

Discussion Topics

- 5MLD: implementation & impact
 - Dual-nationality clients in high-risk jurisdictions
 - Documenting client-level AML/financial crime risk assessments
 - Due diligence questionnaires/requests
 - Sensitive employment industries: client self-select categories
 - Address verification
 - Current threats
 - Predictions for 2020
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5MLD: Implementation & Impact

- One firm said that firms could not rely on Companies House data for on-boarding, as it was often inaccurate.
- It made sure that information was confirmed by clients in person.
- Another said that Companies House staffing was under resourced and that the NCA would like to make the data more reliable.
- Companies House was providing beta-information on persons of significant control, but some thought this too was unreliable.
- The firm said that when employing EDD other high-risk factors should be considered.
- One firm considered all clients as high risk.
- It said that knowyourcountry.com was a useful place to obtain consolidated information.
- One said that not many countries had implemented 5MLD, and some had not fully implemented 4MLD.
- The regulations stated that firms could rely on others to provide information on their behalf.
- It was important, when relying on third parties, to make sure that information provided was complete.
- Another said it was helpful if firms had pooled accounts.
- KPMG used their own tools, which looked at both beneficial owners and those with voting rights.
- The tool also tracked people with significant control such as CEOs etc.
- 6MLD was also mentioned as being introduced in 2020, but most felt it only had some small changes.

Dual-Nationality Clients in High-Risk Jurisdictions

- A number of firms had clients in high-risk jurisdictions with dual nationality.
- This was common among Russian nationals; some thought that they would never give up their Russian passports, even if they had never lived there.
- One firm said that sons of parents on sanctions lists were always classified as high risk.
- A number of firms classified all Russian nationals as high risk.
- For dual-nationality clients, firms usually attributed the main nationality as that which was the highest risk.
- Most firms would downgrade clients if no genuine connections could be found.
- Firms agreed that they could only be held responsible for what information was visible, and where reasonable steps could be taken.

Documenting Client-Level AML/Financial Crime Risk Assessments

- When it came to high-risk clients, one firm had created three sub-levels of high risk.
- Low-level high risk included clients whose only issue was that they lived in a high-risk jurisdiction.
- High-level, high-risk clients generally lived in high-risk jurisdictions and were directly involved in high-risk activities.
- The firm applied different weightings to each risk criteria and then produced a score which dictated how that client should be treated.
- One firm said that SDD was no longer simple, as firms had to look at beneficial owners.
- Another had in the past run EDD checks on high-risk clients annually, but now did so, on an on-going basis.
- The firm would now exit clients if there was an on-going investigation.
- If there was a record of allegations, applications would usually be rejected too.
- Other firms refreshed EDD checks every 1, 3 and 5 years, depending on a client's risk category.
- For some clients, e.g. those registered in Panama, firms would request annual attestations.
- One firm was looking for a tool that could automatically run annual attestations.
- Another said regular attestations were important, as it was expensive if mistakes were made.
- One firm had high-risk flags against clients, but said that, because of subjectivity and interpretation problems, they were not that useful.
- Another firm ran EDD checks every year; IMs talked to clients at least once a year.
- In addition, the firm monitored clients on a day-to-day basis.
- However, checks for BOs were not necessarily done regularly.

Due Diligence Questionnaires/Requests

- Firms were interested in what formalised processes other firms had put into place.
- One had set up a process based on what had to be provided legally.
- It said that some requests were not appropriate e.g. small IFAs were being sent Wolfsberg questionnaires that had 129 questions.
- JP Morgan had asked for passports for directors and beneficial owners.

Due Diligence Questionnaires/Requests (Contd.)

- One firm said that there was a problem as everyone wanted something different.
- Others agreed that the process should be standardised, but no single body would take responsibility to co-ordinate efforts.

Sensitive Employment Industries: Client Self-Select Categories

- In an attempt to reduce the number of false positives, one firm was trying to build an application that could capture relevant information electronically.
- Some used SIC codes to eliminate irrelevant firms.
- One firm filtered by industry, seniority, role and position held.
- Armed forces v arms dealers was a common false positive but others required more investigation e.g. coal mining in Wales v in Brazil.

Address Verification

- Firms were finding that documentation was becoming less and less acceptable.
- Electronic checks, such as those provided by Experian, Equifax etc. were used for core validation.
- The Electoral Roll was useful for financial checks but people could be registered, but live in different places.
- Taking an option to not be included in the Electoral Register could cause problems.
- Some thought that Experian's Bank Wizard was not that useful.
- One firm said that electronic verification should be updated by JMLSG.
- It was agreed that there was a general lack of guidance.

Chair:

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Current Threats

- Confusion still reigned over where firms stood in relation to investments in Cannabis.
- One firm decided to ring-fence funds until clear advice was available.
- Another had received legal advice that holdings in Cannabis should be reported once, with a statement saying that further reports would not be filed.
- A number of firms felt that the level of fraud attempts had dropped recently.
- Some were still worried however, as vulnerable clients were being targeted.
- Recent cases of the grooming of defrauded customers had made it more difficult to prevent fraud.

Predictions for 2020

- A number of firms felt that 2020 would see an increased interest in artificial intelligence.
- One firm said that the FCA was keen to see firms making more use of AI.
- Most thought that robotics and AI could improve the quality of information.
- Firms were trying to integrate Bribery, AML and Fraud departments, and make them more effective.
- This made a lot of sense to firms, as all used common data.
- 6MLD and Brexit were seen as issues that would come to the fore in the next 12 months.
- Some thought that the FCA was planning to increase its number of visits in 2020.
- One firm said that the FCA was planning to overhaul Financial Crime Risk Assessments, adding more detail.

Financial Services Discussion Club

The Financial Services Discussion Club was set up by Clearconcepts in 2006 following demand for an independent discussion group.

Members are welcome to attend meetings in London, and Edinburgh.

Contact

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