2017 National Risk Assessment of Money Laundering and Terrorist Financing

Money laundering can undermine the integrity and stability of our financial markets and institutions. Terrorist finance is an essential aspect of enabling terrorist groups to function, recruit, and commit terrorist acts. Taken as a whole, money laundering and terrorist finance represent a significant threat to the UK's national security.

The UK has a comprehensive anti-money laundering and counter-financing of terrorism (AML/CFT) regime and we are committed to ensuring our financial system is an increasingly hostile environment for money laundering and terrorist financing (ML/TF). The international AML/CFT standards are set by the Financial Action Task Force (FATF). FATF is an inter-governmental body which promotes effective implementation of measures for combating money laundering and terrorist financing through, among other things, regular peer reviews of its members in the form of Mutual Evaluations. The UK's Mutual Evaluation will be conducted by FATF in 2017/18, and the government is committed to demonstrating the effectiveness of the UK's AML/CFT regime through this process.

As part of the preparation for this, the government has committed to publishing a second National Risk Assessment of Money Laundering and Terrorist Financing (NRA) ahead of the FATF Mutual Evaluation, which will commence in autumn 2017. The UK's first NRA (https://www.gov.uk/government/publications/uk-national-risk-assessment-of-money-laundering-and-terrorist-financing) was published in October 2015, providing a candid and robust assessment of the UK's money laundering and terrorist financing risks. The second NRA will assess, ahead of the Mutual Evaluation, the extent to which risks have changed and our understanding of risks has developed since the first NRA. It will help ensure that we have developed the best possible evidence base as we respond to the Mutual Evaluation, and look for any potential enhancements to the UK's AML/CFT regime. **The update to the NRA will present the best possible opportunity for supervisors, law enforcement and the private sector to build on the evidence base from the last NRA and develop a shared understanding of the money laundering and terrorist financing risks that the UK faces.**

To that end, we are requesting initial evidence submissions from accountancy supervisors against a comprehensive set of ML and TF risk factors. We will use this evidence to build a full picture of our collective understanding, and evidence gaps, by mid-April 2017. We will then hold roundtables with supervisors during April and May 2017 to look to fill any evidence gaps, before presenting conclusions to the sector in June and July 2017. The updated NRA will be published in autumn 2017. We appreciate that the timescales are tight and this is a busy period. However, it is essential that we ensure that this exercise does not reflect only the evidence held by government and law enforcement, but rather the full range of national understanding of ML and TF. Capturing the views of supervisors will be key to this.

<u>Request for evidence by April 14th 2017</u>

The NRA will assess the inherent risk within each area, based on a series of factors to indicate the vulnerability of a particular sector to ML and TF and the relative likelihood that the threats to that sector will materialise. The assessment will then consider the mitigating factors applicable to each sector, including the effect of law enforcement, supervisors' and the sector's mitigating activities. This methodology, and the risk factors, draws on both the FATF guidance on the NRA process and the specific expertise of UK law enforcement. In order to properly assess these risk factors, we will be considering government and law enforcement evidence alongside that submitted by supervisors and the private sector.

Please provide a **narrative** summary of any evidence and views of your organisation against the risk factors below **by April 14th 2017**. Please limit responses to 500 words per risk factor, if necessary referencing and annexing supplementary evidence. If you would be content to share this, please also submit your organisation's risk assessment or a description of your risk assessment process. When submitting evidence, please specify where risks have changed since the last NRA in October 2015, and please specify where distinctions exist between specific services, products or activities within the sector. In particular, for the accountancy sector, the areas we will want to consider include (among other things): audit; insolvency services; bookkeeping; tax consultancy; and trust and company services.

We are aware that supervisors will also be contributing to separate requests from government, including the Annual Supervisory Reports. The questions below are different from those being asked elsewhere, though we will be taking evidence submitted from separate exercises into account where relevant. We will use all evidence provided to inform our analysis for the NRA and to identify which further evidence will be required further along in the process. If you have any queries on the NRA process, or would like to discuss any evidence in further detail, please contact: adam.taylor@hmtreasury.gsi.gov.uk and jasmin.cook@homeoffice.x.gsi.gov.uk.

Please ensure that your response is marked and explained clearly if you wish your response to be kept confidential. Information provided in responses, including personal information, might be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004. If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice that public authorities must comply with and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain why you regard the information you have provided as confidential. If government receives a request for disclosure of the information, we will take full account of your explanation, but cannot give an assurance that confidentiality will be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding. Your personal data will be processed in accordance with the DPA, and in the majority of circumstances, this will mean that your personal data will not be disclosed.

<u>Questions and risk factors for NRA</u>

1. Please provide a description of the nature and size of the entities you supervise and the services and/or products which they offer.

Responses to the following questions will enable us to gain a detailed understanding of the different ML and TF risks firms face and allow us to analyse risks posed by different services, products, transactions and business and customer relationships in order to assess the vulnerability of the sector:

2. In your view, to what extent would it be possible to use the products or services offered by entities you supervise to mask the source or ownership of funds or assets?

3. In your view, to what extent would it be possible to use the products or services offered by entities you supervise to mask the destination or purpose of funds or assets?

4. What is the level of complexity of the services or products offered by entities you supervise? (i.e. what range of products or services are offered, what range of products or services does the typical customer use, and to what extent is there interplay between these products or services?)

5. What is the level of exposure of entities you supervise to high risk jurisdictions, persons, business relationships or products? In particular, which categories of jurisdiction, person, business relationship or product do you consider pose the greatest level of ML and TF risk for entities you supervise?

6. To what extent do the products or services offered by entities you supervise facilitate transactions or transfers of funds or assets between persons, locations and product types?

    a. If entities you supervise offer these products or services, how quickly can the transactions or transfers involved be completed?

    b. If entities you supervise offer these products or services, what levels of volume and frequency characterise transactions facilitated by the products or services offered?

Responses to the following questions will enable us to understand the likelihood that these vulnerabilities will be exploited and that threats will materialise in the sector:

7. How accessible are the products or service offered by entities you supervise, both for providers and consumers? (i.e. to what extent are there barriers to becoming a business or customer?)

8. To what extent is suspicious activity involving the products or services offered by entities you supervise likely to be reported to law enforcement?

9. What is your existing knowledge of the extent of ML and TF through the products or services offered by entities you supervise?

Responses to the following questions will enable us to assess the extent to which the inherent risks within the sector are mitigated by AML/CTF activity:

10. In your view, to what extent does law enforcement have the capacity and capability to mitigate the ML and TF risks in the accountancy sector?

11. In your view, to what extent do supervisors have the capacity and capability to mitigate the ML and TF risks in the accountancy sector?

12. In your view, to what extent do firms within the sector have the capacity and capability to mitigate their ML and TF risks?

Finally:

13. Please provide your assessment of any further factors contributing to the vulnerability of the sector, the likelihood of threats materialising in the sector or anything mitigating the risk within the sector.