IFA REPRESENTATION 1/19

INSTITUTE OF FINANCIAL ACCOUNTANTS®
A MEMBER OF THE IPA GROUP

FATF Draft Risk-Based Approach Guidance for Accountants

The IFA welcomes the opportunity to comment on FATF's consultation on the Risk-Based Approach Guidance for Accountants issued on 25 February 2019.

We would be happy to discuss any aspect of our comments and to take part in all further consultations in this area.

Institute of Financial Accountants
Member of the IPA Group
CS111, Clerkenwell Workshops
27-31 Clerkenwell Close
Farringdon, London EC1R 0AT
T: +44 (0)20 3567 5999
E: mail@ifa.org.uk
www.ifa.org.uk

Established in 1916, the Institute of Financial Accountants (IFA) is an internationally recognised professional accountancy membership body. Our members work within micro and small to medium sized enterprises or in micro and small to medium sized accounting practices advising micro and SME clients. We are part of the Institute of Public Accountants (IPA) of Australia Group, the world's largest SME-focused accountancy group, with 35,000 members and students in 80 countries.

The IFA is a full member of the International Federation of Accountants (IFAC) the global accounting standard-setter and regulator and is an awarding organisation recognised by Ofqual, the UK public body responsible for maintaining and monitoring standards for general and vocational qualifications and examinations. We offer a programme of professional qualifications and education as well as resources, events, training and seminars.

We are recognised by HM Treasury and the Financial Services Authority in the Isle of Man to regulate our members for the purposes of compliance with the Money Laundering Regulations.

For more information, please contact the IFA mail@ifa.org.uk

www.ifa.org.uk

General comments

1. The IFA welcomes FATF's updated Risk Based Approach (RBA) Guidance for Accountants which now takes into account the revised FATF *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation*, which were adopted in 2012. As well as being up-to-date with current requirements, this draft guidance is significantly more comprehensive than the previous guidance since it includes guidance on risk based approaches for accountants and supervisors.

2. The IFA supports the principles-based approach to this guidance which caters for different roles and services provided by accountants as well as different supervisory approaches in countries with different legal, regulatory and supervisory environments.

3. We also welcome FATF issuing sector specific risk based guidance which recognises the different challenges and risks faced by the wide and diverse nature of financial institutes and DNFBPs.

4. Including annexes to this guidance of examples of RBA practices for the private sector and supervisors would be a welcome addition. In the UK, the Accountancy Affinity Group (AAG), a forum of accountancy professional bodies, has worked collaboratively to develop a common risk assessment methodology which provides a numerical score for a risk-based approach. If this would be of interest, please contact the IFA for further information.

5. Prior to publication, FATF should review the RBA guidance for Legal Professionals, Accountants and Trust and Company Service Providers to ensure that they are as aligned as possible, taking into account the different challenges and risks faced by these sectors. We draw your attention to some inconsistencies in content in the section on specific comments below.

6. It would be helpful to include hyperlinks and bookmarks in the final guidance to help with online navigational functionality.

Specific comments

Section 1: Introduction and key concepts

Background and Context

7. Section 1.1, paragraph 1 should refer to the RBA guidance for TCSPs which is also relevant to accountants. The RBA TSCP guidance makes it clear that the guidance applies to accountants and the legal sector but this does not happen the other way round in the accountancy sector guidance.

Purpose and guidance

8. Section 1.2, paragraph 4 should include a point regarding the difference in RBA for different accountants (see The RBA TCPs guidance (paragraph 5 c)).

Scope of the guidance and key features of the accountancy profession

9. Section 1.4.1, paragraph 9, should include a reference to the 2018 Handbook of the International Code of Ethics for Professional Accountants which was issued in 2018 and is effective June 15, 2019 not the 2016 IESBA Code of Ethics. While the IESBA Code has been

completely rewritten, the section on 'Responding to Non-Compliance with Laws and Regulations (NOCLAR)' is still included.

10. Section 1.4.3, vulnerabilities of accountancy services, focuses on the area of TCSP services only. The UK's National Risk Assessment 2017 identifies other risks such as the provision of insolvency services, aggressive tax schemes, accounting services where underlying records could be falsified and use of client accounts. FATF should consider whether there are any other vulnerabilities to be included in this guidance which can be learnt from countries' national risk assessments.

Section 2: The RBA to AML/CFT

Risk based approach (RBA)

11. The FATF guidance on the risk-based approach provides a broad framework based on high level principles and procedures. A useful addition to this framework would be to include in section 2.1 the key elements of a risk-based approach in a summary format, namely:
    - Risk identification and assessment – identifying ML/TF risks facing a firm, given its customers, services, countries of operation, having regard to publicly available information regarding ML/TF risks and typologies;
    - Risk management and mitigation – identifying and applying measures to effectively and efficiently mitigate and manager risks;
    - Risk monitoring – putting in place policies, procedures and information systems to monitor changes to ML/TF risks; and
    - Documentation – documenting risk assessments, strategies, policies and procedures to monitor, manage and mitigate ML/TF risks.

12. While the overall RBA framework is discussed in section 2 and throughout the document having a summarised version of the RBA framework and its key elements included in section 2.1 would enhance this guidance.

13. FATF should consider whether the guidance on appropriate mitigation measures included Box 1 RBA challenges for TCSPs should also be included in for Box 1 RBA for accountants.

Section 3: Guidance for accountants on implementing a risk-based approach

Risk Assessment

14. The IFA would welcome including further guidance in section 3.1, paragraph 49 on the circumstances where competent authorities or SRBs may determine that individual documented risk assessments are not required. We, like other competent authorities and SRBs in the UK, require all member firms to conduct a firm assessment of ML/TF risks. We are concerned that not requiring an accountant to document ML/TF risks might have inadvertent consequences.

15. Country/geographic risk is relevant to a client who could be a legal entity or an individual (who may not be a beneficial owner). As currently drafted, section 3.1.1, paragraph 60 c) only focuses on a client's country of incorporation. It should also include a client's country of domicile.

16. As indicated in section 3.1, paragraph 61 having no universally agreed definition of a higher risk country or geographical area makes the application of a RBA particularly difficult, especially for smaller public practice firms that have limited resources. FATF, in conjunction

with the EU, should consider developing an agreed definition of higher risk countries to facilitate the application of the RBA for accountants and supervisors.

17. The drafting in section 3.1.2, paragraph 63 d) iii) could be improved by including further explanation, similar to the RBA TCSPs guidance. The explanation could be something along the following lines ' where certain circumstances, structures, geographical locations, international activities are not consistent with the accountants' understanding of the client's business and economic purpose.'

18. As currently drafted, in section 3.1.2 paragraph 63 i) suggests that all charities and not for profit organisations are high risk because they are not monitored or supervised on a RBA by designated competent authorities or SRBs. It is not clear why this point is specific to charities and not for profits. FATF should consider extending this point to all businesses that are not monitored or supervised on a RBA by a designated competent authority or SRBs.

19. Section 3.1.3 paragraph 65 c) should cross refer to the RBA for TCPSs guidance.

20. The RBA guidance for accountancy in section 3.2.4 paragraph 113 should include additional guidance on training similar to that that's included in the RBA guidance for TCSPs. This additional guidance may be useful to accountants, particularly smaller accountancy firms.

Section 4: Guidance for Supervisors

21. The SRB's role in supervision and monitoring in section 4.1.2 should be included in the section prior to understanding ML/TF risks. This would make the guidance flow better.

22. The RBA guidance for the Legal Professionals and TCSP includes a section on endorsement of third party commercial providers (section 4.2.6 RBA TCSP guidance). This section is excluded from the RBA guidance for the accountancy sector. In order to be consistent, a section on endorsement should be included in the accountancy sector guidance. However, it is our strong view that further guidance is needed in this area. Endorsing a third party commercial provider may create an actual or perceived conflict of interest which could be managed, minimising any actual or perceived threats. We are of the view that there is no actual or perceived conflict of interest where the supervised population are not mandated to use the supervisor's endorsed product or service and the supervisor does not benefit in a significant way from any commercial arrangement associated with this endorsement.

Contact details

Should you wish to discuss our responses further, please contact Anne Davis by email at anned@ifa.org.uk