

# IFA REPRESENTATION 4/20



The IFA welcomes the opportunity to comment on the [Economic crime levy: funding new government action to tackle money laundering](#) consultation issued by HM Treasury on 21 July 2020.

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

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The IFA is a full member of the [International Federation of Accountants \(IFAC\)](#) the global accounting standard-setter and regulator. We are also 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.

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## General comments

1. The IFA supports the need to have a sustainable resourcing model to pay for enhanced government action to tackle money laundering. However we do not agree with HM Treasury's statement in paragraph 1.6 of the consultation that it 'believes it is fair that those whose business activities are exposed to money laundering risk pay towards the costs associated with responding to and mitigating those risks'.
2. The National Risk Assessment 2007 (NRA) identifies the accountancy sector as being at high risk of money laundering. However, other sectors and businesses not in the regulated sector are also at high risk of money laundering such as cash intensive businesses. It is not clear why these businesses are not in the scope of the levy as it is these businesses that require greater scrutiny by the regulated firms.
3. It seems to the IFA and its members that this levy is essentially another form of tax on the accountancy sector which is already investing significant resources towards the prevention of money laundering while other sectors that are not regulated and are vulnerable to money laundering are not in the scope of the levy. This does not demonstrate fairness which is the main reason given by HM Treasury for imposing a levy on the accountancy sector.
4. In this consultation, very little consideration or acknowledgement has been given to the resources already being spent by the accountancy sector to prevent and report money laundering, which includes staff, training, supervision fees, compliance and reporting activities.
5. In paragraph 1.5 of the consultation HM Treasury states 'the costs of further action to tackle money laundering should not be borne solely by the general taxpayer' which appears to miss the point that as regulated entities firms already pay business tax and also have the added expenditure of regulatory compliance. This appears to be the government opting to fund its own expenditure responsibilities and could be seen as an indirect tax on firms that are already contributing to taxation and the AML regime. For example, the inclusion of the cost of implementing Companies House reforms is the responsibility of BEIS.
6. The IFA is not clear why the chosen option is to create a levy to fund the sustainable model and we have the following concerns:
  - once finalised levies can often be deemed rigid and inflexible;
  - uncertainty on how the levy will be measured in terms of meeting its objectives and also, how will this be reviewed and reported;
  - lack of clarity regarding accountability for failure to meet objectives and stated outcomes from the economic levy spend;
  - insufficient information on how the levy will be managed and reported on in terms of governance on agreeing expenditure from the funds generated by the levy and how the expenditure will be appraised;
  - how the levy will complement other funding sources of the sustainable resourcing model which are ongoing, including the government spending review, suspended funds from financial institutions and the Assets Recovery Incentivisation Scheme (ARIS) review. We therefore can't understand why the levy consultation appears to be taking place before it is fully understood what the 'gap' in funding will be which may determine the levy rate and which businesses are affected.
- 7.

8. The vision for combatting economic crime in the economic crime plan is 'For the public and private sectors to jointly deliver a holistic strategy that defends the UK against economic crime, prevents harm to society and individuals, protects the integrity of the UK economy, and supports legitimate growth and prosperity.' The benefits from achieving this vision and successful implementation of the economic crime portfolio will benefit society at large and are not specific to the AML regulated sector. While one could logically argue that certain of the economic crime portfolio will benefit the AML regulated sector directly, for example, the SAR reform, it could be equally argued that improved reporting through the implementation of the SAR reform would benefit society at large. Therefore, HM Treasury and the government should re-consider whether it is fair for the AML regulated sectors to be financially burdened when the benefits accruing to the private sector are not clear and the rationale of charging those businesses whose activities are exposed on money laundering risk is flawed.
9. There has been no consideration in this consultation of the possible implications from the EU exit on the funding gap associated with the levy. For example, additional resources may be required by UKFIU due to increased complexities relating to information sharing, investigations and eventual prosecutions.
10. We are also concerned about the lack of research on the success or otherwise of imposing similar levies as they can often be seen as a stop gap measure to meet certain demands instead of a permanent solution to funding.
11. While IFA agrees that the current SARs reporting mechanism requires updating (something which is well overdue), it is not clear how this will benefit reporters. A common criticism of the SARs regime is that reporters never receive any feedback after submitting reports. It is hoped the new reporting system will be user friendly however, other than this, the IFA suggest it needs to be clear how reporters will benefit.
12. The notion of charging reporters to report suspicious activity appears flawed as although this may prevent defensive reporting in certain sectors it is not clear how this may affect other sectors such as the accountancy sector.
13. Given the significant number of unknowns in this consultation including the size of the funding gap, spending associated with the levy funds, levy calculation and how it will be applied, collection of the levy and funding on fraud, we would strongly urge the HM Treasury to consult further on the matter prior to taking this forward with statutory legislation. This consultation is at a very high level and is more akin to a call for evidence not a consultation on the detail that is required to take this forward.

## Specific questions

***HM Treasury should note that our response has taken account of member feedback on the consultation. If further information is required on the member survey, please contact Anne Davis, Director of Professional Standards, email: [anned@ifa.org.uk](mailto:anned@ifa.org.uk)***

### ***Levy Principles***

***Question 1: Do you agree with the design principles as set out above? Should the government consider any further criteria?***

14. We agree with the broad principles of proportionality and affordability, solidarity, simplicity and transparency, predictability, cost effectiveness of levy collecting and avoiding unintended consequences.
15. However, while we agree with the broad principles, we do not agree with the government's main interpretation of the principle of solidarity, that is, 'the burden of the levy should fall fairly across the AML-regulated sector, with as many parts of the AML regulated sector contributing as much as possible.'
16. The AML-regulated sector already spends both money and resources in the prevention of money laundering and fraud by its compliance, training and reporting activities as well as the requirement to be supervised under schedule 1 of The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.
17. As indicated in the National Risk Assessment 2017, accountancy services are attractive to criminals because criminals may use accountancy services to gain legitimacy, create corporate structures and add value. However, there are other businesses which are not in the regulated sector that are known to be also attractive to criminals such as cash-based businesses. In addition, money laundering can happen in any sector by falsifying or misrepresenting the quality of goods and services and also trade based money laundering involving imports and export activities.
18. On this basis, the consultation lacks evidence and analysis to substantiate the principle of solidarity as drafted since the risk of money laundering and fraud affects everyone – not just the regulated sector.
19. Therefore, the economic crime levy appears to be a form of tax on the regulated sector who is already contributing to the prevention of money laundering and fraud, whereas other sectors are not but are at risk of money laundering because of their business activities. We would therefore ask HM Treasury to consider the principle of fairness as a design principle for the levy.

### ***Spending the levy funds***

***Question 2: What do you believe the levy should fund? Are there any other activities the levy should fund in its first five years?***

20. We support the levy funding the SAR Reform programme and awareness raising campaigns since this may lead to benefits to the AML regulated sector, other sectors and the public. Assuming that the government is adopting a user pay principle to the development of the economic crime levy, the other capabilities that the levy could fund will benefit all sectors and the public and therefore should not be funded by an economic crime levy on the AML

regulated sector. To be specific we are of the view that the economic crime levy on the AML regulated sector should not fund:

- UK Financial Intelligence Unit (UKFIU) uplift ;
  - National Economic Crime Centre (NECC) costs ;
  - National Assessments Centre (NAC) and National Data Exploitation Centre costs;
  - Companies House Reform
21. While the accountancy sector has shared objectives with the NECC, NCA and the government to drive down economic crime and appreciate the need for funding, it is our view that funding from these initiatives must come from other sources: government spending review, ARIS or suspended accounts in financial institutions.
22. It should be noted that the IFA and its members have participated in awareness raising campaigns in the past such as the Flag it up campaign and Take Five campaigns, both of which are deemed to be successful campaigns. As drafted, the consultation suggests that lessons should be learned from the Flag it Up and Take Five campaigns which may mislead readers into thinking that the campaigns were not successful.
23. We agree that the levy should also recover costs associated with its administration and collection, assuming that these costs are proportionate, transparent and can be accounted for.

***Question 3: Do you agree with the government’s approach to publish a report on an annual basis? What do you think this report should cover other than how the levy has been spent?***

24. There was a majority support from our members on the publication of an annual report to cover how the levy was spent to demonstrate transparency. The report should cover not only how the money is spent but also the activities, outcomes and impact of how the money has been used, for example, sharing of intelligence led information, investigations, prosecutions and proceeds of crime recovered. The report should include lessons learnt and future changes, for example, investigations and prosecutions which were not successful with an accompanying explanation.
25. The report should also be prepared independently by the National Audit Office following an agreed framework and standards. This would provide a level of assurance that any recommendations made in the report regarding the efficiency and effectiveness with which the levy is being used are taken forward and individuals and organisations are held to account. While annual reports are a good idea, the publication of the report does not resolve anything unless recommendations are acted upon.
26. Those who are subject to the levy must have assurances that the levy is spent appropriately and it is value for money. A significant number of small businesses have lost confidence in the government’s ability to adequately deal with economic crime in spite of bearing a disproportionate percentage of total costs and resources.
27. If the annual report demonstrates that the economic crime levy has not been successful after a couple of years, the government should consider abolishing it. There must be a mechanism for reviewing the success of the levy in legislation and framework for considering the termination of the levy if it is not delivering the agreed outcomes.

In terms of activities that the levy should fund, it is difficult to understand why the levy is not funding the prevention of fraud since fraud is an economic crime and the levy is an economic crime levy. The rationale for this approach needs to be made explicit and further consultation on fraud prevention and funding is needed as discussed in subsequent questions 33-36.

***Question 4: What are your views on what the proposed levy review should consider and when it should take place?***

28. The government should explore the most effective way to plan and deliver its portfolio of activity covered by the levy. The publication of an annual report and a legal undertaking to review the rate and success of the levy five years after it first comes into effect will help with this.
29. However, both these strands, should be actioned by an independent body such as the National Audit Office and there should be opportunity for the AML regulated sector and others to contribute to the five year review by providing evidence which is independent considered and assessed.

***Levy calculation***

***Question 5: Do you agree with our proposal that revenue from UK business should form the basis of the levy calculation? Please explain your reasoning.***

30. It is our view that all businesses contribute to money laundering and fraud risk not just AML regulated businesses and all businesses, the public and government will benefit from a reduction in money laundering and fraud.
31. If the government insists on introducing an economic crime levy on only AML regulated businesses and this is mandated in law, then it is our view the worldwide revenue from UK businesses should be the basis of the levy calculation since money laundering and fraud is international in nature.
32. While there is a huge tension between using total revenue and AML regulated revenue to calculate the levy, on balance, we are of the view the AML regulated revenue is the correct approach since this is in line with the premise on which the economic crime levy is based.
33. For smaller accountancy practices their turnover will equate to AML regulated turnover but there may be a divergence for larger international group accountancy practices.

***Question 6: Are there any sectors that would be disproportionately impacted if revenue is used as a metric, or where revenue would be disproportionate to level of risk?***

34. Sectors and businesses with high turnovers but low profits, significant levels of bad debt and cashflow management issues will be disproportionality affected if a levy is based on turnover. These points are particularly relevant for small accountancy practices which are having to deal with the conundrum of the EU exit as well as keeping their practices and their clients afloat during a pandemic which will have a long term impact for at least the next 3-5 years.

35. While it could be argued that the levy should take into account the levy of money laundering risk, such an approach may not be simple and cost effective to administer.

***Question 7: Do you believe other levy bases would provide a better basis for the levy calculation? These could be the ones outlined in Table 4.A or those not considered in the consultation document.***

36. The IFA and its members have considered other possible factors that could be incorporated in the levy rate calculation. We are of the view that total revenue (including worldwide revenue) from UK businesses is the most appropriate basis for calculating the levy and one that is aligned to the principles of the levy.

***Question 8: Should a fixed percentage or banded approach be taken to utilising revenue as a metric? Please explain your reasoning.***

37. Overwhelming member feedback preferred a fixed percentage approach utilising revenue for the calculation of the levy with a de-minimum exemption for smaller businesses. A fixed percentage subject to annual review will provide stability and predictability of costs to businesses and would better reflect the size of the business.

38. A banded approach is not supported because it would unfairly discriminate against the smallest businesses as it forces the smallest businesses to pay a disproportionate amount. It also leads to a step approach to fee increases which may have inadvertent consequences to businesses.

***Question 9: What are your views on the principle of exempting small businesses from paying the levy, and on the level of a potential threshold?***

39. The IFA and its members overwhelmingly support the principle of exempting small businesses, as defined in the Companies Act 2006. In particular, we believe that micro-entities as defined in the Companies Act 2006 should be exempted.

***Question 10: What are your views on having businesses below the threshold subject to a small flat fee?***

40. The IFA and its members recognise that we share a collective responsibility to support money laundering prevention. In this light, a nominal fee levy payable as part of the supervisory fees where entities would otherwise be exempt seems reasonable. However, the answer to this question is dependent on what the threshold is, for example, those businesses that meet the micro entity definition or micro businesses under the VAT threshold which are less likely to be targeted by criminals for money laundering.

41. It is our view that very small firms should be exempted, especially those that are starting up in public practice since these firms incur significant regulatory, supervision and other fixed costs before earning any fees from clients.

42. Any small flat fee for those below the threshold should also be subject to review to ensure that it remains a small flat fee as it was originally intended and does not increase beyond the affordability of those to which it applies.



**Question 11: Do you believe the small business threshold should be determined by reference to revenue alone or to all three of the Companies Act 2006 criteria? Please explain your reasoning.**

43. For simplicity, small businesses should be exempted if they meet two out of all three of the Companies Act 2006 criteria. Having different definitions of small businesses creates unnecessary confusion, bureaucracy and complexity. Wherever possible, thresholds should be aligned.

**Question 12: For businesses not exempted by a threshold, how should their revenue below the level the threshold is set at be treated – as an allowance, levied at the same level as the main levy rate, or levied through a fixed amount?**

44. Given that the answer to this question is dependent on the outcome of previous questions, it is a difficult question to answer since all terms are undefined. No overriding theme on the options came from our member survey and opinions were equally divided. Therefore, without further clarification, we are not in a position to comment on this question and would welcome further consultation on the matter.

**Question 13: How do you think money laundering risk should be accounted for in the levy calculation?**

45. The IFA and its members have considered other possible factors that could be incorporated in the levy rate calculation such as the number of Suspicious Activity Reports (SARs), National Risk Assessment (NRA) ratings or supervisor risk assessment ratings.
46. As previously raised with HM Treasury, all the above factors have challenges. Using the number of SARs may reduce reporting, using the NRA has significant limitations since it is high level and its methodology is limited and using supervisor's risk assessments has data protection and confidentiality concerns and supervisors across sectors may use different approaches to risk assessment.
47. While using a metric based on revenue and risk may work for the accountancy sector which has implemented an Accountancy AML Supervisors' Group (AASG) risk framework, this may not be the case in other AML regulated sectors. Some AML regulated sectors undertake thematic reviews and others adopt risk based approaches base on size of business which was a concern raised by [FATF in its Mutual Evaluation Report of the UK](#) issued in 2018.
48. One of the unintended consequences of including a measure of risk as part of the metric calculation for the levy is that it may discourage accountancy firms from providing services to high risk sectors and may also create a disparity between accountancy firms dependent on what industry sectors they support, what services they provide and where.

**Question 14: Do you believe using number of SARs reported as a metric through a banded approach would be an appropriate means of achieving this objective? Please explain your reasoning.**

49. We do not believe that the number of SARs reported as a metric through a banded approach would be means of achieving this objective since, depending on the bandings, it

may disincentive SARs from being submitted to the NCA. It may also have the unintended consequences of accountancy firms not accepting clients from higher risk sectors.

### ***Applying the levy calculation***

#### ***Question 15: Do you believe there should be a periodic or annual process for setting the levy rate? If periodic, what would an appropriate period be?***

50. In line with other levies which are borne by the accountancy sector such as the OPBAS levy, we are of the view that the levy rate calculation should be an annual process to coincide with the OPBAS levy.
51. Having an annual process for levy calculation and the publication of an annual report will lead to increase transparency regarding funding, how the levy is spent and whether the spending has been effective in achieving its stated outcomes.
52. An annual process will also allow for the levy calculation to be flexible and in tandem with the publication of the annual report. Further consideration needs to be given on what criteria or circumstances the levy will increase or reduce. A robust framework and mechanisms for ensuring that funds are effectively and efficiently used needs to be a key consideration for any future changes to levy rates. The economic crime levy should not be seen as golden bucket with a forever income stream. Our expectation, and that of our members, is that the levy will go down as the UK improves its outcomes on fraud prevention.
53. If the accountancy supervisors are required by law to collect the economic crime levy, careful consideration will have to be given to the timing of the levy calculation in order that it can be collected as part of the membership renewal process. It should be noted that AML supervisors have different timings for renewals covering different periods in time. Therefore, further consultation on this would be needed if this option was implemented.

#### ***Question 16: Would you prefer to calculate the levy based on total revenue or revenue from AML-regulated activity only? Please explain why.***

54. If the levy is based on the premise that 'those whose business activities are exposed to money laundering risk pay towards the costs associated with responding to and mitigating those risks', then it logically follows that only revenue relating to those business activities should form the basis for the levy calculation. This would suggest that the levy is based on AML-regulated activity only.
55. However, on a practical note, revenue from AML regulated activity may not be readily available either through public sources or supervisors. In addition, it may lead to intentional or accidental re-categorisation of activities may occur to minimise the levy calculation. These types of considerations have resulted in a 50:50 response rate from our member survey on the matter.
56. Other considerations not addressed in this consultation include whether the levy will be based on UK or worldwide revenue and whether the levy should be based on profits, since this better reflects the percentage of fees actually received as well as an ability to pay.
57. However, there should be an exemption for small accountancy firms which typically have business activities which are less vulnerable to money laundering risk such as book-keeping

and tax compliance while at the same time incurring disproportionately higher regulatory, financial and compliance burdens for very little reward or benefit other than they are trying to do the right thing.

**Question 17: If applicable, what is your initial estimate of the proportion of your UK business which is AML-regulated (in revenue terms)? How many labour hours would initially be required to enable your business to robustly calculate the proportion of regulated business on an ongoing basis?**

58. The number in the AML-regulated sector is available from [HM Treasury's annual Supervisors' report](#). Further information on this might need to be provided on a voluntary basis by individual supervisors or requested legally by amending statutory legislation.
59. The IFA is not in a position to provide HM Treasury an estimate of the proportion of UK businesses which are AML regulated (in revenue terms) since this is proprietary information.

**Question 18: Which is your preferred option for defining revenue?**

60. Not applicable.

**Question 19: Do you agree the levy should be based on UK revenue only? How easy would it be to split out your UK revenue from your total global revenue?**

61. Even though this question relates to deposit-taking institutions, the IFA believes that since money laundering is a worldwide issue, the levy should be based on worldwide revenue.

**Question 20: Do you think it would more appropriate to use total income or net operating income as a metric for calculating levy liability for deposit-taking institutions, and if so, which metric would be the most appropriate?**

62. Not applicable.

**Question 21: Do you agree that the reference period for the levy calculation should be a business's accounting period? Please explain your reasoning.**

63. We agree with this proposal since all businesses have a business accounting period. The key consideration is which accounting period will be taken into account. The IFA is assuming it will be the businesses' last accounting period irrespective of period that the levy covers and assuming that a levy rate is calculated every year and is adjusted for changes in turnover of the business.

**Question 22: Do you agree that the levy should apply to activity carried out from the date from which the activity is regulated? Please explain your reasoning.**

64. Yes, we agree with this proposal and vice-versa, a levy refund should be given to the business if they have paid a levy and they cease trading. In other words, the levy should be pro-rated from the date of starting the regulated activity and should cease when the

regulated activity is terminated. This type of approach would be in line with the design principles of the levy.

**Question 23: Do you believe levy liability should be calculated and invoiced at entity or group level? Please explain your reasoning.**

65. The vast majority of firms we regulate are not groups and therefore our representation in this regard is of limited value. However, it would seem to us, that there is merit in keeping the calculation of the levy and invoicing at an entity level since this is transparent, simple and most of the AML supervisors invoice firms at an entity not group level.
66. It should be noted that the answer to this question does depend on who ends up collecting the levy. The IFA invoices the firms it regulates and supervises for AML by entity rather than group level. Therefore, if the IFA was mandated to collect the levy on behalf of HM Treasury, invoicing at an entity level would be preferable. Therefore, further consultation may be required on this since it will be depend on the systems and policies

**Question 24: Do you agree limited partnerships should pay the levy at partnership level? Do you have any other views on how partnerships should be treated for the purposes of the economic crime levy?**

67. Yes we agreed that limited partnerships should pay a levy at partnership level since the partnership will be governed by a partnership agreement or deed.

**Collecting the levy**

**Question 25: Do you think the agency should issue a notice to file or that businesses should be required to submit a return proactively? Please explain your reasoning.**

68. The IFA supports a framework and mechanism for collect the levy that is robust, effective and efficient and minimises the financial, regulatory and compliance burden on firms, particularly small firms. Requiring AML regulated firms to provide the UK revenue data for the relevant period (notice to file) would duplicate the data already provided to the IFA and other supervisors, unnecessarily increasing costs, regulatory and compliance burdens. Whether the alternative option is more effective and efficient is not clear since very little detail is provided in this consultation about 'referring to details online' in order for businesses to pay proactively. HM Treasury needs to provide further information for how this process might work in order for the IFA to respond to this question.
69. We don't support a single agency model for the reasons stated in questions 29-32
70. If this model is implemented, there will be a one off and ongoing cost associated with the registration process since supervisors will have to provide information on the firms they supervise, including any contact detail changes. The costs associated with this process will have to be recovered from the agency by the supervisor.
71. In addition, statutory legislation will have to be amended to enable supervisors to provide the relevant information to the agency, without breaching data protection legislation. A robust system such as an IT platform will have to be developed by the agency to share highly confidential information and we would like to assure ourselves and our members that it is safe and treated confidentially for the purposes of calculating the economic crime levy only and not shared with any other functions of the agency.

**Question 26: Do you think all businesses should report their levy liability to the agency? If not, do you think small businesses should report a nil declaration or nothing at all?**

72. To limit the total costs for regulated businesses, those who are exempt by a small business threshold, should be allowed to confirm that this is the case to the agency and no data should be reported to the agency.
73. From a compliance perspective, the agency concerned could take a risk based approach to sample check these declarations using open source methodology and if there is an issue, a regulatory penalty may have to be imposed by the single agency.

**Question 27: Do you agree with the proposed approach for calculating the levy rate, invoicing, and payment of the levy? If not, please explain why.**

74. We agree with the proposed approach for calculating a levy rate, invoicing and payment of the levy, with the exception of group invoicing. The IFA believes that invoicing should be done by entity to minimise the compliance burden on firms in a group rather than the compliance burden of the agency.
75. Firms in large groups will usually re-allocate costs to legal entities in the group and therefore, one invoice for the group will lead to an unnecessary administrative burden for firms which are part of groups.
76. Perhaps a useful compromise might be to allow firms in a group the flexibility to be invoiced as a group or as an individual firm entity.

**Question 28: What are your views on the proposed compliance framework in a single agency model?**

77. This question relates to non-payment of the levy not non-compliance and therefore needs to be re-phrased.
78. We agree that non-payment of the levy amount should be recoverable as a civil debt, which will accrue interest at a rate set out in legislation. We also agree that the responsibility for collecting this debt will lie with the agency. One further consideration is how the costs (including administration costs) associated with the recovery of civil debt will be recovered by the agency. Clarity on this point would be welcomed.

**Question 29: Do you agree that supervisors should be able to determine the frequency of reporting and payment, provided they transfer levy payments to the government a maximum of a year after the end of a business' accounting period?**

79. Given that supervisors have different processes for renewals covering different time periods, the IFA would support the proposal that provides flexibility for supervisors to determine the frequency of reporting and payment.
80. However, it is our view that the transfer of levy payments to the government should be made once the supervisors renewals process has been conducted and finalised not a maximum of a year after the end of a business accounting period. All our firms will have different accounting periods so it will be unnecessarily costly to implement such a proposal for no benefit.

**Question 30: What are your views on the supervisor carrying out compliance activity as set out above?**

81. The IFA undertakes this type of compliance activity as part of the annual membership renewal process and risk-based supervision. Firms are required to complete firm returns which includes data relating to size of firms, services and AML compliance. If firms do not submit the mandatory firm return to the IFA by the prescribed date, disciplinary action may be taken against the firm, which includes a range of sanctions such as fines and costs.
82. The revenue or fee information that is collected in the firm return relates to the last business accounting period of the firm, which is what is being proposed as part of this consultation.

**Question 31: Which model do you prefer? Please explain why. Do you have suggestions for any other models that could be used?**

83. In order to minimise the financial, regulatory and compliance burden on our supervised firms we would support the supervisor model for the following reasons:
  - supervisors already collect the required data and contact information from our supervised firms;
  - as part of our risk-based approach to supervision and annual renewal process, the integrity of the data and contact information is reviewed;
  - we have existing mechanisms via the annual renewal process to include an economic crime levy as part of our firm fee invoice. Our firm fee invoice currently includes an AML supervision charge and the OPBAS levy and therefore adding another levy would be possible;
  - it will be easier for our supervised firms to deal with their professional body where there is an existing relationship instead of an unknown government agency.
84. The supervisor model is similar to the one that is adopted in Australia where a professional standards fee (including administration) is collected by supervisors and the payment (minus administration) is then sent to the [Professional Standards Scheme](#) (a fund to cover civil liabilities).
85. Our one concern if this model is adopted is debt collection and implications on the disciplinary process. We currently have mechanisms for collecting debt which cost as does the disciplinary process. Therefore, the administration fee included as part of the economic crime levy would have to include an estimate of costs for debt collection and disciplinary.
86. For this model to work, statutory legislation would have to be clear on what the implications are for non-payment of the economic crime levy. For example, what does non-payment of the economic crime levy mean to firms, for example, will a supervisor initiate a disciplinary process for non-payment, will the regulated firm no longer be supervised for AML or is this a debt collection matter where costs will be fully reimbursed to the supervisor.

**Question 32: If you are a supervisor, what do you estimate your costs would be in each model?**

87. It is too early to provide estimated costs on this since there are too many unknowns not only for the levy rate calculation but also which AML-regulated businesses would be affected.

Further consultation on this and other areas is needed to ensure that supervisors can recover administrative costs, if this model is taken forward.

**Funding for fraud**

**Question 33: How much did your organisation spend on countering fraud in 2019? What are these funds spent on, in high level terms?**

- 88. For our members, this is difficult to quantify, since it depends on the size of the business, their operations, locations and activities as well as time which is spent on compliance, training and AML supervision which is also inter-linked to fraud prevention.
- 89. The audit and assurance standards and the ethical standards issued by the Financial Reporting Council (FRC) and the International Federation of Accountants (IFAC) embed systems, policies and controls in the work that is undertaken by the accountancy profession. Therefore, discussions on fraud need to be linked with the FRC and IFAC.
- 90. In terms of quantification of spend, the feedback from our members has been wide-ranging for the reasons stated above. Members have indicated that they spend between £300-£9500 on fraud prevention, £1,100 on cyber protection and virus protection and 2-5% of staff time is spent on looking and trying to detect fraud.
- 91. It should also be noted time spent on fraud prevention cannot be easily quantified, for example training staff and clients and reporting to the appropriate authorities.

**Question 34: What additional financial contribution should the private sector contribute towards improving fraud outcomes?**

- 92. It is too early to be discussing financial contributions by the private sector to improve fraud outcomes. From a policy perspective, the private sector and public sector both need to understand what activities have to be implemented in order to prevent fraud and improve fraud outcomes.
- 93. The government should be clear on what it means by improving fraud outcomes. Fraud prevention is not necessarily the same as improving fraud outcomes. For example, developing a framework to repatriate funds to victims of fraud may improve fraud outcomes from victims but will not prevent fraud.
- 94. The Economic Crime Plan 2019-22 issued in July 2019 included the following agreed actions relating to fraud:

Action	Responsible organisation	Due Date
4. Better understand the threat and performance in combatting public sector fraud	Cabinet Office	Ongoing
16. Develop framework to repatriate funds to victims of fraud	Home Office, with support of JFT, UK Finance	December 2021
26. Improve the policing response to fraud	Home Office, with support of City of London Police, NECC	March 2020

27. Improve support for victims of fraud	Home Office	August 2020
28. Close the vulnerabilities that criminals exploit to conduct fraud	JFT	December 2020
29. Build our Government Counter Fraud Profession	Cabinet Office	April 2021

- 95. While the government has continued to express an interest in fighting fraud, which constitutes approximately 35% of all economic crimes, the lack of significant progress on fraud related actions in the economic crime plan suggests that a more rigorous and sustained approach to tackling fraud is needed.
- 96. Based on our survey, it is clear that our members would not support a private sector contribution towards improving fraud outcomes. Fraud affects everyone and there are too many different types of fraud for this to be sector specific. Our members are of the view that improvements in fraud outcomes should therefore be centrally funded.
- 97. Furthermore, most of the economic crime actions listed in the table above are public sector responsibilities and therefore should be funded by central government. To reiterate, what is needed is delivery of the actions in the economic crime plan which include improved understanding of the threat of fraud which is intelligence led, disruption of fraudulent activity by increasing investigations, arrests and prosecutions and protecting the public from harm by better supporting victims of fraud and enhanced communications and education.
- 98. There are numerous fraud reporting channels including Action Fraud, HMRC, NCA (via SARs) and other sector specific regulators including the Charity Commission, OSCR, and CCNI. Streamlining the reporting process through the SAR Reform and updating systems accordingly would significantly improve intelligence and disrupt fraudulent activity as well as minimising costs and time involved in submitting and analysing fraudulent reports.
- 99. Our members and the accountancy sector already contribute significantly towards fraud prevention through the services they provide, the legal, professional and ethical requirements to report fraud to the proper authorities and by implementing fraud prevention policies, procedures and controls in their organisations and training staff and clients.

**Question 35: Which sectors do you think should be involved in countering the system-wide fraud risk? Please explain your rationale – for example whether you believe that those included should be included based on benefit, or risk?**

- 100. All individuals and sectors should be involved in countering a system-wide approach to fraud risk since everyone is vulnerable to fraud and all sectors have a key role in preventing fraud, not just the accountancy sector and those sectors who are regulated for anti-money laundering.



**Question 36: What mechanism would you recommend in order to collect additional funding?**

101. It is too early to discuss a mechanism for collecting additional funding and a lot more thought is needed as to what is trying to be achieved and how. The mechanisms for collecting additional funding will be depending on the funding sources. For example, if the source of additional funding is from central government, then a possible mechanism might be an annual levy or taxes. If additional funding is sourced from the proceeds of crime, the Assets Recovery Incentivisation Scheme (ARIS) may be a more appropriate funding model and mechanism.

**Other**

**Question 37: Is there anything you have not already included in your response that you would like us to note?**

102. The government should also consider sustainable resourcing for fraud as part of the overall sustainable resourcing model overview of the economic crime plan which consists of four key elements: government spending review, suspended funds in financial institutions, ARIS review and this consultation.
103. As we know, the majority of fraud involves the proceeds of crime and therefore is money laundering. From a conceptual and practical point of view, it is hard to justify why the resourcing model from fraud should be considered in isolation from the overall Anti-Money Laundering component of the Sustainable Resourcing Model detailed in the Economic Crime plan.

**Contact details**

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