and procedures, and the culture to effectively identify and mitigate money laundering risks on an ongoing basis. In our 2021 report we identified scope for further improvement in PBSs' governance arrangements. We have now assessed effectiveness of these arrangements in 6 PBSs, where we identified concerns during our last assessment to check the level of progress.

3.7 We observed some improvements in the effectiveness of allocating the responsibility for managing AML supervisory activity, in comparison to findings from our 2021 report. The PBSs we assessed were effective or largely effective in separating advocacy and

regulatory functions and have demonstrated appropriate procedures for handling conflicts of interest. They had clear governance structures, with independent committees providing oversight and scrutiny of PBSs' legal and regulatory requirements. We observed that AML supervision staff acted independently and did not carry out advocacy work. PBSs also had independent escalation arrangements in place, which were separate from the advocacy function. However, some did not clearly demonstrate how they apply these policies and procedures in practice.

- 3.8** Most of the PBSs we assessed were either fully or largely effective in active engagement from senior management in the AML supervision. However, there is still scope for some PBSs to improve in this area, with 2 out of 6 we assessed being only partially effective. PBSs did have AML as a standing agenda item at boards, committees or senior management meetings, but some could not demonstrate that the meetings were supported by sufficiently granular AML data or information about sectoral money laundering issues and emerging risks, to enable effective oversight.
- 3.9** We found that, out of the 6 PBSs we assessed, half were either fully or largely effective and the other half partially effective in having appropriate reporting and escalation arrangements and delegation of powers to support coordination, internal information sharing and effective decision making. Some PBSs over-relied on key individuals to carry out their AML functions and did not have effective contingency plans to manage sudden or unforeseen staff absence or departure. These PBSs also lacked longer-term planning. To mitigate these risks PBSs should have periodically-reviewed, well-documented succession plans, as well as adequately trained and resourced deputies. This should help to retain corporate memory and ensure the more-effective operation of supervisory functions.
- 3.10** Only a half of the 6 PBSs were either fully effective or largely effective at adequately resourcing their supervisory function. For the 3 PBSs that were either partially effective or ineffective, staff turnover combined with a lack of succession planning were contributing factors to stretching the workload of their AML teams.
- 3.11** We expect PBSs to proactively build capabilities and have enough appropriately skilled staff to conduct effective AML supervision. Our updated sourcebook outlines outcomes in this area to drive further improvements.

Case study of more effective practice: Management information supports senior management decision making and oversight

An accountancy PBS has created an AML dashboard which covers detailed management information (MI) on strategic AML data for its senior management and board to help effectively perform their decision-making and oversight function. The MI dashboard allows senior management to monitor delivery of expected outcomes against a set of linked key performance indicators and to provide constructive challenge to the PBS's AML team when required.

Risk-based approach

- 3.12** Regulation 17 of the MLRs requires a PBS to carry out a risk assessment identifying and assessing the international and domestic risks of money laundering and terrorist financing to their sector. We set out our expectations in Section 4 of our sourcebook.
- 3.13** An effective risk-based approach underpins effective supervision and enforcement. It enables a PBS to identify, assess and understand the money laundering risks within its sector and supervised population and mitigate them on an ongoing basis. In our 2021 report, we identified PBSs implementation of a risk-based approach as an area of significant weakness, with most PBSs not being fully effective in this area.
- 3.14** In this supervisory cycle we assessed 9 PBSs and noted improvements since our previous assessments. In respect of the overall risk-based approach, in our 2022/23 assessments we found 4 PBSs largely effective and 5 partially effective. Whereas in the 2020/21 assessments, out of the same 9 PBSs, only 1 PBS was largely effective, 6 partially effective and 2 ineffective. While it is positive to see the improvements, many PBSs still have some way to go to reach a full level of effectiveness. On balance, we found PBSs with larger supervised populations to be more effective in implementing a risk-based approach.
- 3.15** Most PBSs tended to adopt a risk-based approach to supervising high-risk supervised population, but many lacked adequate processes to monitor their medium to low-risk populations. Typically, supervisory assessments of medium to low-risk supervised population would be triggered by intelligence or when non-AML related monitoring identified an AML risk, rather than proactive monitoring supported by ad hoc checks. One PBS did not conduct any onsite visits for low and medium risk supervised population in the 2021-22 supervisory cycle. We expect PBSs to allocate resource in a way that enables them to focus on areas with a higher money-laundering risk whilst also ensuring they are alert to risk changes by appropriate oversight of the rest of their supervised population.
- 3.16** Clear gaps remain in PBSs' controls and procedures to enable resource prioritisation in areas where the risk is highest. 5 of the 9 PBSs we assessed were only partially effective in developing and recording risk profiles for their sector. We observed PBSs maintained a risk register of their supervised population. However only some used a broader range of supervisory tools to develop risk profiles, which included a combination of sample testing, compliance history, thematic reviews, desk-based reviews, sector guidance and alerts, intelligence, FATF guidance or annual regulatory returns.
- 3.17** The low evidence base for developing risk profiles raises questions about the robustness of some of the risk assessments within relevant supervised populations. For example, a PBS classified its supervised population which provided TCSP services as low risk but could not provide evidence in support of its judgment. This is consistent with the findings of our multi-PBS TCSP work (see [para 5.2](#)) which found inconsistencies in PBSs' assessments of TCSP risk factors.
- 3.18** We also noted that some PBSs dropped risk ratings for their supervised populations, but it was not always clear what evidence base PBSs used for the reclassification, which is

concerning. We expect the process of changing risk profiles of supervised populations to be substantiated by robust evidence.

- 3.19** Some PBSs lacked adequate information systems to allow automated integration of risk profiles with other regulatory data sets to enable a more agile risk-driven approach to supervision. However, we also saw evidence of some PBSs investing in more sophisticated technological tools to increase operational efficiency. In most cases the process for assessing risks was based on fixed and extended supervisory cycles, without sufficient touchpoints to allow for identification of emerging risks. This was particularly evidenced in the supervisory approach taken to medium and low risk supervised population.
- 3.20** PBSs performed better when using their powers to support the adoption of a risk-based approach by their supervised population, with 7 PBSs either fully or largely effective and two partially effective. PBSs used a range of tools to make their supervised population aware of AML risks and support compliance including guidance, direct communication, training and roadshows.
- 3.21** Given the importance of a risk-based approach in underpinning effective supervision and enforcement, we will continue to focus on this significant area of concern to drive improvements. We set out our clear expectations in this area in the updated sourcebook and in the new supervisory cycle we will be assessing the extent to which PBSs achieve the outcomes we have described.

Case study of more effective practice: Ensuring evidence-based risk assessments

A legal PBS has adapted its risk assessment system to consider an increased range of variable risk indicators, including sector-wide risk factors, past compliance history, intelligence trends and the National Risk Assessment. The changes resulted in a statistically significant increase in the proportion of its supervised population with a lower risk classification. The PBS has taken steps to revalidate the data through dip sampling and spot checks to assure itself that the new risk classification is correct and substantiated by evidence.

Supervision

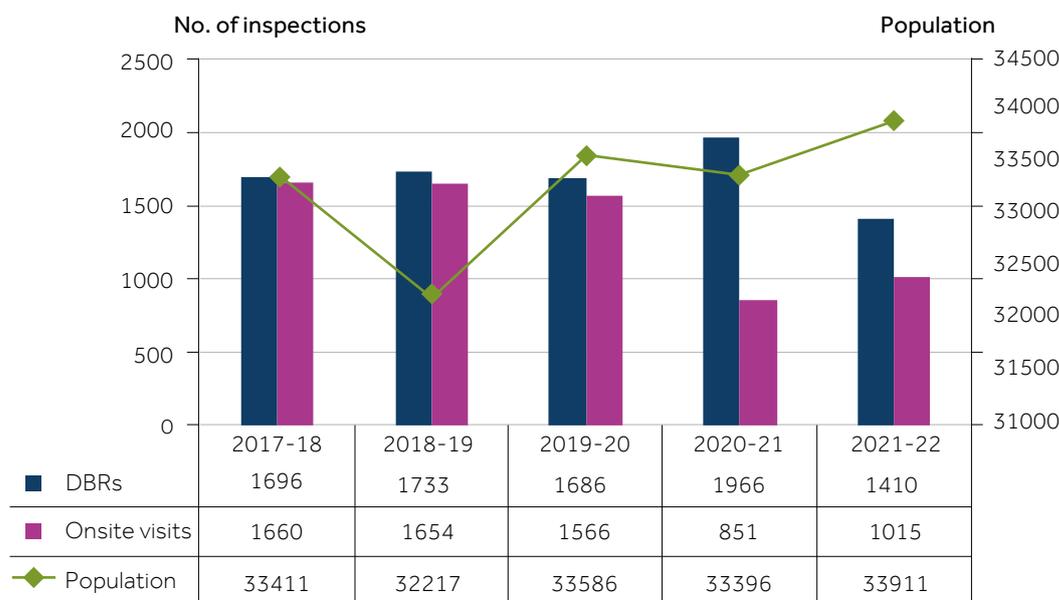
- 3.22** Regulation 46 of the MLRs requires a PBS to effectively monitor their own sector and, informed by the risk profiles prepared under Regulation 17, to decide the frequency and intensity of on-site and off-site supervision. We set out our expectations in Section 5 of our Sourcebook.
- 3.23** In this supervisory cycle we assessed 8 PBSs. While we observed progress in some areas since our last assessments, further improvements in AML supervision are needed.

3.24 Most PBSs were effective (5 out of 8) in deploying a range of proactive and reactive supervisory tools, including desk-based reviews (DBRs), onsite visits, dip sampling and thematic reviews to supervise their supervised populations.

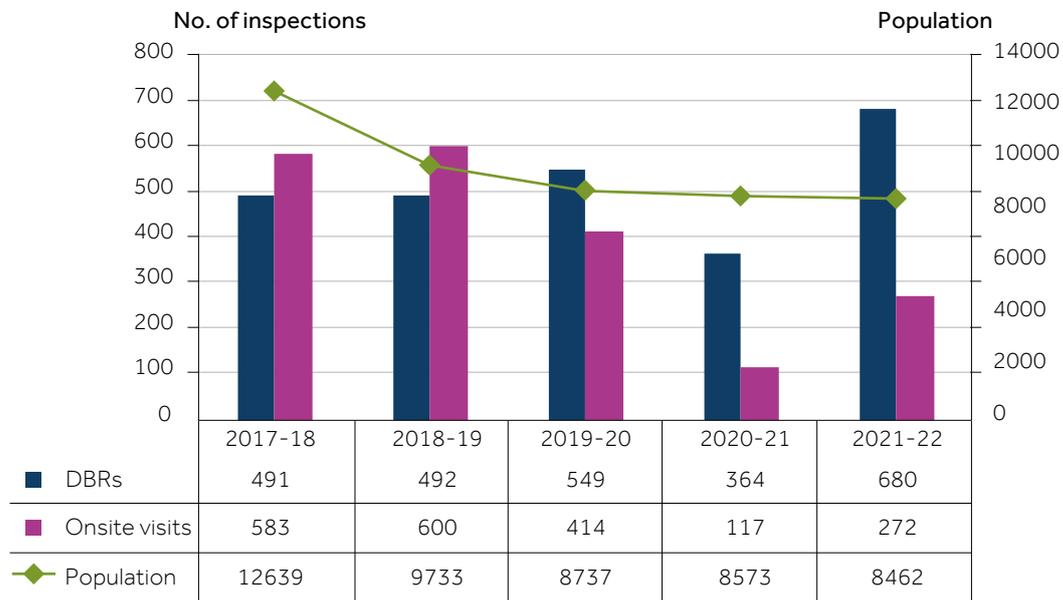
3.25 However, only a small proportion (2 out of 8) were either fully effective or largely effective in the use of supervisory tools to identify gaps in supervised populations' AML controls. We found some PBSs were outliers to their peers in terms of the number of visits proportionate to the size of their population, making it difficult for them to evidence an effective risk-based approach to their supervision. Some PBSs experienced resource issues which delayed monitoring processes and extended follow up checks. Our findings are consistent with the Treasury's 2022 report, which indicates only a slight increase in a total number of desk-based reviews (DBRs) and onsite visits carried out post-pandemic between the 2020-21 and 2021-22 reporting periods for the accountancy and legal sectors combined. The increase was mainly driven by the rising number of DBRs and onsite visits in the legal sector, in comparison to the accountancy sector where the overall number has declined.

3.26 PBSs carried out more DBRs than onsite inspections. Onsite inspections were generally conducted on the highest-risk supervised populations, but we observed some PBSs did not base the frequency and intensity of their inspections on the risk classification of their supervised population. We found some PBSs did not differentiate their inspections or flex their supervisory approach to take account of high, medium or low risk supervised population.

Graph 1: Supervision – Accountancy Sector



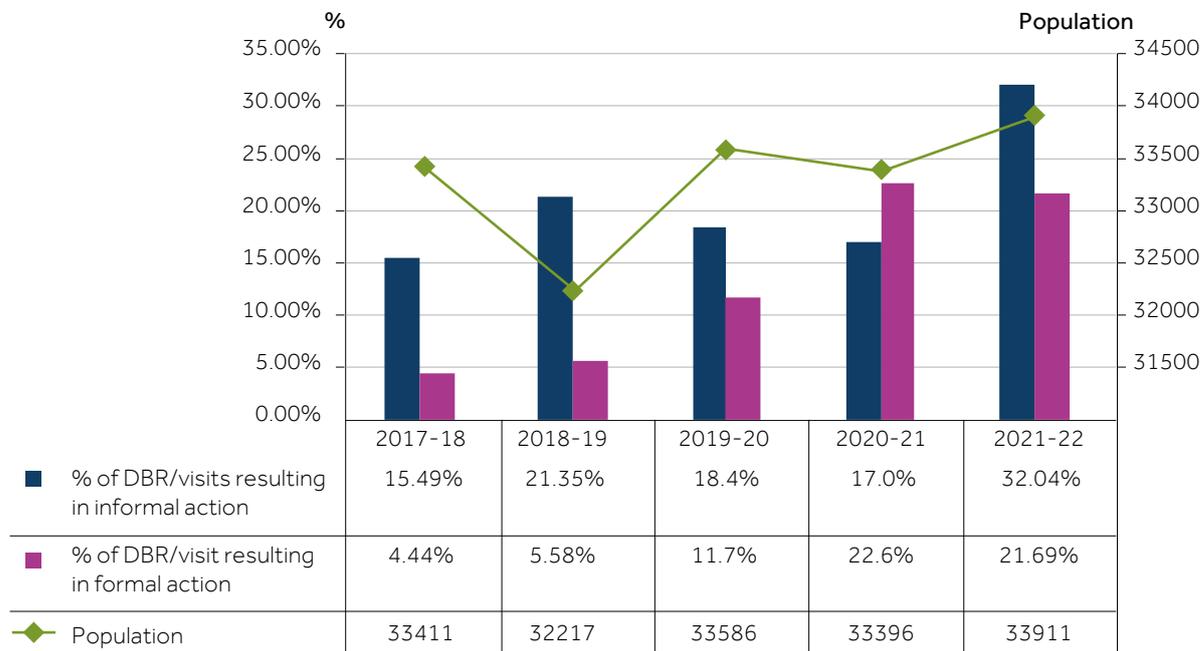
Graph 2: Supervision – Legal Sector



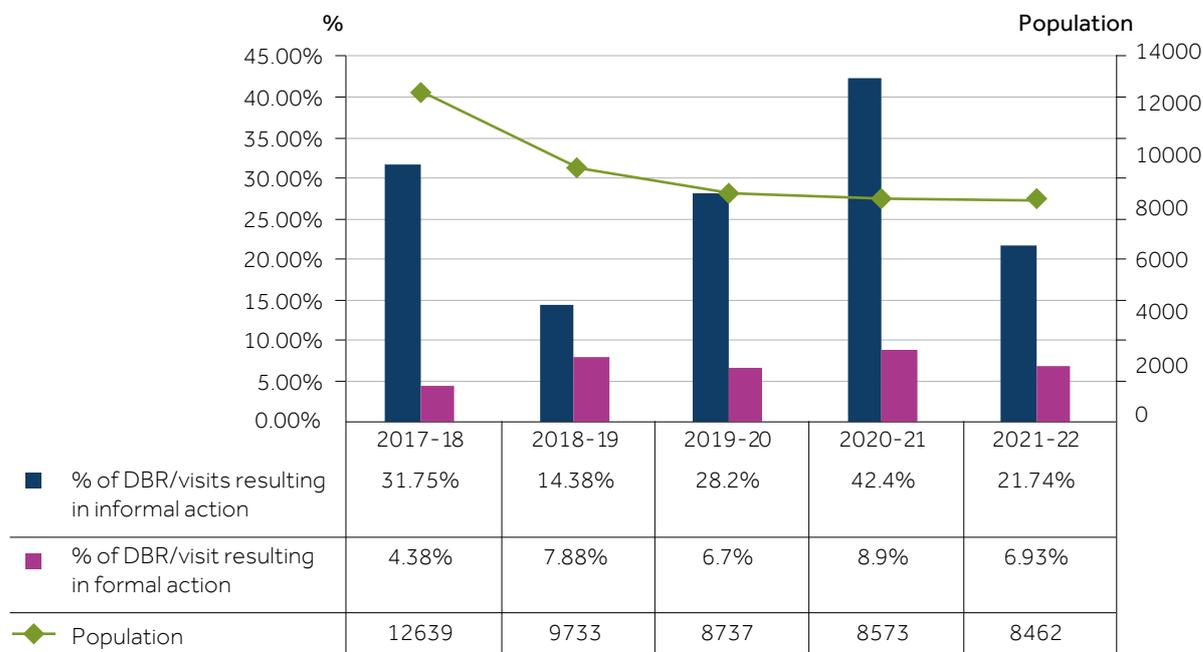
3.27 Most PBSs were only partially effective or were ineffective (5) in taking predictable and proportionate supervisory action, with 3 being largely effective or fully effective. We found gaps in PBSs' supervisory policies and procedures which impacted on timely, predictable, and proportionate interventions to address identified deficiencies. For example, many PBSs did not have agreed timelines for taking remedial action and did not deal with cases in a timely manner. Others lacked clarity on the typology of breaches and the type of intervention they should take in response. This had a knock-on effect on the predictability and consistency of their supervisory approach. For example, one PBS did not have a documented approach to determining the seriousness of a breach. Some PBSs tended to give their supervised population too much time to rectify their AML deficiencies before deciding whether to take a more robust action. One PBS relied on its supervised population's self-declaration to validate completion of the remediation plan and did not pursue any follow up checks to ensure that remediation was completed.

3.28 Our analysis of consolidated data from the Treasury's 2022 report found that the number of informal actions taken by the 22 regulatory PBSs after a DBR/onsite visit has slightly increased, but the number of formal actions has declined. According to the report, in 2020-21 PBSs took informal action in 21% post DBR/onsite visits as opposed to 29% in 2021-22; formal action was taken in 21% of cases in 2020-21 and 18% in 2021-22. However, we have seen significant improvements in the number of formal actions taken by the PBSs since OPBAS was set up in 2018. Our analysis of the Treasury's reports indicates a 162% increase in formal enforcement action (including membership cancellations, suspensions and fines) over the reporting period 2017/18 till 2021/22. A higher proportion of DBRs/ onsite visits led to a formal/informal action in the accountancy sector, as opposed to the legal sector.

Graph 3: Supervision – Accountancy Sector



Graph 4: Supervision – Legal Sector



3.29 Supervision is an area of our continuous focus to drive improvements. Following the assessments, we required PBSs to develop action plans to address identified weaknesses and we will monitor progress.

Case study of more effective practice: Ensuring desk-based reviews deliver equivalent but proportionate risk-based outcomes to onsite inspections

An accountancy PBS uses a range of supervisory tools for conducting desk-based reviews (DBRs) to ensure they deliver equivalent risk-based outcomes to onsite inspections. In addition to extensive reviews of a range of information such as annual returns, client files, client due diligence and other relevant sources, the PBS sends questionnaires ahead of the DBR inspection, which are followed by detailed online interviews. This approach has helped the PBS to develop a deeper insight into the inspected firms' approach and overall systems and controls framework.

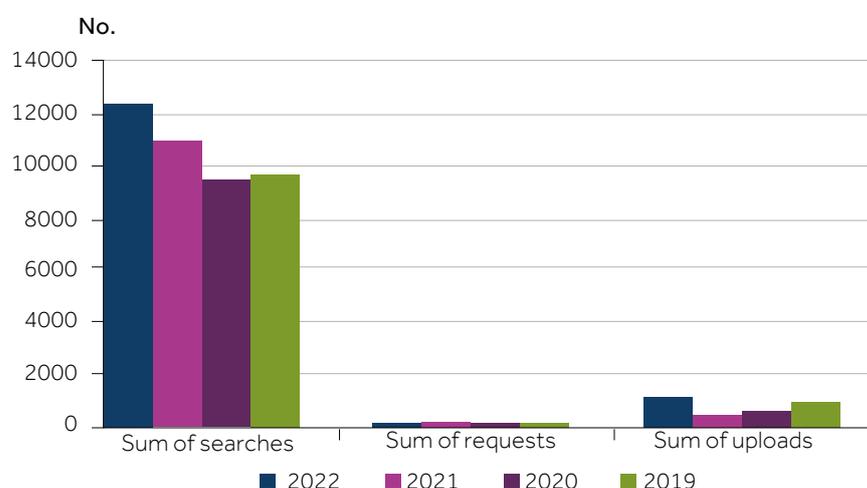
Intelligence and information sharing arrangements

- 3.30** Regulation 50 of the MLRs requires PBSs to cooperate and coordinate activities with other supervisors, the Treasury and law enforcement to develop and implement policies to counter money laundering and terrorist financing. Regulation 46 requires PBSs to report knowledge and/or suspicion of money laundering or terrorist financing to the NCA and to encourage their sectors to report breaches of the regulations to the NCA. We set out our expectations in Section 6 of our Sourcebook.
- 3.31** Information and intelligence sharing is critical to reducing money laundering and money laundering risk. It is one of the areas in which inconsistencies in standards and approach can have an amplificatory effect. For example, sharing intelligence about active investigations can avoid the risk of tipping off and of undermining other supervisors' or agencies' investigations. Use of SIS flags can also prevent 'PBS shopping' – those subject to sanction by one PBS moving to another without the new PBS being aware. But in our 2021 report we found this was not standard practice among PBSs.
- 3.32** In this supervisory cycle we assessed the effectiveness of all 9 PBSs' intelligence and information sharing arrangements. PBSs took part in information and intelligence forums such as AMLSF, the ISEWGs, sector affinity groups. However, less effective PBSs attended these forums without active participation. We observed some PBSs also contributed to other relevant networks such as Government Agency Intelligence Network, Fraud and ML Public Private Threat Groups, and the UK Financial Intelligence Unit (UKFIU) group, including SARs Engagement groups. Some PBSs have memorandums of understanding (MoUs) with other AML supervisors, law enforcement agencies and other relevant partners to facilitate information sharing.
- 3.33** Only 3 out of 9 were fully effective in actively sharing intelligence with other supervisors and law enforcement agencies. The less effective PBSs could not evidence consistent information sharing and could not explain in what circumstances intelligence would be shared with other PBSs or how information would be handled. We found that on balance PBSs with large supervised populations were more effective at sharing intelligence with relevant partners.

Use of SIS and FIN-NET

3.34 PBSs' levels of engagement with intelligence and information sharing platforms such as SIS and the FIN-NET varied. We found just over half (5 out of 9) were either fully or largely effective in the use of the FIN-NET and SIS networks. As illustrated by the SIS information sharing graph, the number of SIS uploads registered by PBSs in 2022 more than doubled from the previous year, with some PBSs increasing the number of uploads of active investigations, which is key. The less effective PBSs did not conduct regular searches on SIS, did not upload live investigations, and did not use the system to support supervisory work such as supervised populations' risk assessments.

Graph 5: Annual SIS usage for accountancy and legal PBSs combined



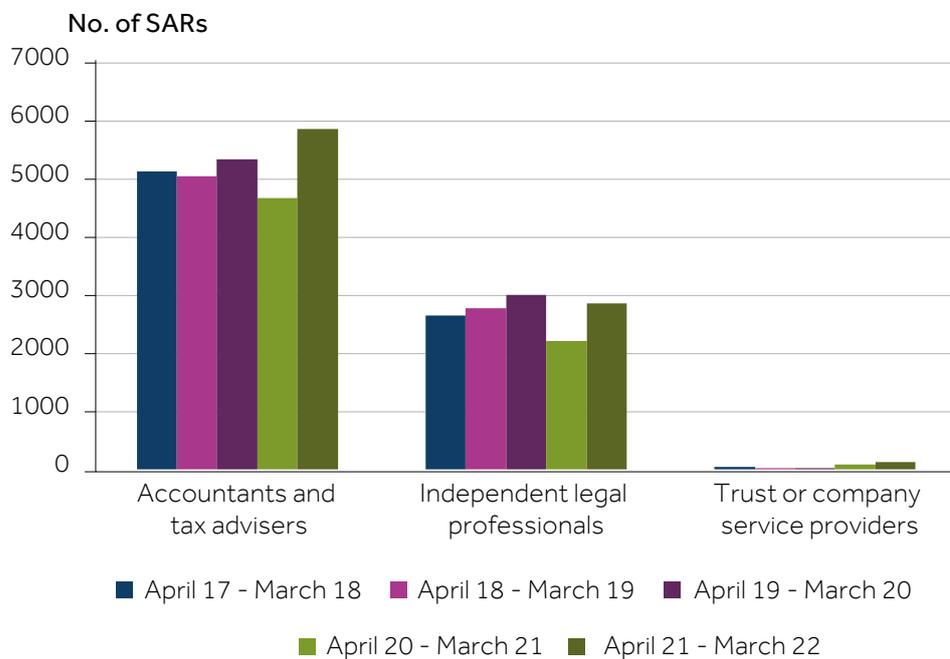
3.35 For FIN-NET, the number of referrals submitted by the 8 PBSs which participate in the network remained static for 2021 (5 referrals) and 2022 (5 referrals). However, aside from referrals, FIN-NET has an added value to the PBSs which use the platform for building networks and relationships with relevant partners, who may then make referrals on a bilateral basis.

3.36 We noted a correlation between how effectively PBSs utilised SIS and FIN-NET and the effectiveness of their broader information and intelligence-sharing procedures. PBSs who were less effective in the usage of SIS and FIN-NET did not have clear internal policies outlining circumstances for SIS searches or FIN-NET use and lacked appropriate staff training. We expect PBSs to make more consistent use of these platforms or demonstrate effective use of alternative mechanisms.

SARs

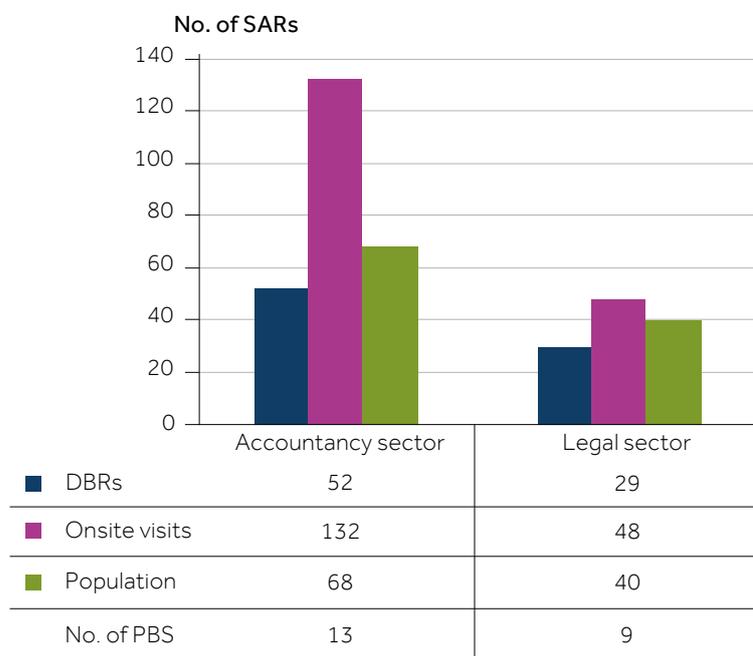
3.37 As part of our supervisory cycle, we assessed whether PBSs review the quality of SARs submitted by their supervised populations. We expect PBSs to do this in order to check understanding within their supervised populations and support risk-based supervision and to improve SARs' utility for the UKFIU. We considered the number of SARs submitted by PBSs and their supervised populations. The NCA's SARs Annual Report 2022 indicates that the number of SARs submitted by the supervised populations within the accountancy and legal sectors has increased in comparison to the 2020/21 reporting period, although it is not yet back to pre-pandemic levels.

Graph 6: NCA Suspicious Activity Reports 2022 submitted by accountancy, legal and trust and company service providers



3.38 However, the number of SARs submitted by PBSs (per graph 7 below) has declined for the same period. We also observed that the assessment of the quality of SARs submitted remains an ongoing issue, with some PBSs doing limited sampling of their medium and low risk supervised populations or focusing on a limited checklist of factors like the availability of a SARs policy rather than assessing the quality of SARs submitted.

Graph 7: SARs submitted by accountancy and legal PBSs



3.39 From analysis of SARs submitted by the accountancy sector, we identified areas for improvement: not enough information was provided in the disclosure sections regarding the property value, reporter’s course of action and property address. Failure to provide the latter results in the SAR not being allocated by the system to law enforcement. The use of glossary codes, which allows quick identification of key themes, was lower than average across all sectors.

3.40 Analysis has identified that a much higher proportion of Defence Against Money Laundering (DAML) SARs submitted by the legal sector require a request for further information before a decision can be reached, compared with DAMLs submitted by all sectors. As with the accountancy sector, the use of glossary codes by the legal sector is also low in comparison to all sectors.

3.41 Most PBSs (7 out of 9) had either fully or largely effective disclosure procedures. However, we found instances where the policies had not been reviewed for a long period, and staff were unable to demonstrate a sufficient understanding of the policy. PBSs could improve effectiveness by ensuring their disclosure policies are kept up-to-date and adequately training staff.

3.42 Enhancing PBSs’ information and intelligence sharing arrangements remains a key priority for OPBAS and we have outlined further work in this area in Chapter 4.

Case study of more effective practice: Effective intelligence sharing roots out money laundering

Acting on intelligence, a legal sector PBS identified a number of suspicious activities carried out by a firm from its supervised population on behalf of some clients. The PBS launched an investigation and suspended individuals involved pending on the results of the disciplinary process. The PBS notified law enforcement about the suspected breach of MLRs, including the submission of suspicious activity reports. The PBS's action led to the successful prosecution of two members of its supervised population and other individuals for various offences under the Proceeds of Crime Act resulting in significant prison sentences for the accused.

Case study of less effective practice: Failure to share intelligence compromises risk identification

A legal sector PBS took enforcement action against a member of its supervised population for AML deficiencies. The individual was dual regulated, but the PBS did not share information about the case with the other relevant PBS either directly or through an intelligence-sharing platform. Failure to proactively share intelligence can reduce other PBSs' ability to identify risks within their supervised populations.

Information and guidance to supervised population

- 3.43** Regulation 47 of the MLRs requires PBSs to make up-to-date information on money laundering and terrorist financing available to their supervised populations in any way the PBS decides is appropriate. PBSs are also required to include information from sources considered relevant to their sector. We set out our expectations in Section 7 of our Sourcebook.
- 3.44** In our 2021 report we found that generally PBSs performed well in providing information and guidance to their supervised population. As the result, in this supervisory cycle, we assessed 6 PBSs, including some we had concerns about in this area.
- 3.45** Half of the PBSs we assessed were either effective or largely effective at providing information to their supervised population about the money laundering risks they face and guidance to help them understand their AML obligations. Many of the effective or largely effective PBSs in this area issued alerts about AML risks and emerging threats facing their supervised populations, with many focusing on Russian sanctions and TCSPs. Some PBSs also revised guidance to factor in emerging risks. For example, one PBS in the accountancy sector reviewed AML guidance to incorporate information on the government's financial sanctions targets and HMRC TCSP guidance. The more effective PBSs published Regulation 46A reports on their website with useful links to raise their supervised population's awareness.

3.46 PBSs which were either partially effective or ineffective need further improvements in providing more tailored information about AML risks specific to their supervised populations, collecting their views and embedding them into guidance. We observed that PBSs which were less effective at implementing a risk-based approach also underperformed at providing their supervised population with high-quality information on AML risks specific to their supervised population. For example, they did not publish bespoke guidance or adequate information about sectoral risk to enhance their supervised population's awareness.

Staff competence and training

3.47 Regulation 49 of the MLRs requires a PBS to employ people with appropriate qualifications, integrity and professional skills to carry out the supervised functions. We set out our expectations in Section 8 of our Sourcebook.

3.48 We expect PBSs to ensure their staff are equipped to take decisions on whether the policies, controls and procedures of their supervised populations are appropriate in view of the risks identified.

3.49 In our 2021 report we found some PBSs with low levels of effectiveness in staff competence and training. In this supervisory cycle we assessed 6 PBSs against the progress they have made since their last assessment.

3.50 Only half of the PBSs we assessed (3 out of 6) were largely effective in taking steps to support staff in key AML roles to ensure they have sufficient expertise and knowledge. Some PBSs did not provide an appropriate depth of training for their AML staff to help them understand emerging trends and risks within their supervised populations. Less effective PBSs did not have adequately-structured, mandatory training programmes or professional development tailored to staff needs. One PBS did not offer specialist training to its SPOC. Where training was offered, there was limited evidence of PBSs actively reviewing and assessing the effectiveness of the training or the skills, expertise, technical knowledge and behaviour of staff in practice.

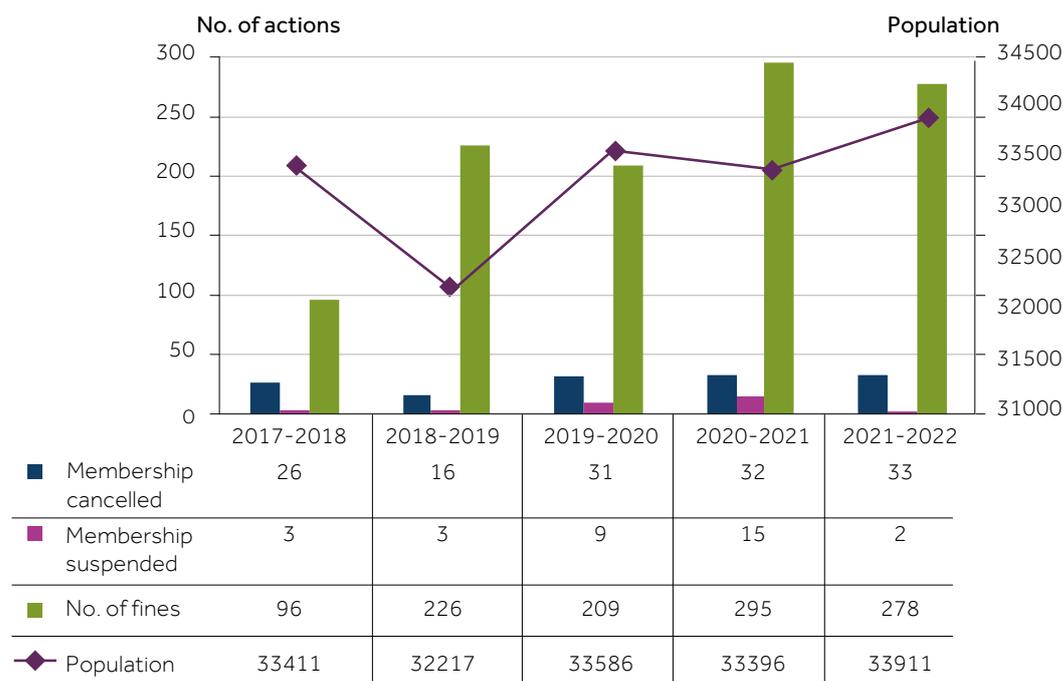
3.51 Gaps in tailored training and staff support have impacted the quality and judgment of the decision making of PBSs' supervisory staff. We observed that some PBSs which were less effective in staff training and competence also underperformed in applying an effective risk-based supervisory approach.

3.52 PBSs should support their staff by providing high quality training and guidance to ensure supervision is predictable and proportionate. To drive further improvements in PBSs' performance we have set out new outcomes, in our updated sourcebook, indicating our expectations for a more effective approach to staff competence and training, with examples of more- and less-effective practice.

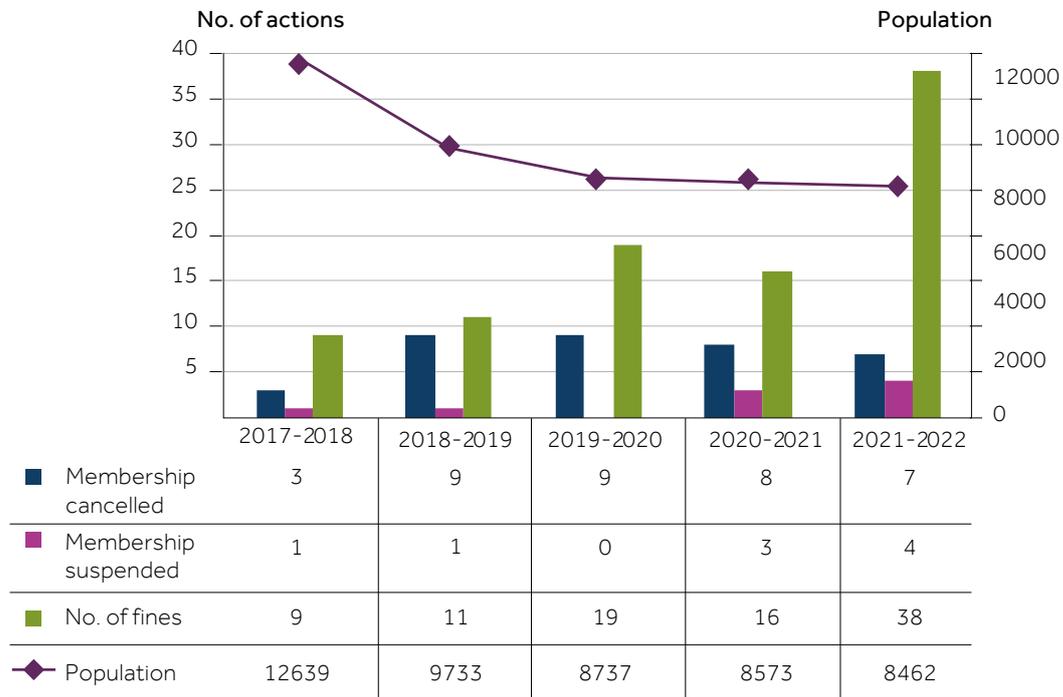
Enforcement

- 3.53** Regulation 49 of the MLRs requires a PBS to make arrangements to ensure that its supervised population is liable to effective, proportionate and dissuasive disciplinary action. We set out our expectations in Section 9 of our sourcebook.
- 3.54** Since OPBAS was created in 2018 there has been a significant overall increase in enforcement action taken by PBSs, which is reflected especially in the rising number of fines. Our analysis of the Treasury's reports indicates a 200% increase in the combined number of fines issued by the accountancy and legal PBSs from the reporting period 2017-18 to 2021-22.
- 3.55** The Treasury's 2022 report showed the number of fines issued in 2021-22 has significantly increased for the accountancy and legal sectors combined from 2019-2020. The number of fines in the legal sector has doubled between 2019-22. This trend is also mirrored in the overall rising value of fines. The total value of fines issued in 2021-22 for accountancy and legal sectors combined has increased by 98% (nearly doubled) from 2019-20, and the average fine has also risen by 67% for the same period. However, the average fine across both sectors remains low (just under £3,000), raising the question as to whether it is a credible deterrent to AML non-compliance.
- 3.56** Similarly, the number of supervised population suspensions or cancellations remains low in proportion to the overall size of supervised populations. The data from Treasury 2022 report confirms findings from our supervisory assessments which show many PBSs did not use their enforcement tools as effectively as we expected them to do.

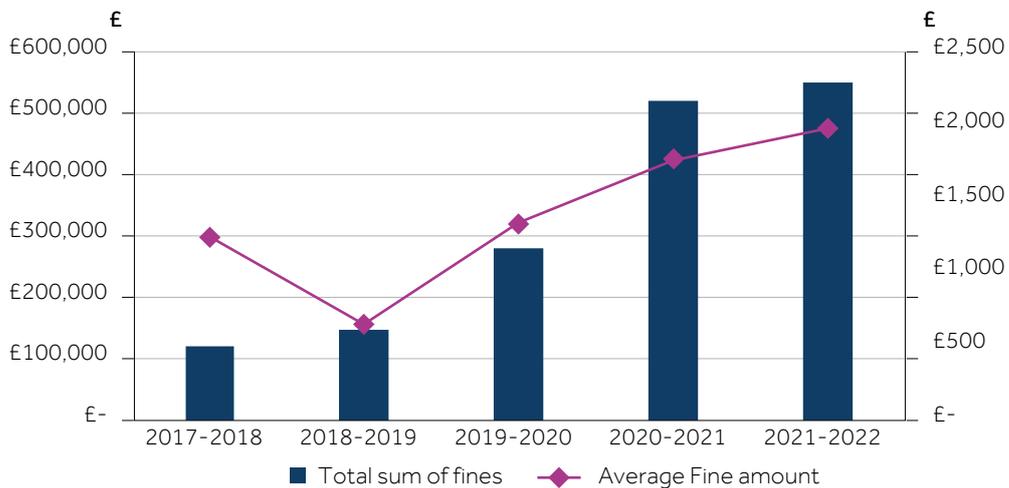
Graph 8: Enforcement action for contravention of MLRs – Accountancy Sector



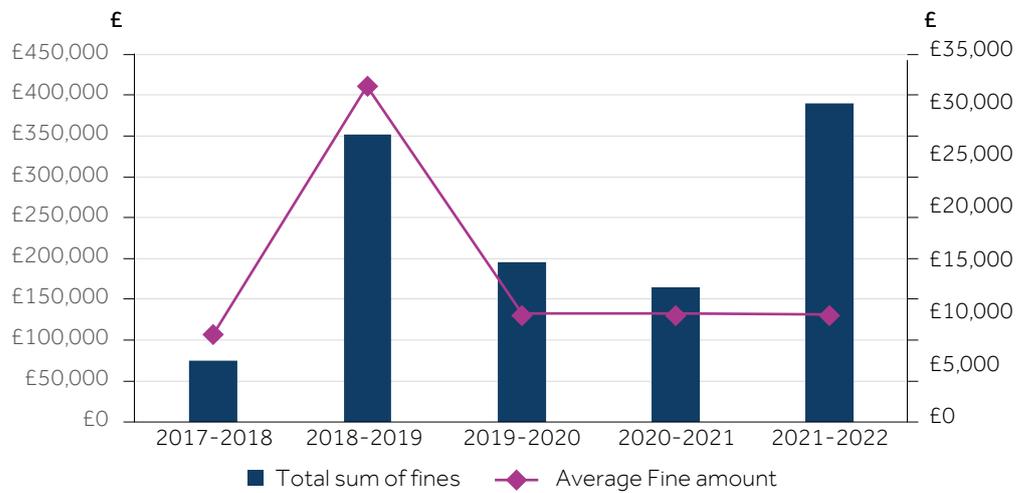
Graph 9: Enforcement action for contravention of MLRs – Legal Sector



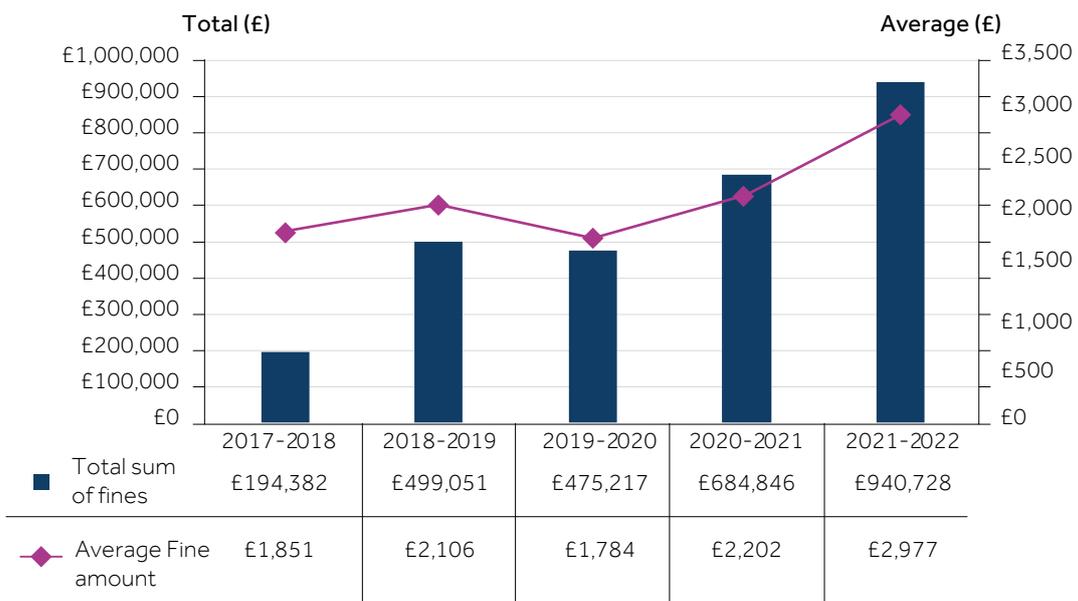
Graph 10: Fines issued for contravention of MLRs – Accountancy Sector



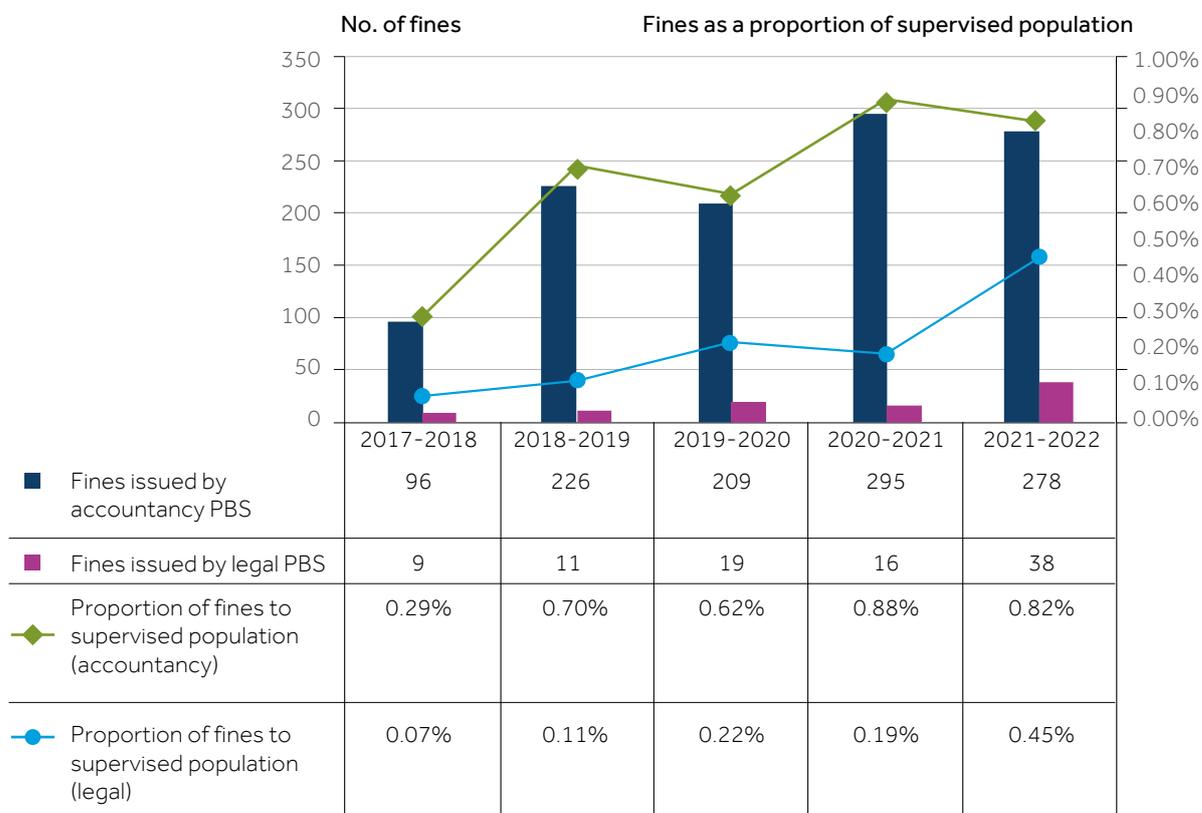
Graph 11: Fines issued for contravention of MLRs – Legal Sector



Graph 12: Fines issued for contravention of MLRs – Accountancy and Legal Sectors Combined



Graph 13: Fines issued for contravention of MLRs – in proportion to supervised population in accountancy and legal sectors



3.57 In this supervisory cycle we assessed 9 PBSs. Our assessments found that 4 out of 9 PBSs were partially effective and 5 largely or fully effective in using enforcement tools proportionately to achieve adequate outcomes. For example, we found that some PBSs tended to apply a less punitive action. In other instances, lengthy internal investigation and disciplinary processes delayed enforcement action.

3.58 We welcome the extension of SRA's fining powers from £2000 to £25,000 for solicitors and traditional law firms (solely owned by lawyers) with further proposals to make them unlimited, which we supported in our response to the SRA's consultation on financial penalties.

3.59 A large proportion of PBSs did not have a fully effective enforcement framework with a clear set of criteria to enable the application of appropriate action in a consistent way. Out of 9 PBSs we assessed, 3 were either fully or largely effective and 6 were partially effective. Many enforcement frameworks lacked clear guidance to support staff judgments as to when to take enforcement action and what were the appropriate tools to use. Some did not have clear timelines for disciplinary and enforcement procedures. This meant that some applied an informal and inconsistent approach to remediation. Many did not have key performance indicators allowing them to measure effectiveness of enforcement action.

3.60 PBSs were more effective at having sufficient information gathering and investigative powers to effectively monitor and assess compliance, and powers to take appropriate action for non-compliance, with 6 either fully or largely effective and 3 partially effective.

However, many needed to use the tools more effectively and proportionately to mitigate the risk of harm.

- 3.61** Most PBSs were either fully effective or largely effective in maintaining records of enforcement action, with 7 being either fully or largely effective and 2 either partially effective or ineffective. The less effective PBSs did not keep a systematic record of all AML investigations within their case management systems meaning that the reasoning behind decisions, as well as trends and emerging risks from non-compliance, could not be identified.
- 3.62** PBSs were either fully or largely effective in making AML enforcement activity public where appropriate.
- 3.63** We expect PBSs to make further improvements in their enforcement framework to ensure that their enforcement action is proportionate and applied in a fair and consistent manner. In our updated sourcebook we set out specific outcomes we expect PBSs to demonstrate when taking enforcement action, and we will be assessing PBSs against these outcomes in our next supervisory cycle.

Case study of less effective practice: Failure to take timely enforcement action

An accountancy PBS has a wide range of enforcement tools in place but has not used them effectively to take timely, proportionate and dissuasive action to correct identified weaknesses of its supervised population. The PBS initiated enforcement action in several cases but did not meet its internal recommended timeframes for progressing cases and did not provide valid reasons for the delays. Information about delays and failure to meet timeframes was not clearly considered or challenged by the senior governance function. Such failures prevent the timely mitigation of harm and can inhibit deterrence of non-compliance. Removing the benefits of AML non-compliance requires effective, proportionate and timely enforcement action.

Record keeping

- 3.64** Regulation 46 of the MLRs requires a PBS to keep written records of the actions it has taken in its AML supervision, including decisions where it has decided not to act. We set out our expectations in Section 10 of our Sourcebook.
- 3.65** In our 2021 report we found that a quarter of the PBSs we assessed were not effective at record keeping, such as maintaining written records of decisions on AML supervision. In this supervisory cycle we assessed 5 PBSs which needed to improve in this area.
- 3.66** The majority of the PBSs we assessed this time round (4 out of 5) were only partially effective in maintaining sufficient written records of decisions on AML supervision. We found some PBSs lacked an effective record management system to file significant

decisions, actions and work related to AML supervision. Some did not adequately document records of inspection meetings. The least effective PBSs lacked written evidence of how key decisions were made including the visit selection process, visit trends and additional risk analysis undertaken. We expect PBSs to enhance their information management systems, to track and measure in a clear manner how their AML supervisory activity delivers against supervisory outcomes. Following the assessments, we have written to PBSs requiring action plans to address the shortfalls.

- 3.67** Most of the PBSs (3 out of 5) were largely or fully effective at having adequate quality assurance processes in place. We observed many PBSs had quality assurance testing in relation to monitoring reviews, with well-defined methodology and scoring. However, in some cases the details of the testing were not well documented, periodically reviewed or their effectiveness and adequacy measured to ensure consistent judgment and the standard of scrutiny. Some had an informal quality assurance process to reviewing inspections and supervised population files without systematic documentation of conclusions. Most PBSs had an internal audit of the quality of AML supervision. Some PBSs have found it effective to develop automated systems which join up different AML data sources across supervision, intelligence and enforcement activities.
- 3.68** We expect PBSs to maintain accurate, up-to-date and comprehensive records and robust quality assurance procedures to provide evidence of verifiably appropriate, consistent and proportionate decision-making and standards. Records should also be used to support learning and continuous improvement.

Chapter 4

Information and intelligence sharing

- 4.1** As outlined in Section 3, although PBSs took part in AML information sharing groups like AMLSF and ISEWGs, the level and quality of information and intelligence received and disseminated within the PBSs themselves and with law enforcement and other AML supervisors has not been consistent.
- 4.2** In this section, we detail what we have been doing to further our intelligence and information sharing objective. This includes stakeholder engagement, our role in cross-organisational intelligence and information sharing initiatives and our involvement in intelligence and information sharing-related policy development. In Chapter 5 we outline our intelligence and information sharing work to support the implementation and enhancement of the UK's sanctions regime.

External engagement

- 4.3** During the last year, we have continued to actively engage and collaborate with stakeholders across the public and private sectors and to participate in cross sector intelligence and information sharing forums.
- 4.4** We maintain a close relationship with the NECC, and this year we will co-chair a Cell targeting professional enablers as part of a wider ECP2 professional enabler workstream. We also participate in the NECC-led Public Private Threat Groups (PPTGs), established to help coordinate threat assessments and identify responses to prevent and disrupt economic crime. We have worked collaboratively with the NECC, PBSs and the private sector so that flows of intelligence and information are joined up and effective, especially through existing forums like the ISEWGs. We actively participate in relevant multi-agency forums like AMLSF, where we have introduced workstreams on areas of common supervisory interest such as definitions of DBRs post-pandemic.
- 4.5** We have continued to build on our good relationship with the UKFIU by working collaboratively on the SARs reform programme and continue to work proactively to improve the level of PBS engagement with them. UKFIU has also supported our own work by providing insightful SARs analysis in relation to our PBS populations.
- 4.6** We continue to work closely with HMRC on areas of common interest such as TCSPs, as well as participating in the Tax Crime Alliance and maintaining strong working relations with our supervisory counterparts.
- 4.7** A developing relationship for us is with Companies House, which is playing an increasingly important role in the AML system. We are already working together to look at the information and intelligence sharing processes which will be needed to support the expanded role of Companies House and the Registrar in future.

The Intelligence Sharing Expert Working Groups (ISEWGs)

- 4.8** The ISEWGs' purpose is to facilitate the increase of information and intelligence sharing between the PBSs, law enforcement, statutory supervisors and other relevant agencies. They can be used for both strategic and tactical sharing.
- 4.9** There are two main ISEWGs for the accountancy and legal sector PBSs across the UK. These are currently chaired by ICAS and the SRA respectively. There are also two ISEWGs serving the Devolved Administrations (the DA ISEWGs), attended by legal and accountancy PBSs from Northern Ireland and Scotland specifically.
- 4.10** The DA ISEWGS provide the opportunity to share information and intelligence in the same way as the sectoral ISEWGs but are specifically focussed on the local threat picture. These meet biannually and are chaired by OPBAS.
- 4.11** ISEWGs have continued to contribute to improving the strategic understanding of the ML threat picture, feeding in via the NECC to NAC assessments and other intelligence products. HMRC, UKFIU, the NECC, PSNI and Police Scotland have all been very supportive, active participants in the ISEWGs, and their ongoing support and engagement add enormous value to these forums in developing our shared understanding of the ML threat picture.
- 4.12** There is currently no central register of AML-registered professionals and the PBS they belong to. Identifying the relevant PBS supervising an individual or firm enables law enforcement and PBSs to exchange intelligence and information, so is crucial to ensuring join-up across the system. As some PBSs are not on SIS, it also provides law enforcement with another route to alerting a PBS where one of their supervised population is suspected of wrongdoing. In the accountancy sector only 4 PBSs currently publish their supervised population online. Given the large number of PBSs an AML-registered person operating in the broad accountancy sector might belong to (13 PBSs), it can be problematic for law enforcement to identify which PBS supervises a person of interest to an investigation. One frequently used function of the ISEWG is that it provides a route for law enforcement to identify the correct PBS by making an enquiry amongst all the possible PBSs in one go, through the ISEWG Chairs.
- 4.13** In an AML supervisory system which has so many supervisors for the professions, the lack of a single information or intelligence system creates a barrier to sharing. MLR 52 (as amended in September 2022) provides a clear legal gateway for sharing, but the practical pathways are unclear. To address this issue OPBAS is working with the ISEWGs, NECC and other partners, to create a contact book for all of the accountancy PBSs and other MLR 52 gateway entities. This includes information about each PBS and their populations, where supervised population information can be accessed, intelligence team points of contact and other useful information. This is intended to make it easier for those wishing to exchange intelligence to know who and how it can be achieved. The accountancy sector ISEWG members, and the current and past Chairs in particular, have been supportive in this project. The legal sector will be approached to assist with phase two of this project.

Intelligence and Information Sharing Policy Work

- 4.14** OPBAS has contributed significantly to ECP2 and sought to ensure that the importance of intelligence and information sharing between PBSs and law enforcement is recognised within the ECP.
- 4.15** OPBAS will play a role in the following ECP2 actions on information and intelligence sharing:
- Improved communication to supervised populations to strengthen risk understanding.
 - Strengthened collaboration between supervisors and law enforcement to share information on new and emerging threats.
 - Establishment and implementation of a cross-system strategy for tackling Professional Enablers with an emphasis on collaborative working and information sharing.
 - Operationalisation of MLR 52 gateway (to improve quality of intelligence sharing between law enforcement, Companies House, BEIS and supervisors).
 - Identifying and addressing barriers to greater information and intelligence sharing between law enforcement, professional body supervisors and private sector.
- 4.16** These actions, shared with partners in the PBSs, other supervisors, the NECC and other stakeholders, will ensure that all stakeholders have the intelligence and information they need to tackle money laundering effectively.

Chapter 5

OPBAS projects and other work

- 5.1** In addition to our supervisory assessments (Chapter 3) and our information and intelligence sharing engagement (Chapter 4), OPBAS has undertaken a range of ad hoc and project work to play its part in strengthening the UK's AML landscape. Highlights of that work are outlined below.

TCSPs

- 5.2** TCSPs can play a key role in the UK economy and aid their clients in the management of their financial affairs. However, as the Panama and Pandora papers have shown, TCSPs can also be abused, with millions of pounds laundered through UK legal entities. As part of OPBAS's focus on supporting a system-wide approach to tackling the abuse and exploitation of TCSPs by criminals, we published the findings of our multi-PBS project on TCSP risk.
- 5.3** Our report makes strong recommendations for PBSs, and has implications for the wider economic crime community, to help deliver a more consistent standard of supervision of TCSPs and to facilitate better collaboration and information and intelligence sharing between PBSs, statutory supervisors, and law enforcement agencies.
- 5.4** We will be using the information gathered through this project to inform our input into the next NRA so that it can inform wider government understanding of the risks posed, and ways to mitigate them. We expect PBSs to review the report and consider whether changes are required.
- 5.5** OPBAS will continue to monitor progress, especially around understanding of risk indicators, the supply chain risk and on the agreement, collection, sharing and use of key TCSP intelligence and data.
- 5.6** We will continue to publish broader learnings from OPBAS's supervisory work in accordance with the FCA strategy commitment – so that we are able to clearly explain our standards and expectations, share best practice and contribute to the broader system wide economic crime agenda.

Sanctions

- 5.7** In response to the Russian invasion of Ukraine, OPBAS played an important role in ensuring that PBSs quickly took proactive steps to raise awareness and promote compliance with the financial sanctions regime amongst their supervised populations.

- 5.8** OPBAS does not have responsibility for the enforcement of financial sanctions, which is the function of OFSI. However, we have a role to play to ensure PBSs are effective in promoting their supervised populations' compliance with the sanctions regime.
- 5.9** Through our proactive work with PBSs, we gained an insight into how they were identifying and assessing the sanctions risk exposure within their supervised populations. We set out our expectations for effective sanctions risk monitoring to those we supervise and identified areas for greater focus and development.
- 5.10** We were pleased that PBSs responded positively by issuing guidance and information to their supervised populations. Through our sanctions workshops, PBSs recognised the scope to do more and move from a reactive to a proactive position. We outlined methods that would assist PBSs such as proactive risk verification, information sharing, dip sampling and thematic activity. We challenged professional bodies to incorporate sanctions risk monitoring as part of the wider risk-based approach to AML supervision. PBSs responded positively, undertaking targeted sanctions work, thematic projects and data collection exercises in response to the UK sanctions regime. The thematic work provided a greater insight on emerging typologies and provided an indication of how well PBSs understood sanctions risks in their populations. We continue through regular supervisory engagement with PBSs to address any gaps identified and understand sanctions-linked supervisory activity.
- 5.11** In line with OPBAS's information and intelligence sharing objective, we were able to utilise well-established stakeholder relationships to ensure that sanctions-related activity became a key focus. Throughout 2022, sanctions work remained a recurring theme on ISEWG agendas and other multi-agency forums such as the AMLSF. Through our close relationship with the NECC we continued to discuss sanctions themes and typologies. OPBAS also participated in the NECC-led Sanctions Evasion Cell.
- 5.12** A key aspect of our sanctions work during the last year has been the ongoing active engagement with OFSI in their role to implement and enforce sanctions in the UK. We continue to engage and work with OFSI to seek to enhance the flow of sanctions-related information to PBSs, so they can look to apply their risk-based approaches to AML supervision. We have participated in round table discussions with OFSI, the Legal Services Board and PBSs. We also continue to engage with various key stakeholders across government such as the Treasury and BEIS.

Case study of more effective practice: Proactive response to ensure compliance with the UK sanctions' regime.

A legal PBS took numerous swift actions to raise awareness about the UK's sanctions regime amongst its supervised population and ensure compliance, supporting the important work of OFSI. These included issuing information and guidance on sanctions compliance and advising its supervised population to consider the overall supply chain risks in the context of sanctions compliance. In parallel, the PBS enhanced its sanctions supervisory approach in response to the current situation. This included undertaking a review of its supervisory data to inform the level of sanction risk within its supervised population, proactive

supervision of sanctions compliance through dip sampling and ad hoc assessment. The PBS also proactively sought information from firms and practitioners in relation to the number of sanctioned clients to better understand the level of exposure within its supervised population.

Risk identification and verification (RI&V) project

- 5.13** An effective risk-based approach underpins all aspects of anti-money laundering supervision. It is therefore important that PBSs accurately assess and categorise the risks posed by their supervised population to drive targeted and proportionate supervisory action.
- 5.14** To assess the nuances of AML risks and typologies present across the PBS supervisory population and the approach PBSs take when identifying and verifying risks, we are undertaking a project on the approach to AML risk. This includes analysing the responses from a targeted questionnaire sent out to the 22 PBSs that perform regulatory functions. We are evaluating our findings with reference to the MLRs and the OPBAS sourcebook. We will be engaging with the PBSs further on the RI&V project including further exploration of some of the key risks identified by the PBSs.

Proliferation Financing workshop

- 5.15** We continue to facilitate understanding of financial crime risks to the PBSs and their sectors. Changes to the MLRs require supervised populations to identify and assess risks related to proliferation financing. To support PBSs in understanding these risks and develop a consistent approach to supervising the new requirements, OPBAS organised and facilitated a workshop for PBSs on proliferation financing. The workshop explained the threats and vulnerabilities, identified the potential risks and emphasised the importance of key controls – knowing your customer and ongoing customer due diligence. This will enable PBSs better to address proliferation financing risks in their assessments of their supervised populations and take a proportionate risk-based approach to managing this risk.

OPBAS updated sourcebook

- 5.16** In January 2023, OPBAS published an update to its sourcebook of guidance for PBSs as part of its continuing work to drive improvements in PBSs' AML supervision. The revised sourcebook provides additional guidance for PBSs on OPBAS's expectations and the outcomes the PBS need to achieve to improve consistency and effectiveness of AML supervision in the sectors they oversee.
- 5.17** From May 2023 we will start our periodic supervisory assessments of PBSs against the updated OPBAS sourcebook. We expect to see material improvements in PBSs' performance.

Performance indicators work

- 5.18** As part of our outcomes-focused approach, we have developed work on refining key performance indicators (KPIs) and management information. We have been piloting the use of KPIs on several PBSs within a 4-point effectiveness scale across sourcebook areas over a periodic cycle. We encourage PBSs to articulate the outcomes they want to deliver in their AML supervision and consider setting and reporting against outcomes related KPIs. This can help to provide an evidence base around effectiveness.

Regulation 46A annual reports

- 5.19** Regulation 46A MLR requires PBSs to submit a standalone annual report on their AML supervisory activities to the Treasury and OPBAS. Reports should be published and publicly available on the professional body's website by 1 November each year.
- 5.20** We expect an effective PBS to use the published Regulation 46A reports as an opportunity to highlight its role and remit within the AML/CTF supervisory landscape and draw out the progress and outcomes delivered by its supervisory approach and its overall effectiveness.
- 5.21** We assessed the quality of reports submitted by the 22 regulatory PBSs in 2022 and noted a general improvement in the quality and effectiveness of reports compared to the previous year. Most PBSs produced reports which incorporated the majority of agreed effective practice aspects from previous guidance. It was encouraging to see some PBSs raising the profile of their reports and AML supervision activity through media posts which can help to increase AML awareness and demonstrate more effective practice. However, there was also scope for improvements in areas around reporting on the quality of supervised population SARs, and analysis of reasons behind failures and deficiencies, which could be useful in supporting a risk-based approach.
- 5.22** OPBAS will continue to support improvements in the quality and effectiveness of PBSs' Regulation 46A reports, as part of our ongoing proactive engagement with PBSs. To clarify our expectations, OPBAS included specific content in Chapter 11 of our updated OPBAS sourcebook. We have also written a joint [letter](#) with the Treasury to all PBSs setting out our expectations. We have included links to PBSs' **individual reports in [Annex 1](#)**.

Chapter 6

Priorities for the year ahead

- 6.1** The current geopolitical situation and the cost-of-living crisis heighten the risks of financial crime across the UK economy. OPBAS is fully committed to supporting the broader system-wide agenda proposed by the government to fight economic crime.
- 6.2** Over the coming year we will contribute to the implementation of ECP2 commitments and the development of the new NRA. We will support Companies House in the implementation of reforms. And we will continue to monitor PBSs' work with their supervised populations on the sanctions regime to ensure that accountancy and legal service providers play their part in driving down sanctions' evasion.
- 6.3** In parallel we will play our convening role in cross-organisational intelligence and information sharing initiatives to strengthen collaboration between PBSs and law enforcement on new and emerging threats.
- 6.4** We will also work closely with the Treasury, feeding into the AML supervisory reform consultation and assisting the transition to the model chosen by the Government.
- 6.5** While policy development on reform is underway, we will continue to take robust, proactive steps to improve the consistency and effectiveness of the AML supervision by PBSs, using the tools and powers available to us within the current AML framework. From May 2023 we will start our supervisory assessments of PBSs against the updated OPBAS sourcebook which sets out additional guidance on the outcomes PBSs need to achieve to improve the consistency and effectiveness of their AML supervision. In addition, we will continue to focus our multi-PBS work in high risk-areas. We will monitor PBSs' progress in implementing recommendations from our TCSP report and continue work on the risk identification and verification project (outlined in para [5.13](#)).
- 6.6** We will also engage with the Treasury on the development of the MLR performance framework recommended by the [Treasury's review of the UK's AML/CFT regulatory and supervisory regime](#) and assist in monitoring PBSs' performance against the set indicators. We expect these actions will drive timely and tangible improvements to PBSs' effectiveness.
- 6.7** We will use our supervisory assessments, ISEWGs and other forums, and other information, such as Treasury's annual AML report and the AML reports that PBSs are required to publish each year under Regulation 46A MLR, to monitor improvements in effectiveness and publish findings from our work on completion of our supervisory assessments. These insights will also feed into the next NRA to help inform wider government understanding of the current and emerging risks and ways to mitigate them.
- 6.8** OPBAS will continue to take proactive steps to enhance the effectiveness of the AML supervision in accountancy and legal sectors. We expect PBSs to accelerate their efforts to achieve tangible outcomes.

Annex 1

Regulation 46A reports submitted by PBSs

Association of Accounting Technicians

Association of Chartered Certified Accountants

Association of International Accountants

Association of Taxation Technicians/ Chartered Institute of Taxation

Bar Standards Board

CILEX Regulation

Chartered Institute of Management Accountants

Council for Licensed Conveyancers

Faculty of Advocates

Faculty Office of the Archbishop of Canterbury

General Council of the Bar of Northern Ireland

Insolvency Practitioners Association

Institute of Certified Bookkeepers

Institute of Chartered Accountants in England and Wales

Institute of Chartered Accountants in Ireland

Institute of Chartered Accountants in Scotland

Institute of Financial Accountants

Institute of Accountants and Bookkeepers

Solicitors Regulation Authority

Law Society of Northern Ireland

Law Society of Scotland

Annex 2

List of PBSs

OPBAS oversees 22 PBSs (plus 3 who have delegated regulatory functions). They cover a wide range of professions across the accounting and legal sectors. They are:

Association of Accounting Technicians

Association of Chartered Certified Accountants

Association of International Accountants

Association of Taxation Technicians

Chartered Institute of Legal Executives/CILEx Regulation

Chartered Institute of Management Accountants

Chartered Institute of Taxation

Council for Licensed Conveyancers

Faculty of Advocates

Faculty Office of the Archbishop of Canterbury

General Council of the Bar/Bar Standards Board

General Council of the Bar of Northern Ireland

Insolvency Practitioners Association

Institute of Certified Bookkeepers

Institute of Chartered Accountants in England and Wales

Institute of Chartered Accountants in Ireland

Institute of Chartered Accountants of Scotland

Institute of Financial Accountants

International Association of Bookkeepers

Law Society/Solicitors Regulation Authority

Law Society of Northern Ireland

Law Society of Scotland

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FINANCIAL CONDUCT AUTHORITY

