

Anti-Money Laundering and Anti-Bribery and Corruption Systems and Controls:

Asset Management
and Platform Firms

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1. Overview

Background

Tackling financial crime is a key part of our remit, a responsibility we took over from the Financial Services Authority (FSA) in April 2013. Preventing financial crime is a vital element to achieving our objective of protecting and enhancing the integrity of the UK financial system.

Our document *Financial Crime: a Guide for Firms*, gives examples of good and poor practice covering all elements of financial crime. We want firms to use this document to review these practices, assess them against their own firm and take actions where necessary.

Two areas where firms may be used to facilitate financial crime are money laundering and bribery and corruption. Firms have a legal and regulatory obligation to establish and maintain robust defences and risk management frameworks that identify and mitigate money laundering and bribery and corruption risks.

Although previous regulatory action relating to anti-money laundering (AML) and anti-bribery and corruption (ABC) systems and controls failings has focused on the banking and insurance sectors, there are significant risks in other sectors. This work on asset management and platform firms was carried out to assess whether this sector is taking adequate steps to mitigate the money laundering and bribery and corruption risks it faces.

There are some areas where the risk of money laundering and bribery and corruption is heightened in the asset management and platform sector. These include the selling of investment products, particularly where third-parties are employed to raise money; the dealings that firms have with clients, both at the point of take-on and on an on-going basis; and the search for information to obtain a competitive advantage.

The specific risks will vary depending on the nature, scale and complexity of firms' operations. Factors that may increase the risk of money laundering and bribery and corruption include:

- Non face-to-face business, which can be attractive for money launderers hiding behind stolen or fabricated identities.
- Customers from, or with links to, countries that are considered high risk from a money laundering and/or corruption perspective.
- Wealthy and powerful clients, particularly where they insist on a high degree of confidentiality.
- The use of offshore trusts and shell companies to distance beneficial owners from their funds.
- High value and/or unexpected transactions.
- Payments or inducements, without a clear business rationale, to third parties.

What we did

We assessed 22 firms including wealth and asset management firms, fund administrators, and platform firms (referred to as 'firms' in this report), to assess how their money laundering and bribery and corruption risks were being managed. This work was started by the FSA in 2012 and continued by the FCA. The sample of firms selected captured the industry's diversity and ensured a good combination of firms by size and business model. We did not assess the adequacy of firms' systems and controls for complying with any relevant financial sanctions regimes.

The review focused on the adequacy of firms':

- AML systems and controls (including account opening, transaction monitoring, and suspicious activity reporting to mitigate money laundering risks); and
- ABC systems and controls (including the use of business introducers, third party payments, and gifts and entertainment arrangements).

Our findings

Although we found some good examples of money laundering and bribery and corruption risk management, we found a number of common weaknesses across the firms in our sample. Given the communications we have issued on AML and ABC, we expected the industry to have done more in ensuring they had suitable systems and controls in place.

A summary of our findings are set out below.

- Most firms had relatively well-developed arrangements for the ownership of money laundering and bribery and corruption risks. However, some could not provide evidence to demonstrate the effectiveness of senior management oversight and challenge.
- AML and ABC issues were dealt with primarily as a compliance matter rather than as part of proactive risk management. Failure to properly identify and assess risk often led to weaknesses in customer due diligence and on-going monitoring of business relationships.
- Most firms had a comprehensive suite of AML policies and procedures approved by senior management.
- Some firms had inconsistent or absent controls to assess, classify and record risks posed by new customers, which meant that enhanced due diligence and enhanced on-going monitoring was sometimes not carried out for high-risk customers.
- There were weaknesses in how most firms acted on the outcomes of risk assessments. Identified risks were often non-measurable and not actively monitored. This impacted the extent to which appropriate controls were defined to mitigate those risks.
- Some firms considered that the longstanding nature of some business relationships alone was a satisfactory substitute for keeping customer due diligence information up to date.

- Some firms failed to take adequate steps to establish, verify and document the legitimacy of the source of funds and source of wealth to be used in business relationships for high risk customers.
- Most firms failed to demonstrate adequate systems and controls for assessing bribery and corruption risks in relation to dealing with and monitoring third party relationships, such as relationships with agents or introducers.
- Most firms had well-established AML and ABC training initiatives in place setting out relevant AML and ABC rules and regulations. However, the findings call into question the effectiveness of this training. Firms should develop more 'tailored' training material focusing on risks specific to their business. Most firms had appropriate arrangements to govern training, including monitoring staff completion activity and incentivising staff to adhere to training requirements through performance management protocols.

Conclusions

We found that AML controls varied across the sector; there were areas where some firms understood and met their obligations, and others where improvement was needed. However, there is still work for most firms to do to ensure bribery and corruption risks are appropriately mitigated.

Given our strong regulatory focus and previous publications on AML and ABC we expected firms to have taken more action to ensure their controls reduced the risk of money laundering and bribery and corruption.

Our findings were of particular concern where the firms were part of major financial groups, which should have been aware of our expectations. In some cases, the firms we visited were from groups that had been subject to previous regulatory attention but we still found significant weaknesses.

Next steps

We have provided feedback to those firms in our review, but we expect all firms to consider our findings and the examples of good and poor practice to improve their AML and ABC frameworks where necessary. We will be following up with some firms to discuss the actions they should take.

Even though these findings are from our review of the asset management sector, we expect all firms to have appropriate systems and controls in place for AML and ABC. This document, along with the *Financial Crime: a Guide for Firms* will help firms achieve that.

The examples of good and poor practice are consistent with existing guidance set out in our document *Financial Crime: a Guide for Firms*¹ which has already undergone consultation and is part of our Handbook of Rules and Guidance.

¹ <http://fshandbook.info/FS/html/handbook/FC/link/PDF>

2. Findings

Governance, culture and management information

Senior management must take responsibility for managing money laundering and bribery and corruption risks. Firms should be able to demonstrate that senior management are actively engaged in risk management, for example through sufficient engagement by board and management committees, effective flows of good quality management information and appropriate challenge and escalation of issues as necessary. Governance structures should be appropriately documented with clearly defined senior management roles and responsibilities.

Management committee structures

Overall, we found that most firms had relatively well-defined governance arrangements, which included management committee structures, assigned senior management responsibilities for AML and ABC and specific reporting mechanisms for escalating risks and issues. However, we were disappointed to see some instances where money laundering and bribery and corruption risks appeared to be managed in organisational 'silos', with ownership of money laundering and bribery and corruption risks in separate functions that could have benefited from being more integrated.

Management information (MI)

Most firms produced some degree of AML or ABC-related MI on a regular basis. MI was typically produced monthly for management meetings, aggregated quarterly for board-level meetings, and used to inform annual money laundering reporting officer (MLRO) reports. However, we identified specific examples of unduly delayed management reporting.

At one firm, an MLRO report for 2011 (calendar year) was not submitted to the firm's board until August 2012

We identified a mixture of good and poor practices in relation to the quality of MI. There is more work for most firms to do to develop mechanisms for collating meaningful ABC-related MI. A few firms were more advanced in collating ABC MI and produced information on gifts and entertainment; adherence to ABC training requirements; and, information relating to third party relationships (e.g. commission-sharing agreements).

For AML MI, most firms typically included information regarding: suspicious activity reports (SARs); politically-exposed persons (PEPs); new account opening activity; adherence to AML training requirements; and, regulatory developments. However, in some firms, AML MI was not granular enough and did not include sufficient quantitative or qualitative information to support the analysis of trends or emerging issues.

Inadequate MI could lead to an uninformed view of money laundering and bribery and corruption risks. We found that most firms would benefit from applying a greater degree of rigour and challenge to the quality of MI, ensuring that it is meaningful, continually developed, and utilised to monitor known risks as well as to anticipate emerging risks.

One firm demonstrated a comprehensive range of MI, produced on a rolling basis. The MI contained both AML- and ABC-related metrics including regulatory changes, compliance actions, reporting to the Serious Organised Crime Agency (SOCA), training plans, and gifts and entertainment.

Senior management challenge and oversight

At most firms, we found either very limited or irregularly documented evidence of senior management challenge during formal management and governance committee meetings. This was evident from relevant meeting minutes. In some firms, there was also a lack of rigour in following up on formal actions and issues raised. We identified examples of recurring issues being reported to management committees, with no clear ownership for the closure and resolution of those issues, leading to a 'reactive' approach in managing money laundering and bribery and corruption risks. Some firms' senior management could not clearly articulate their money laundering and bribery and corruption risk management arrangements.

Internal audit and assurance

Some firms demonstrated that periodic risk-based internal audit and assurance activity is carried out to provide assurance over AML and ABC controls. However, further work is required to ensure that internal audit and assurance capabilities are appropriately developed and adequately resourced to conduct regular assurance work on AML and ABC controls.

Risk assessments

Most firms had inadequate systems and controls for identifying, assessing and managing money laundering and bribery and corruption risks. Money laundering and bribery and corruption risk assessments were sometimes not undertaken; not documented; lacked appropriate consideration of relevant risks; were limited to one element of risk, for example, only country or product risk; or, not proactively used to inform the implementation of appropriate controls.

In addition, the frequency with which risk assessments were conducted was inadequate at most firms. We identified specific examples at certain firms that indicated a lack of senior management appreciation of the value of conducting and documenting formal money laundering and bribery and corruption risk assessments.

One firm had not assessed its money laundering risks since May 2011 and, although it had conducted a bribery and corruption risk assessment, this did not appear to consider the full range of bribery and corruption risks relevant to the firm.

However, a small number of firms demonstrated relatively well-established and well-structured arrangements for undertaking money laundering and bribery and corruption risk assessments. These included the use of a consistent methodology to categorise and identify risks; quantification of inherent and residual risks; a collaborative approach to engagement with front-line business personnel to assess risks; and senior management engagement (for example, reporting the outcomes of risk assessment activity to board-level senior management).

One firm demonstrated that it had conducted money laundering and bribery and corruption risk assessments annually, adopting a collaborative questionnaire-based approach between its business lines and second line financial crime compliance function.

Another firm had a detailed approach to risk assessment that included quantification of the impact and likelihood of its risks and an overall score to capture the perceived status of each risk.

One firm's senior management stated that the overall assessment of the firm's exposure to both money laundering and bribery and corruption risks was "low", yet there was no evidence of how this assessment had been made. The extent to which the firm documented its money laundering risk assessment appeared to consist of a short paragraph in its 2012 MLRO report.

Specific anti-money laundering controls

Policies and procedures

Firms must have risk-sensitive AML policies and procedures that require firms to identify and focus on business relationships that pose the greatest risk of money laundering. These policies and procedures should have the clear support of senior management, be communicated to relevant staff, and implemented effectively.

Most firms had a comprehensive suite of AML policies and procedures approved by senior management. In addition, some firms undertook benchmarking activity of their policies and procedures against the FCA's *Financial Crime: a Guide for Firms*. However, some firms' AML policies were either out of date or contained inaccurate references to redundant regulation. For example, there were references to the FSA Money Laundering Sourcebook (decommissioned in 2006), and to the Financial Action Task Force's (FATF) previous Non-Cooperative Countries and Territories (NCCT) list.

Implementation of a risk-based approach to customer due diligence

While firms are required to have adequate policies and procedures in relation to customer due diligence (CDD) and monitoring, neither the law nor our rules prescribe in detail how firms must do this. Therefore firms' practices varied depending on the nature of the money laundering risks they face and their business model.

Most firms demonstrated a relatively developed approach to carrying out initial and on-going assessment and classification of customer risk. In addition, we noted that customer risk classification approaches typically referred to certain risk factors such as jurisdiction, customer type, and nature and purpose of the business relationship. However, we identified multiple instances during file reviews where a customer risk classification (for example, 'high', 'medium', or 'low') had not been recorded or kept up to date.

At one firm, approximately 60% of files reviewed had limited evidence to demonstrate whether the risk posed by customers had been considered during account opening. In addition, there was limited evidence of beneficial ownership on those files.

Customer identification and verification

Firms are required to identify their customers and, where applicable, their beneficial owners, and then verify their identities. Firms must also understand the purpose and intended nature of a customer's business relationship with the firm and collect information about the customer and, where relevant, beneficial owner. This should be sufficient to obtain a complete picture of the risk associated with the business relationship and provide a sound basis for subsequent monitoring.

Most firms had defined procedures in relation to screening for PEPs² on a rolling basis, as part of customer take-on processes. However, some firms were unable to demonstrate that risk-sensitive PEP screening processes were being implemented consistently.

At one firm, approximately 30% of files reviewed had either missing or incomplete records to show whether PEP screening had been completed when the customer was taken on.

We also identified deficiencies in some firms in relation to documenting the ultimate beneficial ownership, source of funds, and source of wealth.

High-risk customers

Under the Money Laundering Regulations, high-risk customers, including PEPs, must be subject to enhanced due diligence and enhanced on-going monitoring. For PEPs specifically, firms must establish the source of funds and the source of wealth, and obtain specific senior management approval for establishing a business relationship.

Most firms had governance arrangements that required senior management approval for the establishment (or continuation) of business relationships with high-risk customers. Senior management approval typically included, at a minimum, MLRO approval, and, in most firms, further 'layers' of approval by persons such as the Head of Risk, Chief Operating Officer, Chief Executive or a formal governance committee. However, in some firms, these approval processes were adversely affected by incorrect, unclear, or inaccurate definitions used to identify potentially 'higher' risk customers. In addition, most firms' policy documents and PEP definitions did not make clear the risk of corruption potentially posed by PEPs.

² The Money Laundering Regulations define PEPs as individuals who are or have, at any time in the preceding year, been entrusted with a prominent public function by a non-UK country, the European Community, or an international body. The definition extends to such individuals' immediate family members or close associates.

At one firm, the MLRO advised us that the firm had no PEP relationships, despite the firm having a PEP register listing a number of specific PEP relationships.

At most firms, PEPs were generally regarded as presenting a 'higher' risk of money laundering. Some firms included UK PEPs as well as foreign PEPs in their own PEP definition.

Keeping CDD information up to date

Most firms had defined 'refresh cycles' to determine the frequency at which CDD information for existing customers would be reviewed and, as necessary, refreshed. The 'refresh cycle' for high-risk customers was typically one year.

At one firm, a CDD file for a long-standing customer from the Cayman Islands indicated that relevant identification and verification information for two of its trustees had been sought and refreshed one week before our visit. Prior to that, it had not been refreshed for over ten years.

Relying on others for CDD purposes

The Money Laundering Regulations allow a firm to rely on CDD checks performed by others, provided that certain criteria are met.³ A firm relying on external providers or an intragroup function to perform CDD activity on its behalf remains responsible for adequately discharging that activity, and is required to obtain consent from the firm or entity it places reliance upon. As such, firms that rely on others to perform CDD checks have an obligation to ensure that there is adequate oversight of the effectiveness of such arrangements.

Some firms relied on others, such as platforms, fund administrators, and financial advisers to carry out CDD checks. Although we observed some examples of good practice, firms generally need to do more to ensure these arrangements are adequately monitored and controlled by ensuring, for example, that CDD records are readily accessible, and that consent to rely on the third party's work can be demonstrated.

One firm relied on an external party to perform customer identification and verification activities on its behalf and had a designated team to monitor that relationship. It typically exercised its right to audit the external party every three years.

In contrast, another firm relied on certain financial advisers to perform customer identification and verification on its behalf but did not appear to exercise adequate oversight of that relationship. For example, the firm rarely requested or retained copies of relevant CDD records.

³ Firms may rely on CDD undertaken by certain other persons where that person has consented to being relied upon and they are regulated in the EEA or in a third country in a manner equivalent to the requirements of the 3rd EU Money Laundering Directive. They also have to be subject to equivalent AML/CTF requirements – see Reg 17 of the Money Laundering Regulations 2007.

Transaction monitoring

The Money Laundering Regulations require firms to conduct on-going monitoring of business relationships and to implement appropriate measures for monitoring and scrutinising transactions throughout the course of a business relationship. Firms are also required to assess whether their customers' activities are consistent with the firm's knowledge of that customer, and their risk profile, ensuring that CDD records are kept up to date accordingly.

The type and level of sophistication of transaction monitoring systems and controls implemented by firms (e.g. manual, automated, or semi-automated) is typically dependent on the nature, scale, and complexity of a firm's business activities. The timely review and investigation of transaction monitoring alerts, and recording the results of those investigations, are paramount to ensuring the effective operation of transaction monitoring systems and controls.

At one firm, a customer withdrawal of £25m had triggered a transaction monitoring alert, but there was no documented evidence of how that alert was reviewed and subsequently discounted.

A wide variety of transaction monitoring systems and controls were adopted by firms. They ranged from daily 'real-time' system-generated transaction monitoring alerts to retrospective transaction monitoring carried out manually. However, at most firms, transaction monitoring arrangements were poorly documented. This was a particular issue at some firms where the operation of transaction monitoring controls was outsourced to intragroup functions.

One firm, which was part of a major financial group, outsourced transaction monitoring controls to an overseas intragroup function. However, it could not adequately demonstrate how it monitored the effectiveness of those controls.

Another firm carried out a comprehensive range of transaction monitoring activities including monitoring early disinvestments, high-value disinvestments, high-risk new business, non-UK business, third party payments, payments to employee bank accounts, early death/medical claims and changes of address.

Specific anti-bribery and corruption controls

Policies and procedures

We expect firms to have policies and procedures that are designed to mitigate the bribery and corruption risks to which they are exposed.

Overall, most firms were able to demonstrate that ABC policies and procedures were in place. However, in some firms, further work is required to develop their ABC risk management programmes and build on ABC activities initiated after the Bribery Act came into force in 2011.

Most firms' ABC approaches appeared predominantly focused on the implementation of gifts and entertainment systems and controls, while other equally important areas, such as third party relationships and payments, had not been given adequate consideration.

Gifts and entertainment

Most firms had documented gifts and entertainment policies and procedures. Typically these included specific guidelines regarding acceptable gifts and entertainment value thresholds and pre-approval requirements. However, some firms' policies and procedures were vaguely defined and open to interpretation, leading to a risk of inconsistent implementation and potentially ineffective gift and entertainment controls.

Gifts and entertainment policies and procedures at one firm did not include clear monetary thresholds, limits, or pre-approval requirements. As a result the firm's gifts and entertainment policies and procedures were open to interpretation.

Pre-approval limits for gifts and entertainment ranged from £25 to £500 and the level of management seniority required for pre-approval included line managers; MLROs; Heads of Compliance; Chief Operating Officers; and Chief Executives, depending on the specific value of the proposed gift or entertainment. We saw some examples where approval requests for gifts and entertainment had been declined on the basis of perceived levels of bribery and corruption risk.

Gifts and entertainment governance arrangements at one firm included a 'graded' approval system that mandated the level of management pre-approval required if the proposed value of a gift or entertainment exceeded certain monetary thresholds, the lowest of which was £50.

In addition, there was limited evidence of MI being used by most firms to monitor gifts and entertainment, including cumulative expenditure.

Third party relationships

We expect firms to implement risk sensitive systems and controls to mitigate the risk that third parties acting on their behalf may engage in corruption. This includes having appropriate policies and procedures that clearly define a 'third party', and set out a firm's approach in relation to the assessment, identification, selection, and monitoring of third party relationships.

The extent to which third party relationships were used by firms varied. Some used third parties solely for the procurement of specific services such as legal, IT, and recruitment services. These firms typically had procurement processes to manage relevant selection, pricing, and contractual activities. Some firms used agents and introducers (for example, operating on a commission fee basis) to develop new business acquisition opportunities and, in some instances, due diligence and oversight arrangements of these relationships was weak.

One firm, which acquired a significant proportion of its business through the use of agents and through referrals by another asset management firm, could not demonstrate clearly defined due diligence and oversight arrangements.

At most firms, procedures to identify and risk-assess the use of third parties were not clearly defined and the extent of due diligence performed on some third party relationships appeared insufficient. In addition, we noted that third party contractual agreements did not always include appropriate clauses in relation to bribery and corruption or the 'right to audit'.

However, we did observe some good practice relating to the use of agents, for example where the rationale for commission payments was documented, and commission payments were regularly monitored and reported to senior management. In addition, we saw some examples of risk assessments of third party relationships that had been kept up to date on a risk-based, review cycle.

One firm, which used a number of brokers, detailed commission amounts paid and the rationale for broker relationships in a report to its board in 2012.

Payment controls – third party payments

At most firms, controls over third party payments that were not customer-initiated were administered by finance functions and required adherence to specific finance controls. Some firms adopted risk-based approval controls, dependent upon the value of each transaction. However, at some firms we found weaknesses in the oversight of third party payment controls.

One firm undertook limited control or reconciliation activity over its payments to third parties. There was also limited evidence of challenge and engagement by senior management in relation to its third party payment controls.

Firms adopted different approaches to processing customer-initiated payments to third parties. These ranged from choosing not to process such payments; enforcing specific limitations on the types of payments processed (for example, only to a regulated solicitor or financial adviser); or, only processing payments in exceptional circumstances, for example when legal fees or health care costs were to be paid from the customer's funds.

Such payments were more commonly processed by smaller retail-focused investment managers, and less common with larger third party administrators or platforms. Where firms processed these payments, we observed some controls over the authentication of the instruction as well as financial approvals linked to the value of the payment. Examples of more robust controls included direct contact with the customer to verify the instruction and additional scrutiny over the nature and purpose of the payment requested to assess the potential risks of processing it.

Staff remuneration and vetting

Most firms had implemented remuneration structures that were not solely contingent on employees' financial performance. We observed examples of good practice where firms incentivised staff to adhere to compliance-related objectives and these objectives formed part of performance management metrics. Some firms adopted long-term incentive plans for staff that rewarded staff over a period of time as opposed to short-term, one-off bonuses.

Most firms had implemented risk-based staff vetting controls for new staff, with enhanced staff vetting undertaken for individuals holding FCA Approved Person functions. Some firms also repeated vetting for existing staff periodically, but this was generally an area for further development. Staff vetting procedures undertaken by most firms typically included credit checks; name and address verification; checks on previous employment history; checks for County Court Judgments; and education. Most firms outsourced their staff vetting procedures to specialist vetting service providers.

Training and awareness

Most firms had AML and ABC staff training programmes, the frequency of which typically ranged from every one to two years. The delivery methods for AML and ABC training varied to include computer-based training and classroom-style methods.

The content of the training included a mixture of generic and specific training programmes. We observed some examples of good practice where training was tailored, particularly for front-office functional roles. However, most firms need to do more to ensure that training is relevant to the risks to which they are exposed, has a strong practical dimension and is tailored to specific functional roles (including relevant third parties such as agents, introducers, or staff operating in outsourced functions).

Some firms demonstrated a wide range of AML and ABC-related training measures which included initial classroom-based training delivered for new staff joiners; standard computer-based training delivered annually; training material tailored to specific risks; and, supplementary ad hoc training workshops to address specific issues impacting certain departments.

3.

Examples of good and poor practices

Governance, culture, and MI

Examples of good practice	Examples of poor practice
<ul style="list-style-type: none"> • Senior management roles and responsibilities are clearly defined. • There is a clear organisational structure that meets on a regular basis to discuss risks, including money laundering and bribery and corruption risks. • Risk-based quality assurance work is carried out by the firm on a rolling basis. • The firm regularly assesses and evaluates emerging regulatory and industry developments and the impact(s) this may have on its business. • The firm takes into account staff compliance with AML and ABC obligations in remuneration and staff incentive structures. • The firm has defined breach and escalation procedures. • The firm implements senior management approval procedures in relation to the acceptance (or continuation) of higher risk business relationships. 	<ul style="list-style-type: none"> • There is limited senior management involvement and challenge in AML and ABC compliance activities. • Management information in relation to money laundering and bribery and corruption risks is not collated. • Money laundering and bribery and corruption risks are dealt with only on a reactive basis. • MLRO reports and other MI are not submitted in a timely manner. • There is limited quality assurance activity carried out to review the effectiveness of AML and ABC systems and controls.

Risk assessments

Examples of good practice	Examples of poor practice
<ul style="list-style-type: none"> • Risk assessments are used to assess the money laundering and bribery and corruption risks and undertaken regularly. • Processes are in place for undertaking risk assessments including collaborative engagement with front-line business personnel, and adequate senior management sign-off, review, and challenge (including sufficient engagement at board-level). 	<ul style="list-style-type: none"> • Limited or no activity is undertaken to identify and assess money laundering and bribery and corruption risks in a firm. • Risk assessment activity is ad hoc and it is not proactively undertaken to inform senior management and/or the design and implementation of AML and ABC policies and procedures in a firm. • Risk assessment activity is not dynamic to ensure firms are capturing money laundering and bribery and corruption risks. • Risk assessments do not include an overall assessment of money laundering and bribery and corruption risks for a firm. • ABC risk assessments were carried out as a one-off exercise.

Specific anti-money laundering controls

Examples of good practice	Examples of poor practice
<ul style="list-style-type: none"> • Ensuring AML policies and procedures reflect the legal and regulatory framework, and communicated to staff in the firm. • Ensuring customer identification and verification procedures are in place, including detailed operational processes for customer take on. • A customer risk classification framework is applied consistently to assess customer risks at the time of on-boarding, and on an on-going basis. • Identification and verification information for customers is periodically reviewed and 'refreshed', on a risk-sensitive basis. • The firm has defined senior management approval procedures for accepting new (or continuing existing) business relationships which pose a high risk of money laundering. • A clearly articulated definition of a PEP (and any relevant sub-categories) which is well understood by relevant staff. 	<ul style="list-style-type: none"> • Failure to ensure that AML policies and procedures reflect the legal and regulatory environment and are up to date. • Failure to conduct enhanced due diligence (EDD) for high risk/PEP customers. • Failure to identify and verify beneficial ownership, source of funds, and source of wealth. • Transaction monitoring governance arrangements are not clearly defined (for example, in relation to the investigation and review of transaction monitoring alerts).

Specific anti-bribery and corruption controls

Examples of good practice	Examples of poor practice
<ul style="list-style-type: none"> • ABC policies and procedures are documented and kept up to date. • ABC policies and procedures will vary from firm to firm however they must address relevant areas of bribery and corruption risks (either in a standalone document, or as part of separate policies). • Gifts and entertainment policies and procedures clearly define the approval process; include clear instructions for escalation, definitions and guidelines for staff to follow. • The rationale for using agents or introducers to generate new business is documented, and monitored through review and assessment on a continuing basis. • The firm implements robust operational controls to monitor, review, and approve third party payments. 	<ul style="list-style-type: none"> • ABC policies and procedures are not tailored to the business. • ABC policies and procedures do not address other areas of bribery and corruption risk but focuses on one area only e.g. gifts and entertainment. • Firms do not maintain a list of third party relationships and rely on informal means to assess the risk. • A firm using intermediaries fails to satisfy itself that those businesses have adequate controls to detect and prevent where staff have used bribery to generate business. • Gifts and entertainment activity is not consistently monitored by senior management.

Training and awareness

Examples of good practice	Examples of poor practice
<ul style="list-style-type: none"> • AML and ABC training is delivered to all staff, including senior management. • There is enhanced training for senior management and staff in key AML or ABC roles. • Training is tailored and includes practical examples relevant to the firm's business activities. • The content of the AML and ABC training is periodically reviewed and refreshed. • Staff records setting out what training was completed and when and using those results to test staff understanding and quality of the training. Ensuring training covers how to escalate matters and/or report potential suspicions. 	<ul style="list-style-type: none"> • Senior management does not sign off or engage in training. • New employees do not receive new joiner training promptly after joining a firm. • The firm does not extend its AML and ABC staff training requirements to overseas employees who perform functions on behalf of the firm's UK customers. • Training is a one-off exercise. ABC training material does not include training guidelines in relation to gifts and entertainment limits and pre-approval procedures. • The effectiveness of AML and ABC training is not monitored or assessed by a firm. • Training records are not maintained, and staff are not encouraged to ensure they meet their training obligations.

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