

Policy Statement

PS16/19

Financial Crime Reporting: feedback on Chapter 6 of CP15/42 and final rules



July 2016

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In this Policy Statement, we report on the main issues arising from Chapter 6 of Consultation Paper 15/42 Introduction of financial crime reporting form and publish the final rules.

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Abbreviations used in this paper

ARD	Accounting Reference Date
CBA	Cost Benefit Analysis
CP	Consultation Paper
EEA	European Economic Area
FATF	Financial Action Task Force
FCA	Financial Conduct Authority
FCD	Financial Crime Department
FSMA	Financial Services & Markets Act
FTE	Full Time Equivalent
GABRIEL	GAthering Better Regulatory Information Electronically
GI	General Insurance
HMRC	HM Revenue and Customs
MLRs	Money Laundering Regulations
MLRO	Money Laundering Reporting Officer
NCA	National Crime Agency
PEP	Politically Exposed Person
POCA	Proceeds of Crime Act
PS	Policy Statement
QCP	Quarterly Consultation Paper
REP-CRIM	Financial Crime Return
SAR	Suspicious Activity Report

1. Overview

Introduction

- 1.1** In December 2015, we consulted on a proposal to introduce a financial crime return (REP-CRIM). The proposal was set out in Chapter 6 of Consultation Paper (CP) 15/42.
- 1.2** This Policy Statement (PS) summarises the responses we received to our consultation and our view on these responses. It also presents the final rules and implementation timescale for the reporting requirement.

Who does this consultation affect?

- 1.3** This PS affects the following types of firms:
- Firms subject to the Money Laundering Regulations (MLRs), including
 - banks
 - building societies
 - designated investment firms
 - investment firms
 - mortgage lenders
 - electronic money institutions
 - full permission consumer credit firms
 - life insurers
 - retail investment intermediaries, and
 - mortgage intermediaries
- 1.4** We have included a proportionality rule for some of the above firms. This rule means the following firms are not required to send us this return:
- Retail investment intermediaries and mortgage intermediaries with revenue of less than £5m (as at the last accounting reference date). This threshold is calculated from all regulated and

unregulated income, whether or not it comes from MLR-relevant business.

- Investment firms with revenue of less than £5m (as at the last accounting reference date). This threshold is calculated from all regulated and unregulated income, whether or not it comes from MLR-relevant business.
- Consumer credit firms with revenue of less than £5m (as at the last accounting reference date). This threshold is calculated from all regulated and unregulated income, whether or not it comes from MLR-relevant business.
- Electronic money institutions with revenue of less than £5m (as at the last accounting reference date). This threshold is calculated from all regulated and unregulated income, whether or not it comes from MLR-relevant business.

- 1.5** Firms that are subject to the reporting requirement will only be required to report REP-CRIM for the areas of their business subject to the MLRs.

General insurers (GI), GI intermediaries and credit unions

- 1.6** Our original proposal also applied to general insurers and general insurance (GI) intermediaries. Following consideration of the feedback and ongoing work assessing our GI data, we have decided to exclude pure GI firms from the initial implementation, with a view to bringing them into scope at a later date. The GI-specific questions have therefore been removed from the final proposal in this PS.
- 1.7** As per 1.5 above, where GI firms undertake business which is subject to the MLRs, these firms will still be in scope of the proposal for such business.
- 1.8** In our CP, we proposed requiring credit unions to submit the return. We have decided to remove these firms from the initial implementation of this return so we can further consider our approach. We intend to consult to apply this form to credit unions above a proportionality threshold at a later date.

Context

- 1.9** As set out in our business plan, financial crime is a priority for the Financial Conduct Authority (FCA). We have a statutory duty to enhance the integrity of the UK's financial system, which includes protecting it from exploitation by criminals. Many of the firms we regulate are subject to the requirements of the UK's regulations for MLRs, and we are responsible for supervising their compliance with those regulations. When performing our duties related to money laundering, the supervisory standards we are expected to meet are formulated by the Financial Action Task Force (FATF) and implemented via EU Directives into UK domestic law and regulation. The FATF is an international body that sets global standards on combating money laundering and terrorist financing, and which periodically reports publicly on the adequacy of countries' efforts to comply with those standards.
- 1.10** At present, our financial crime supervisory work relies on the use of ad hoc data requests to gather information about firms' systems and controls. We do not currently routinely gather information from firms about financial crime, the risks they are exposed to, or how they manage those risks. This affects our ability to operate a truly risk-sensitive supervisory approach in line with global standards. Consequently, we propose to introduce a financial crime return for the first time.

- 1.11** We will use the data collected by this return to support our financial crime supervision strategy. Analysing the data will enable us to conduct more desk-based supervisory work than is currently possible. In turn, this will help us identify financial crime risks and trends, as well as possible emerging issues. It will also ensure we have better quality and more consistent comparable data, allowing us to accurately risk-rate firms and better target our specialist resources on firms that pose the highest financial crime risk. This reduces the need to visit firms posing lower risk – an unnecessary burden for those firms and an inefficient use of our resources. A more efficient risk-based approach will allow us to better fulfil our statutory duties, particularly for money laundering, and will demonstrate an approach that is transparent and can be easily understood by industry and others.
- 1.12** We will use the data to conduct proactive trend analysis and to identify emerging intra- and cross-sector risks. In addition, we expect the data return to reduce the need for us to make ad hoc data requests from firms.
- 1.13** We propose to automate the collection of this information using our electronic reporting system, GABRIEL. This will ensure the data is received in a standardised format, allowing for improved consolidation, peer-group analysis and cataloguing. We believe this approach ensures data requirements are transparent and predictable in line with our published Data Strategy.
- 1.14** In CP15/42, we also asked the industry for its feedback on us publishing aggregated and anonymised financial crime statistics taken from this data.

Summary of feedback and our response

- 1.15** We are grateful for the feedback we received to this consultation. We received 32 responses from firms and trade associations. Responses to our proposals were largely supportive, but most requested further clarification of definitions and the guidance notes. We also take on board the feedback of respondents who commented on the publication of these proposals in a Quarterly Consultation Paper (QCP) and have published the final rules in this standalone PS to ensure maximum transparency.
- 1.16** We have carefully considered the responses and have endeavoured to reflect as much of the constructive feedback as possible in the final return and guidance notes. A number of respondents expressed concern at the proposed implementation timescales and the requirement for single-entity reporting.
- 1.17** We have assessed our intended approach against the potential burden of our proposals and have amended our approach to allow free-form group-based reporting. We have assessed the feedback received on the implementation timescales and have extended the remittance period to 60 business days. We have also decided, while acknowledging the short timelines, to allow firms to complete their first Financial Crime Return on a best endeavours basis. Further detail is included in the feedback below.
- 1.18** In this PS, we have provided responses based on the feedback we received on specific questions we asked in CP15/42.

Structure of the PS

- 1.19** In the subsequent chapters of this PS, we set out:
- a summary of the feedback we received on the questions in our CP
 - our response to the feedback

- the changes we have made as a result of the feedback, and
- the made rules
- next steps
- The Handbook provisions come into force on 31 December 2016.

2. Summary of feedback and responses

Our proposals

- 2.1** In Chapter 1 of this PS (paragraphs 1.15 to 1.18), we summarised the main points of feedback received in response to our consultation.
- 2.2** In this chapter, we summarise:
- the feedback we received on the questions we asked and
 - our response to the feedback
- 2.3** In our CP, we asked the following questions:
- Q 6.3:** *Do you have any comments on REP-CRIM (the new Financial Crime Report)?*
- Q 6.4:** *Do you have any comments on the guidance notes for REP-CRIM?*
- Q 6.5:** *Do you have any comments on the proposed application of this reporting requirement to credit unions and friendly societies where they undertake activities in scope of the proposed rules?*
- Q 6.6:** *Do you have any comments on the proposed revenue thresholds for relevant firms?*
- Q 6.7:** *The data we gather in the proposed Financial Crime Return could be used to compile aggregated and anonymised statistics to provide industry-wide views on fraud risks or high-risk jurisdictions, for example. This could inform a firm's own approach to the management of financial crime risks. Do you have any comments on this?*
- 2.4** Responses to these questions were varied and we have grouped them under headings for ease of reference.
- 2.5** Most respondents supported us introducing the proposed return and the objectives of the proposal. A number of respondents expressed concern about the implementation and reporting timescales and the requirement for single-entity reporting.

Implementation and reporting timescales

- 2.6** In our CP, we proposed that REP-CRIM would take effect from the end of 2016, for firms with reporting periods ending from this date onwards. As most of the FCA firm population uses 31 December for year end, this would have had the effect of requiring firms to report the requested data for the 2016 financial year within 30 business days of this date.
- 2.7** Six respondents highlighted that such a timescale for implementation would not allow firms enough time to implement appropriate technological solutions or changes in order to provide the information requested. It was also highlighted that the first reporting period would include a period before the making of the final rules.
- 2.8** Two respondents felt that the proposed remittance period of 30 business days was too short given the types of information to be collated.
- 2.9** One respondent suggested that asking firms to provide their opinions in response to questions 30 – 35, as opposed to the purely factual material typically required through FCA returns, may not be an appropriate use of our rule-making power.
- 2.10** One respondent asked us to consider whether there may be instances in which accurate completion of the financial crime return may constitute a ‘tipping off’ offence under the Proceeds of Crime Act 2002 (POCA).

Our response

Taking into account the feedback on the length of the remittance period, we have doubled the submission period from 30 business days to a total of 60 business days. This means that a firm with a 31 December year end would be required to submit the Financial Crime Return in late March, rather than mid-February.

We also understand respondents’ concerns about the first submission period, particularly as the final rules will be made during the first reporting period. Due to our pressing need for this information, we have decided that implementation will proceed within the existing timeframe, but that firms will only be required to submit the Financial Crime Return on a best endeavours basis for this first reporting period. The increased remittance period detailed above will apply from this first submission.

As a result of the first submission being on a best endeavours basis, we will not publish an entire aggregated view of the information received for this first reporting cycle.

We do not believe that asking firms to provide their views on the most prevalent forms of fraud, in the context of questions 30 – 35, to be an inappropriate use of our rule-making power. However, having considered the difficulties that some firms may have with providing meaningful data in response to these questions, we have chosen to make their completion optional.

The basic tipping-off offence is contained in s333A of POCA. A person commits an offence if they: disclose that they or another person has made a disclosure under Part 7 of POCA to specified persons (as set out in subsection 2 of that

section) of information that came to that person in the course of a business in the regulated sector and that second disclosure is likely to prejudice and investigation that might be conducted following the original disclosure.

We do not consider that the information provided in response to the questions on our proposed return in cumulative form would be sufficiently specific to amount to 'tipping off'. Furthermore, Part 7 of POCA sets out various circumstances in which a tipping off offence will not have been committed and one such circumstance (set out in S333D) is where the disclosure is made 'to the authority that is the supervisory authority for that person by virtue of the Money Laundering Regulations'.

Group reporting

- 2.11** In CP15/42, we proposed that the Financial Crime Return would be completed on a single-entity basis. This meant that a separate report would need to be provided for all FCA-regulated entities.
- 2.12** Five respondents highlighted that, in some groups, activities may be centralised rather than divided by regulated entity. It was also highlighted that in many groups, customers deal with multiple entities within the group under a single brand. A number of respondents indicated that providing information such as customer numbers on an entity basis would be burdensome and require specific guidance as to how customers and staff should be allocated in these scenarios. It was suggested that group-level reporting would be more proportionate for some of these firms.

Our response

Having reviewed the feedback on this point and evaluated the requirements of our supervision model, we have decided to implement an optional group submission mechanism for the Financial Crime Return. This means that a group may submit one return for a set of firms by adding the firm reference numbers for those firms into the fields at the top of the return. Submitters therefore have the option to submit on a group or single regulated entity basis, as long as the firms included all share a common financial year end.

Guidance and definitions

2.13 A number of respondents provided comments that apply specifically to GI business. As mentioned above, we have taken the decision to exclude GI business from the initial implementation of the Financial Crime Return and, as such, do not address GI-specific definitions here. Comments on these specific definitions have been reviewed and will be incorporated into appropriate future changes. Non-GI-specific responses have been factored into the final rules and guidance for the return.

Operating jurisdictions

2.14 Eight respondents asked us to be clearer about the proposal to collect information on operating jurisdictions and jurisdictions the firm considers to be high risk. Specific questions were asked about whether firms should report all jurisdictions that they consider high risk, or simply the ones of those in which they operate, and whether firms would therefore be expected to engage in assessments of jurisdictions in which they do not operate.

2.15 One respondent asked whether firms should answer this in relation to their own perception and experiences, or with reference to external sources.

2.16 One respondent asked for further guidance on whether the definition of 'operates' in question 1A (now question 3A) includes representative offices.

Our response

Our original proposal was that firms would report all jurisdictions considered high risk, regardless of whether they operate in those jurisdictions. We have taken on board the feedback received on this point and have adjusted the requirement in question 3B to require a firm to report only those jurisdictions the firm either operates in, or has assessed as high risk, within the last two years.

We also confirm that this question is intended to gain an understanding of a firm's own assessment of risk and should therefore be specific to the firm.

We have adjusted the definition of 'operates' to 'where the firm has a physical presence through a legal entity or actively markets its services'. This therefore includes those jurisdictions in which the firm has representative offices and jurisdictions into which the firm passports its services

Customer information

2.17 Two respondents noted that, under the 4th Money Laundering Directive, domestic politically exposed persons (PEPs) will be added to the category in 2017 and that adding them to the form at this point would future-proof both the form and firms' technological changes.

2.18 Two respondents welcomed firms being able to use their own definition of PEPs, where wider than 14(5) of the MLRs, but highlighted the potential issues for data cross-comparability.

2.19 One respondent asked whether figures for those PEPs 'new in the reporting period' should also include existing customers who became PEPs during the reporting period.

- 2.20** One respondent commented that the number of PEPs alone does not allow for a firm's risk appetite to be assessed and that PEPs as a percentage of total customer numbers would provide further context.
- 2.21** Three respondents asked for confirmation of whether PEP information reported should include corporate relationships where the ultimate beneficial owner is a PEP, or where a PEP is connected to, but does not control, a corporate entity.

Our response

We have added more detail to the guidance around the reporting of PEPs in question 4. This extra guidance provides clarity against four main points:

- A relationship with a PEP can be either a customer relationship with an individual PEP, or a corporate entity that the firm has classified as being PEP-connected under the firm's own internal policy. Applying firms' own definition of a PEP provides flexibility to cover those firms who currently classify domestic PEPs in advance of the 4th Money Laundering Directive.
- A firm should report the number of customer relationships, either individual or corporate, that the firm has classified as being PEP or PEP-connected under the firm's internal policy. The firm should not report the total number of PEPs associated with a corporate customer.
- A firm should include existing customer relationships that became PEP or PEP-connected in the reporting period.
- Where a PEP has multiple relationships with the firm, that PEP should only be reported once in each of questions 4A and 4B.

We agree with the respondent who commented that the number of PEP relationships alone does not allow for a firm's risk appetite to be assessed and that PEPs as a percentage of total customers would provide more context. We are able to obtain this context, as an aggregation of questions 7–16 will provide us with the firm's/group's customer base.

We have also clarified that question 6 on 'all other high-risk customers' does not include customers meeting the definition under 14(2) of the MLRs (customers not physically present for identification purposes) except where they are deemed high risk for other reasons.

- 2.22** Two respondents suggested that the definition of a customer under the MLRs does not match the way that some types of firm would define a customer.
- 2.23** Six respondents requested further clarity on the geographical breakdown of customer location information. As mentioned earlier, we have removed GI firms from the initial implementation of the Financial Crime Return, so this section will address only feedback that was not specific to GI. Specifically, respondents requested clarification on:
- under which regions certain countries should be reported

- the reporting of trust clients, where trustees may be split across multiple jurisdictions and
- how the location of a customer should be reported where that customer has addresses in multiple countries

2.24 One respondent suggested that section 2 of the report should only collect data relevant to those parts of the firm that are subject to the application scope of the return.

2.25 Two respondents requested more detailed guidance on the meaning of 'links to' high-risk jurisdictions.

2.26 One respondent asked whether 'links to' high-risk jurisdictions should include customers with transactional activity on their accounts to or from high-risk countries.

Our response

We have adjusted the definition of 'customer' to be used in completing this return. Firms should now interpret 'customer' for these purposes as meaning the definition of 'customer' or 'client' as defined in the FCA Handbook.

We have restructured the geographical divisions within the return and added a separate annex to provide guidance on how jurisdictions should be categorised under this breakdown.

The guidance notes have also been extended to clarify that where a customer has multiple addresses, the customer location should be reported as the primary correspondence address as determined by the firm.

Where the customer relationship is a trust, the location should be reported as the jurisdiction within which the trust is domiciled.

We have also clarified in the guidance notes that the information requested in the Financial Crime Return only applies to those areas of a firm's business subject to the MLRs.

For the purposes of question 17, a customer with links to a high-risk jurisdiction means a customer who is resident, domiciled or incorporated in a jurisdiction identified by the firm as high risk. This would not include customers with transactional activity on their account(s) to or from high-risk jurisdictions.

2.27 One respondent asked for confirmation of whether the figures provided for question 18, 'customer relationships refused or exited for financial crime reasons', excludes those refused or exited after failed Immigration Act checks and those refused or exited following criminal behaviour by the customer.

2.28 One respondent suggested that including reputational risk in questions 18 and 24 may skew the data due to the inclusion of factors unrelated to financial crime.

2.29 Two respondents suggested that it may be helpful to further sub-divide question 18 – for instance, by fraud, money laundering, terrorist financing and reputational risk.

- 2.30** One respondent asked us to clarify whether relationships refused or exited due to a CIFAS warning on a personal customer should be included in the figures provided for question 18. This respondent also asked whether refusals and exits based on a lack of proof of funds or source of wealth should also be included in this figure.
- 2.31** One respondent suggested that a requirement to report on the number of cases escalated to management and rejected would be operationally complex and subjective.

Our response

Figures should not include those customers refused because they failed Immigration Act checks. However, where a CIFAS marker indicates that a personal customer is linked to fraud and this is the reason for refusal or exit, this should be included within the figure.

Where a customer has failed to provide source of funds or source of wealth information, this should also be included, as the customer would have failed to satisfy a particular financial crime requirement.

The 'reputational risk' element to questions 18 and 24 has been removed, and the questions now focus solely on financial crime risk.

A respondent suggested that it may be useful to sub-divide question 18 by types of financial crime (e.g. fraud). While we understand the reasoning for this, the potential burden that this may cause led us to decide that this would not be proportionate to the benefits of doing so. To enhance the quality of the data, we have split refused and exited relationships into distinct fields. The guidance notes have been extended to provide additional clarity on each category.

We have also decided to simplify question 24 by only requiring firms to report the number of relationships exited due to financial crime reasons, rather than those relationships refused and/or exited.

Question 18 does not require firms to report on the number of cases escalated to management, but the guidance notes clarify that the figure in this field would include such rejections where it is the firm's policy to escalate such decisions to management.

Compliance information

- 2.32** One respondent suggested that question 19 should also collect information on Suspicious Activity Reports (SARs) where consent was refused.
- 2.33** One respondent asked why the information requested for question 20 differed to that requested in question 19.
- 2.34** One respondent suggested that it would be clearer for question 19C to require the number of consent orders applied for, rather than the percentage of SARs that were for consent.
- 2.35** One respondent suggested that question 19 should be sub-divided further to request SARs referred internally by staff, and system-generated SARs.

- 2.36** One respondent commented that SAR information is collated at year-end to inform completion of the annual Money Laundering Reporting Officer (MLRO) report. The respondent highlighted that should a firm's Accounting Reference Date (ARD) be earlier in the year, the questions would create a further reporting burden.
- 2.37** Two respondents asked us to consider whether SAR information could be collected from the National Crime Agency (NCA).
- 2.38** One respondent highlighted that within smaller firms, the MLRO themselves may generate SARs. The respondent suggested that the guidance notes should be updated to reflect this.

Our response

Question 19C has been adjusted to request the number of consent SARs submitted rather than a percentage of the total number of SARs. We are interested in gathering data on consent issues identified by firms rather than whether these requests were subsequently granted or refused.

In general, firms submit lower numbers of SARs under the Terrorism Act; it was therefore not deemed proportionate to further split this number, as it would be unlikely to add additional value.

Obtaining SAR information in a useable and compatible format directly from the NCA would be problematic, particularly for respondents choosing to submit responses on a group-wide basis. Maintaining SAR submission records is standard procedure for most firms and should therefore not impose any undue burden. In addition, we would still need to collect data on SARs submitted internally because this data would not be available through any other means.

We have updated the guidance notes for question 19A to clarify that SARs generated by the AML/compliance function should be included in the reported figure.

We are interested in how many SARs the AML/compliance function has reviewed and accept that a certain proportion may have been filtered out at an earlier stage, particularly where these are system-generated.

- 2.39** One respondent asked whether the guidance notes should clarify whether question 21 should include investigative court orders relating to suspected benefits fraud.
- 2.40** One respondent noted that, on occasion, multiple investigative orders may be received for the same customer at different stages of an investigation. The respondent asked whether we expected all these to be reported under question 21, or whether such orders should be de-duplicated.

Our response

We have updated the guidance notes for question 21 to clarify that answers should include investigative court orders relating to suspected benefits fraud.

We have also clarified that the number firms report in answer to question 21 should be the total number of investigative court orders received, regardless of the number of relationships to which these orders relate. We do not therefore require firms to de-duplicate multiple court orders for a single customer.

- 2.41** One respondent asked whether restraint orders relating to more than one individual or account should be reported once or multiple times for the purposes of question 22.

Our response

The figure reported should be the number of restraint orders in effect and received, regardless of the number of relationships to which these restraint orders relate. If multiple restraint orders are received for one individual or account, firms should report all of these.

- 2.42** One respondent suggested that question 23 be amended to request figures for introducers on whom the firm places reliance for financial crime checks.
- 2.43** One respondent asked for clarification on whether question 23 should be understood as only applying to introducer relationships where the introducer is paid a specific fee for introducing.
- 2.44** One respondent asked for clarity around whether question 23 applies to all introducers, or only in those cases where a formal agency or broker agreement is in place.

Our response

We understand why the first respondent suggested that question 23 be amended to request information only for those introducers on whom the firm places reliance for financial crime checks. However, a firm's answers to question 23A and B provide us with a profile of how the firm obtains business and the quality of introducer relationships. Use of intermediaries is also relevant to a firm's defences against bribery.

We have amended the guidance to the question to specify that the answer to the question should only include introducers that introduce business to the firm under a formal agreement and in return for a fee, commission or other benefit.

- 2.45** Three respondents noted that financial crime services may be centralised in many groups, while responsibilities may be embedded within operational teams in other groups. They requested further guidance on how such arrangements should be reported.
- 2.46** Seven respondents requested further guidance on the definition of 'financial crime responsibilities' in the responses to questions 25 and 26.
- 2.47** One respondent suggested that the requirement to report to two decimal places in questions 25 and 26 would create undue burden.

- 2.48** Two respondents suggested that, for smaller firms, where financial crime responsibilities are divided up among staff with other roles and therefore not the main part of their role, questions 25 and 26 should allow reporting of aggregated full-time equivalent (FTE) figures.
- 2.49** One respondent asked for confirmation that outsourced financial crime resources should not be included.

Our response

We acknowledge the difficulties in reporting centralised financial crime functions on an entity-level basis. In order to help alleviate this, we are introducing a freeform group reporting functionality in REP-CRIM, which will allow the reporting of figures for multiple groups in one report.

In order to clarify questions 25 and 26, we have amended question 25 to request data on those staff with specific financial crime roles, rather than responsibilities. This is intended to cover staff employed in a dedicated financial crime function (for example, AML or compliance teams) that take decisions on financial crime issues. Therefore, it would not cover teams or individuals responsible for collecting customer due diligence or those who submit internal suspicious activity reports. Where a firm only shares financial crime roles among staff who also have other responsibilities, and has no core financial crime function, we have clarified in the guidance that firms should report the estimated total FTE that staff devote to financial crime activities.

Questions 25 and 26 ask firms to provide FTE figures for staff with financial crime responsibilities on a best endeavours basis. The field facilitates the entry of figures to two decimal places; firms with integer figures can enter these as [x].00. There is no requirement for a firm to collect the data to two decimal places, but the field does enable reporting of such granular data.

We confirm that outsourced financial crime roles should not be included in these figures.

Sanctions-specific information

- 2.50** One respondent suggested that questions 27 and 29 should be sub-divided into customer screening and payments screening, as per question 28.
- 2.51** Three respondents asked whether question 28 only relates to matches against the Treasury Consolidated Sanctions list, or all relevant sanctions lists.
- 2.52** Two respondents asked for clarification on what should be considered a true sanctions match.
- 2.53** Two respondents suggested that the guidance to question 28, as drafted, might result in inconsistent data across the firm population, as firms may screen against different lists.

Our response

We have clarified in the guidance that questions 27 and 29 relate to customer screening only, rather than payment screening.

We clarify that true sanctions matches relate to those submitted to any relevant authority by the firm rather than those subsequently confirmed as true by these organisations.

While there will be variations in the number of true matches across the industry and different sectors, further context is provided by the jurisdictional information provided earlier in the return.

Fraud

- 2.54** Four respondents requested confirmation of the fraud typologies to be used in answering questions 30–35.
- 2.55** Two respondents suggested we amend the questions to request the top three types of fraud the firm had experienced during the reporting period.
- 2.56** Three respondents questioned the benefit of asking firms to consider the whole of the industry in answering question 30–35, and suggested that the scope be narrowed to the sectors in which the firm operates.
- 2.57** Two respondents suggested that collecting this data may result in a circular process whereby the firm relies on public sources influenced or provided by the FCA and provides this same information.
- 2.58** One respondent asked whether the question includes attempted fraud as well as proven fraud.

Our response

Following further consideration, completion of questions 30–35 will not be mandatory. However, the information in answers to these questions would be of considerable use to us, so we would encourage answers where firms feel able to provide them.

The fraud typologies to be used in answering questions 30–35 are taken from the Action Fraud definitions. For clarity, these have been added to the guidance notes for these questions. Where a firm wishes to report a typology or perpetrator not covered under the Action Fraud list, our list of suspected perpetrators, or our list of primary victims, we have provided the functionality to answer 'Other' and enter a descriptor in a free text box.

We have also amended the guidance notes to clarify that firms should report on the three most prevalent frauds that are relevant to their business, rather than the whole industry. These may or may not be frauds by which the firm has been directly affected.

This section of the return is designed to understand which fraud types firms consider most prevalent. Collection of this data will facilitate trend analysis and a view of fraud variation by sector. Firms may draw their perception of the most prevalent fraud types from a number of sources, including those provided by the FCA.

The answer to this question should include attempted (as well as proven) fraud.

Electronic money institutions

- 2.59** Electronic money institutions currently report outside GABRIEL. As such, the implementation of REP-CRIM for this group of firms will also be outside the system until these firms are introduced to GABRIEL.
- 2.60** We will communicate further detail on the mechanism for this reporting ahead of the end of the first reporting period.

Revenue thresholds for intermediaries, investment firms and consumer credit firms

- 2.61** In our CP, we proposed a proportionality rule of £5m turnover, below which intermediaries, electronic money institutions and consumer credit firms would be taken out of scope of the Financial Crime Return.
- 2.62** We received four responses to this question, most of which supported the proposed threshold. One respondent asked whether the threshold would be reviewed over time.
- 2.63** One respondent questioned whether firms without permission to hold client money should be exempted from the return.
- 2.64** Two respondents questioned whether the revenue threshold was in regard to regulated revenue or all, including non-regulated revenue.
- 2.65** One respondent sought clarification on whether limited permission consumer credit firms and commercial lenders are in scope of the reporting requirement.

Our response

We propose to review the £5m revenue threshold every three years. Any subsequent change in the threshold would be subject to cost benefit analysis (CBA) and consultation.

Following consultation, we have decided to apply the £5m revenue proportionality threshold to investment firms, in addition to intermediaries, electronic money institutions and full permission consumer credit firms.

All other things being equal, firms that do not hold client money can be viewed as presenting a lower risk of financial crime (whether fraud, bribery, sanctions breaches, or money laundering) than those that do. Nevertheless, many such firms are subject to the MLRs and gather customer due diligence data, often on behalf of other institutions. As a consequence, we concluded that data related to such firms would assist our assessment of risks and approach to supervision. We have applied a £5m turnover threshold to lessen the burdens on smaller intermediary businesses.

We confirm that the revenue threshold covers a firm's total revenue: both regulated and unregulated.

As mentioned earlier, we have decided to allow freeform group reporting for the Financial Crime Return. Where reporting for multiple firms within the group, firms should only report for those firms that meet the requirements on a standalone basis – i.e. are subject to the requirement in SUP 16.22, including meeting the revenue threshold.

We confirm that limited permission consumer credit firms are not subject to the reporting requirement. The return does not apply to firms regulated by the FCA solely under the MLRs (e.g. safety deposit box providers).

Regulated commercial lenders are in scope of the return if they meet the revenue threshold of £5m.

Publication of aggregated financial crime data

- 2.66** We received 11 responses to our suggestion that aggregated data from this form could be published. Seven respondents expressed support for the idea.
- 2.67** Two respondents suggested that the publication of any data should be segmented by sector so that firms are able to do peer-group benchmarking.
- 2.68** One respondent agreed that the publication of such aggregated data would be useful if accompanied by contextual information and commentary.
- 2.69** Two respondents felt that such information would not be useful due to the variety of business models and the level of granularity of the proposed return.
- 2.70** One respondent indicated that peer group analysis and information sharing among financial services firms already occurs and is more likely to be of use.

Our response

We appreciate the useful feedback received from respondents to this question. As the first collection of this data will be on a best endeavours basis, we have decided that it would not be appropriate to publish the aggregated 2016 data.

In line with our transparency agenda, once we have received the full set of data for reporting periods starting in 2017, we will assess the best way of publishing this information in a useful format for firms, accompanied by appropriate commentary and contextual information. Any such publication would be aggregated and consistent with our obligations under FSMA.

3. Cost benefit analysis (CBA)

- 3.1** In this chapter, we outline the feedback received on our CBA and set out a more detailed breakdown of the costs and benefits. As noted above, we have applied a £5m revenue proportionality threshold to most sectors covered by the proposal as part of our regard for the burden of requirements.
- 3.2** In our CP, we asked the following question:
- Q 6.8: *Do you have any questions or comments about our CBA?***
- 3.3** Six respondents responded directly to this question and the feedback on costs was varied. Five of the six respondents were supportive of the proposal.
- 3.4** One respondent agreed with our assessment of the costs, indicating that they would be minimal.
- 3.5** Two respondents suggested that the saving from ad hoc requests may not result in much of a cost offset.
- 3.6** Three respondents suggested that the costs were likely to be higher than predicted, particularly for complex groups and some smaller firms.
- 3.7** One respondent disagreed that the benefits of this proposal would outweigh the costs involved.

Our response

Following the responses received to this question, we have done further work on our CBA and present a more detailed breakdown below.

Updated CBA – costs

- 3.8** The proposed Financial Crime Return will apply to approximately 1,400 firms following the removal of pure general insurers and GI intermediaries from the initial implementation. This updated CBA does not therefore include costs for pure general insurers and GI intermediaries, as a further CBA will be undertaken at the point at which these firms are brought into scope.
- 3.9** Following the responses received to our consultation, we undertook further work on the estimated costs of our proposal. In doing so, we looked at similar reporting implementations

and consulted with firms and trade bodies. We are grateful for the assistance of the trade bodies, firms and groups who provided estimates to inform our more detailed analysis.

- 3.10** Estimating the cost of reporting implementations is very difficult and the incurred cost varies significantly between firms. The cost incurred by firms is heavily dependent on firm-specific factors, including complexity and legacy IT systems. We have therefore expressed the cost as a range for both the cost per firm and aggregated cost to the industry.
- 3.11** Feedback from those responses suggested that one-off compliance costs to introduce the requirement to collect and report the data in REP-CRIM could range from £0 to £85k per individual firm and incur annual costs of anywhere between £0 and £12k per firm. These costs did not include complex groups.
- 3.12** The responses received showed that where higher costs would be incurred, they would fall primarily on more complex groups and more distinctive firm types.
- 3.13** The responses received for complex groups indicated that the implementation cost of our proposal would range from £0–£100k. We therefore believe the aggregated implementation costs for complex groups to range between £900k and £1m, with respondents indicating minimal ongoing costs.
- 3.14** The responses received for individual firms not otherwise covered by complex groups varied by sector. Taking the higher figures in each case, and weighting for sector size, we estimate that the aggregated implementation costs, based on the upper limits of the figures provided, would be £9.9m (or £14k per firm on average), while the estimated ongoing costs are estimated at £700k (or £500 per firm on average).
- 3.15** The cost of compliance with the proposal depends on a number of factors and results in a range of cost estimates. Based on our analysis, we believe that the overall costs to industry will be:
- less than £10.9m in aggregate for implementation (or £7.8k per firm, on average) and
 - less than £700k in aggregate for annual run costs (or £500 per firm per annum, on average)
- 3.16** The cost to the FCA will be in the region of £1m for systems implementation. Ongoing costs will be minimal.

Updated CBA – benefits

- 3.17** The purpose of financial crime supervision is to reduce the risk of firms being used for financial crime purposes, thereby enhancing the integrity of the UK financial system and securing appropriate protection for consumers in line with our operational objectives. Implementing this return will help us to ensure a more hostile environment for money launderers and other financial criminals. As such, it will make an important contribution to reducing crime and consequent social harm.
- 3.18** We operate a risk-sensitive Financial Crime Supervision Strategy, which is dependent on accurate and consistent data for the risk-ranking of firms by financial crime risk profile. Among other benefits, implementing REP-CRIM will do the following:

- Provide the FCA with regular, accurate and consistent financial crime data, collected and analysed by appropriate systems. This will allow more effective and efficient use of our resources and support our value-for-money drive
- Allow the accurate categorisation of firms under the FCA's risk categories, ensuring that the correct population of firms is selected for proactive AML, CTF and sanctions visits. The data will also be used to support the annual reclassification of firms under this system. Doing so will ensure that our financial crime resources are targeted in the correct areas, supporting more effective supervision of financial crime controls
- Provide data to be used by FCD and FCA sector teams to conduct proactive trend analysis and emerging risk identification. This data will also be used by other areas of the FCA to facilitate analysis on related issues. For example, information on operating jurisdictions and customer geography can be used to inform other work including thematic reviews. This provides benefits by reducing the size and quantity of some ad hoc data collections, as well as ensuring that the most relevant firms are involved in thematic work

3.19 The benefits of this proposal cannot be calculated in financial terms. The benefits of improved supervision derive from preventing the harms that arise from financial services being used for financial crime, both in terms of the underlying crime and the impact this has on the UK financial services sector. Given that this activity is inherently hard to quantify, we are unable to meaningfully assess the financial benefits of the reporting provision and these cannot therefore be reasonably estimated.

Annex 1

List of consultation questions

- Q 6.3:** *Do you have any comments on REP-CRIM (the new Financial Crime Report)?*
- Q 6.4:** *Do you have any comments on the guidance notes for REP-CRIM?*
- Q 6.5:** *Do you have any comments on the proposed application of this reporting requirement to credit unions and friendly societies where they undertake activities in scope of the proposed rules?*
- Q 6.6:** *Do you have any comments on the proposed revenue thresholds for relevant firms?*
- Q 6.7:** *The data we gather in the proposed Financial Crime Return could be used to compile aggregated and anonymised statistics to provide industry-wide views on fraud risks or high-risk jurisdictions, for example. This could inform a firm's own approach to the management of financial crime risks. Do you have any comments on this?*
- Q 6.8:** *Do you have any questions or comments about our CBA?*

Annex 2

List of non-confidential respondents

This list includes those respondents who made comments specific to GI. As discussed above, due to the removal of GI firms from the scope of initial implementation, this feedback will be considered at the point of implementation for those firms and incorporated into the appropriate consultation and CBA.

1. Association of British Insurers (ABI)
2. Association for Financial Markets in Europe (AFME)
3. Association of Professional Financial Advisers (APFA)
4. Association of Foreign Banks (AFB)
5. British Insurance Brokers Association (BIBA)
6. British Bankers' Association (BBA)
7. Building Societies Association (BSA)
8. British Venture Capital Association (BVCA)
9. Charles Stanley & Co. Ltd
10. City of London Law Society (CLLS)
11. Electronic Money Association (EMA)
12. eSure
13. Finance & Leasing Association (FLA)
14. Insurance Underwriters Association (IUA)
15. Integrafina
16. The Investment Association (TIA)
17. Just Retirement
18. Lloyds Banking Group
19. Lloyds Managers Association (LMA)

- 20. Nationwide Building Society
- 21. Price Forbes & Partners
- 22. Raymond James Financial
- 23. Royal Bank of Scotland Group
- 24. RSA
- 25. Society of Lloyds
- 26. Towergate Insurance Limited
- 27. Wealth Management Association (WMA)
- 28. Yorkshire Building Society

Appendix 1: Made rules (legal instrument)

**SUPERVISION MANUAL (FINANCIAL CRIME REPORT)
INSTRUMENT 2016**

Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of:
- (1) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 137A (The FCA’s general rules);
 - (b) section 137T (General supplementary powers); and
 - (c) section 139A (Power of the FCA to give guidance); and
 - (2) the following provisions of the Electronic Money Regulations 2011 (SI 2011/99):
 - (a) regulation 49 (Reporting Requirements); and
 - (b) regulation 60 (Guidance).
- B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 31 December 2016.

Amendments to the Handbook

- D. The Supervision manual (SUP) is amended in accordance with the Annex to this instrument.

Citation

- E. This instrument may be cited as the Supervision Manual (Financial Crime Report) Instrument 2016.

By order of the Board
28 July 2016

Annex

Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

16 Reporting requirements

16.1 Application

...

- 16.1.3 R Application of different sections of SUP 16 (excluding SUP 16.13, SUP 16.15, SUP 16.6 and SUP 16.17)

(1) Section(s)	(2) Categories of firm to which section applies	(3) Applicable rules and guidance
<i>SUP 16.20</i>
<u>SUP 16.23</u>	<u>A firm subject to the Money Laundering Regulations and within the scope of SUP 16.23.1R</u>	<u>Entire section</u>
...		

...

16.3 General provisions on reporting

...

Structure of the chapter

- 16.3.2 G This chapter has been split into the following sections, covering:

...

- (15) *AIFMD* reporting (*SUP 16.18*);
- (16) reporting under the *MCD Order for CBTL firms* (*SUP 16.21*); ~~and~~
- (17) reporting under the *Payment Accounts Regulations* (*SUP 16.22*); ~~and~~
- (18) annual financial crime reporting (*SUP 16.23*).

...

16.15 Reporting under the Electronic Money Regulations

...

16.15.5 D ...

16.15.5A D SUP 16.23.4R to SUP 16.23.7R (Annual Financial Crime Report) apply to an *electronic money institution* that has reported total revenue of £5 million or more as at its last *accounting reference date* as if a reference to *firm* in these rules and guidance were a reference to an *electronic money institution* and the reference to *group* is read accordingly.

...

After SUP 16.22 insert the following new section. The text is not underlined.

16.23 Annual Financial Crime Report

Application

- 16.23.1 R This section applies to all *firms* subject to the *Money Laundering Regulations*, other than:
- (1) a *credit union*;
 - (2) a *P2P platform operator*;
 - (3) an *authorised professional firm*;
 - (4) a *firm* with *limited permissions* only; or
 - (5) a *firm* excluded under SUP 16.23.2R.
- 16.23.2 R Unless a *firm* is listed in the table below, this section does not apply to it where both of the following conditions are satisfied:
- (1) the *firm* has reported total revenue of less than £5 million as at its last *accounting reference date*; and
 - (2) the *firm* only has *permission* to carry on one or more of the following activities:
 - (a) *advising on investments*;
 - (b) *dealing in investments as agent*;
 - (c) *dealing in investments as principal*;
 - (d) *arranging (bringing about deals) in investments*;
 - (e) *making arrangements with a view to transactions in investments*;

- (f) *assisting in the administration and performance of a contract of insurance in relation to non-investment insurance contracts;*
- (g) *agreeing to carry on a regulated activity;*
- (h) *advising on pension transfers and pension opt-outs;*
- (i) *credit-related regulated activity;*
- (j) *home finance mediation activity;*
- (k) *managing investments;*
- (l) *establishing, operating or winding up a collective investment scheme;*
- (m) *establishing, operating or winding up a personal pension scheme;*
- (n) *establishing, operating or winding up a stakeholder pension scheme;*
- (o) *managing a UCITS;*
- (p) *managing an AIF;*
- (q) *safeguarding and administering investments;*
- (r) *acting as trustee or depositary of a UCITS;*
- (s) *acting as trustee or depositary of an AIF; and/or*
- (t) *operating a multilateral trading facility.*

Table: Firms to which the exclusion in SUP 16.23.2R does not apply

<i>a UK bank;</i>
<i>a building society;</i>
<i>a EEA bank;</i>
<i>a non-EEA bank;</i>
<i>a mortgage lender;</i>
<i>a mortgage administrator; or</i>
<i>a firm offering life and annuity insurance products.</i>

Purpose

- 16.23.3 G (1) The purpose of this section is to ensure that the *FCA* receives regular and comprehensive information about the *firm's* systems and controls in preventing *financial crime*.
- (2) The purpose of collecting the data in the Annual Financial Crime Report is to assist the *FCA* in assessing the nature of *financial crime* risks within the financial services industry.

Requirement to submit the Annual Financial Crime Report

- 16.23.4 R (1) A *firm* must submit the Annual Financial Crime Report to the *FCA* annually in respect of its financial year ending on its latest *accounting reference date*.
- (2) A *firm* is only required to submit data that relates to the parts of its business subject to the *Money Laundering Regulations*.
- 16.23.5 G (1) If a *group* includes more than one *firm*, a single Annual Financial Crime Report may be submitted, and so satisfy the requirements of all *firms* in the *group*.
- (2) Such a report should contain the information required from all the relevant *firms*, meet all relevant due dates, indicate all the *firms* on whose behalf it is submitted and give their firm reference numbers (FRNs). The obligation to report under *SUP* 16.23.4R remains with the individual *firm*.

Method for submitting the Annual Financial Crime Report

- 16.23.6 R A *firm* must submit the Annual Financial Crime Report in the form specified in *SUP* 16 Annex 42AR using the appropriate online systems accessible from the *FCA's* website.

Time period for firms submitting their Annual Financial Crime Report

- 16.23.7 R A *firm* must submit the Annual Financial Crime Report within 60 *business days* of the *firm's* *accounting reference date*.

...

Amend the following as shown.

TP 1 Transitional provisions

...

1.2

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
15 D	...				
<u>15</u> <u>E</u>	<u>SUP 16.15.5AD</u>	<u>D</u>	In respect of the reporting period for which the <i>electronic money institution's accounting reference date</i> falls between 31 Dec 2016 and 30 Dec 2017 (inclusive) it must provide the data on a best endeavours basis.	From <u>31 December 2016</u> until <u>30 December 2017</u>	<u>31 December 2016</u>
<u>15</u> <u>F</u>	<u>SUP 16.23.4R</u>	<u>R</u>	In respect of the <u>reporting period for which the <i>firm's accounting reference date</i> falls between 31 Dec 2016 and 30 Dec 2017 (inclusive)</u> it must <u>provide the data on a best endeavours</u>	From <u>31 December 2016</u> until <u>30 December 2017</u>	<u>31 December 2016</u>

			<u>basis.</u>		
...					

...

After SUP 16 Annex 41BG (Notes for completion of payment accounts report in SUP Annex 41AD) insert the following new annexes. All the text is new and not underlined.

16 Annex 42AR Annual Financial Crime Report

REP-CRIM - Financial Crime Report

	Currency	N/A	Currency Units	N/A
GROUP REPORTING				
1	Does the data in this report cover more than one authorised firm?		A	<input type="text"/>
2	If Yes, list the firm reference numbers (FRNs) of all additional firms included in this report.		FRN	<input type="text"/> +
Section 1 : Operating Jurisdictions				
3	Please list:	A	B	
		The jurisdictions within which the firm operates as at the end of the reporting period	Those jurisdictions assessed and considered high-risk by the firm	<input type="text"/> +
Section 2 : Customer Information				
	<i>If any part of the the firm's business is subject to the Money Laundering Regulations, please provide the total number of the firm's relationships with:</i>	A	B	
4	Politically Exposed Persons	As at the end of the reporting period	New in the reporting period	<input type="text"/>
5	Non-EEA Correspondent Banks	<input type="text"/>	<input type="text"/>	
6	All Other High-Risk Customers	<input type="text"/>	<input type="text"/>	
	For any business conducted by the firm (excluding general insurance):	A		
	Please provide the number of the firm's customer relationships located in the following geographical areas:	As at the end of the reporting period		<input type="text"/>
7	Europe	<input type="text"/>		
	Of which:			
8	United Kingdom	<input type="text"/>		
9	European Economic Area (EEA)	<input type="text"/>		
10	Other Europe	<input type="text"/>		
11	Middle East & Africa	<input type="text"/>		
12	North America	<input type="text"/>		
13	Central America & Caribbean	<input type="text"/>		
14	South America	<input type="text"/>		
15	Asia Pacific	<input type="text"/>		
16	Oceania	<input type="text"/>		
17	Please provide the number of the firm's customers linked to those jurisdictions considered by the firm to be high-risk:	As at the end of the reporting period		<input type="text"/>
18	Please provide the number of customer relationships refused or exited for financial crime reasons during the reporting period:	A	B	
		Relationships refused	Relationships exited	<input type="text"/>

Section 3: Compliance Information

	A	B	C
19 Please provide the number of suspicious activity reports (SARs) under Part 7 of the Proceeds of Crime Act (POCA) 2002:	Submitted internally to the nominated officer (MLRO) within the firm as at the end of the reporting period	Disclosed to the National Crime Agency as at the end of the reporting period	The number of those SARs which were consent requests under s.336 POCA 2002

A

20 Please provide the number of SARs disclosed to the National Crime Agency under the Terrorism Act 2000 during the reporting period?

21 Please provide the number of investigative court orders received as at the end of the reporting period:

	A	B
22 Please provide the number of restraint orders being served/ in effect as at the end of the reporting period and the number of new restraint orders received during the reporting period:	Restraint orders being served/ in effect as at the end of the reporting period	New restraint orders received during the reporting period

	A	B
23 Please provide the number of relationships maintained with natural or corporate persons (excluding group members) which introduce business to the firm. Please also provide the number of these relationships which have been exited for financial crime reasons during the reporting period:	Relationships maintained	Relationships exited

A

If the firm has appointed representatives:

24 Please provide the number of appointed representative (AR) relationships exited due to financial crime reasons:

For all firms:

25 As at the end of the reporting period, please provide the total FTE of UK staff with financial crime roles:

Of which:

26 Please provide the percentage of the FTE stated above dedicated to fraud responsibilities:

Section 4: Sanctions-Specific Information

27 Does the firm use an automated system(s) to conduct screening against relevant sanctions lists?

	A	B
28 How many TRUE sanction matches were detected in the reporting period?	True customer sanctions matches	True payments sanctions matches

29 Does the firm conduct repeat customer sanctions screening?

Section 5: Fraud

Please indicate the firm's view of the top three most prevalent frauds which the FCA should be aware of and whether they are increasing, decreasing or unchanged:

	A	B	C	D
30 1st most prevalent fraud	Fraud Typology	Suspected Perpetrator(s)	Primary Victim	Involvement
31 Where 'Other' is selected in Question 30, please provide details				
32 2nd most prevalent fraud				
33 Where 'Other' is selected in Question 32, please provide details				
34 3rd most prevalent fraud				
35 Where 'Other' is selected in Question 34, please provide details				

16 Annex 42BG Guidance notes for completion of the Annual Financial Crime Report

The form in SUP 16 Annex 42AR should only be completed by *firms* and *electronic money institutions* subject to the reporting requirements in SUP 16.23.4R and SUP 16.15.5AD of the *FCA Handbook*.

General Notes

This data item is reported on a single unit basis and in integers, except where a full-time equivalent (FTE) figure is requested. Where an FTE figure is requested, this should be reported to two decimal places where available. If the figure to be reported is a whole number, this should be reported as [n].00.

For the purposes of this data item and guidance notes, any references to *firm* or *firms* should be read as also applying to *electronic money institutions*.

This return allows *firms* to report for a specified *group* of *firms* in a single Annual Financial Crime Report. Where a report is filed for a *group* of *firms*, the reported information should be the aggregate data for those *firms*. *Firms* should note that this is only available where all the *firms* included are subject to the requirement (i.e. *firms* that would not be subject to the requirement on a solo entity basis, based on the application provision in SUP 16.23.1R should not be included).

Firms subject to the requirement and which have a different *accounting reference date* from the *firm* submitting the Annual Financial Crime Report on behalf of a *group* should have their firm reference numbers (FRNs) included in the *group* report list. They will then need to submit a nil return for the entity via the appropriate systems accessible from the *FCA* website.

For the purposes of completing this return, references to ‘customer’ or ‘client’ refer to *customer* or *client* relationships as defined in the *FCA Handbook*.

We will use the data we collect through this data item to assess the nature of financial crime risks within the financial services sector. Section 5 of this return is designed to allow the *FCA* to track the industry’s perception of the most prevalent fraud risks. A *firm* may not be specifically affected by the fraud typologies it considers most prevalent across the industry.

Data Elements

Group reporting		
1A	Does the data in this report cover more than one authorised <i>firm</i> ?	If the report is being submitted on behalf of a number of <i>firms</i> , <i>firms</i> should answer ‘yes’ to this question.
2A	If yes, list the FRNs of all additional <i>firms</i> included in	Where a report is submitted on behalf of a number of <i>firms</i> , the submitting <i>firm</i> should report all of the FRNs of the firms included.

	this report.	<i>Firms</i> included in this question will need to report a separate nil return for the entity via the appropriate systems accessible from the <i>FCA</i> website.
Section 1: Operating jurisdictions		
Please list:		
3A	The jurisdictions within which the <i>firm</i> operates as at the end of the reporting period.	<p>Select from the list of country codes (in ISO 3166 format), the jurisdictions within which the <i>firm</i> is operating as at the end of the reporting period.</p> <p>Only those jurisdictions active as at the end of the reporting period should be reported; if a <i>firm</i> terminated operations within a jurisdiction during the reporting period, this jurisdiction does not need to be reported.</p> <p>‘Operates’ for the purposes of this form is defined as where the <i>firm</i> carries on its business or has a physical presence through a legal entity.</p> <p>For avoidance of doubt, this definition includes those jurisdictions in which the <i>firm</i> has representative offices. It also includes any jurisdictions where the firm carries on business using a services passport or an establishment passport.</p>
3B	Those jurisdictions assessed and considered high-risk by the <i>firm</i> .	<p>Select from the list of country codes (in ISO 3166 format), the jurisdictions assessed and considered by the <i>firm</i> to be high-risk. <i>Firms</i> should report any jurisdictions considered high-risk in which they operate and any additional jurisdictions assessed as high-risk by the <i>firm</i> within the previous 2 years, e.g. as part of a Country Risk Assessment.</p> <p>A <i>firm</i> is not required to report those jurisdictions in which it does not operate or which it has not assessed for risk.</p> <p>This question should be answered with regard to the <i>firm</i>’s own assessment of risk, which may or may not include the use of available public indices.</p>
Section 2: Customer information		
<p>Figures in this section should be for the number of <i>customer</i> or <i>client</i> relationships as at the end of the reporting period. It should include all accounts that are open, including dormant and inactive accounts. This would also include all <i>current accounts</i>, <i>CTF bank accounts</i>, <i>client bank accounts</i> and <i>client transaction accounts</i>. It excludes former <i>customers</i> or <i>clients</i>.</p> <p>Where the figure requested is ‘new in the reporting period’, a <i>firm</i> should report new (not pre-existing) <i>customer</i> or <i>client</i> relationships initiated within the reporting period. This should not include existing customers taking on new products. A <i>firm</i> should only provide figures in this section for those areas of its business subject to the <i>Money Laundering Regulations</i>.</p> <p>For non-financial institutions which may carry out regulated business (e.g. consumer credit), the <i>firm</i> should not include customers which are outside its regulated activities.</p>		

If any part of the *firm's* business is subject to the *Money Laundering Regulations*, please provide the total number of the *firm's* relationships with:

4A&B	Politically Exposed Persons (PEPs)	<p>A definition of 'Politically Exposed Person' can be found in Regulation 14(5) of the <i>Money Laundering Regulations</i>. This could be either a <i>customer</i> or <i>client</i> relationship with an individual, or with a corporate entity which the <i>firm</i> has classified as being a PEP-connected <i>customer</i> due to the existence of PEP shareholders, PEP ultimate beneficial owners or PEP Board Directors, as per the <i>firm's</i> own internal policy.</p> <p><i>Firms</i> should report the number of <i>customer</i> or <i>client</i> relationships, either individual or corporate, which they have classified as being PEP, or PEP-connected relationships. They should not report the total number of PEPs associated with a particular corporate <i>customer</i> or <i>client</i>.</p> <p><i>Firms</i> should not reclassify <i>customers</i> or <i>clients</i> for the purposes of completing this return. If <i>firms</i> do not classify or identify PEP-connected corporate entities as PEP <i>customers</i> or <i>clients</i> within their current policies, there is similarly no requirement to report.</p> <p>If a <i>firm</i> uses its own alternative, wider, PEP definition (e.g. including domestic PEPs or retention periods longer than a year), it should submit figures using its own definition.</p> <p>The figure provided should include existing <i>customer</i> or <i>client</i> relationships that became PEPs in the reporting period.</p> <p>Where a PEP has multiple relationships with the <i>firm</i>, that PEP should only be reported once in each of questions 4A and 4B.</p>
5A&B	Non-EEA correspondent banks	<p>This refers to situations where a <i>credit institution</i> has a correspondent banking relationship with a respondent institution from a <i>non-EEA state</i>. These terms are intended as set out in Regulation 14(3) of the <i>Money Laundering Regulations</i>. <i>Non-credit institutions</i> who do not hold these types of relationships should simply record zero in their response.</p>
6A&B	All other high-risk customers	<p>This refers to a <i>customer</i> or <i>client</i> categorised as being of high-risk for the purposes of compliance with Regulation 14 of the <i>Money Laundering Regulations</i>, and therefore subject to Enhanced Customer Due Diligence measures, but not otherwise captured in response to question 4 or 5.</p> <p>It does not include <i>customers</i> or <i>clients</i> meeting the definition under Regulation 14(2) (customers not physically present for identification purposes) except where they are deemed high-risk for other reasons.</p>

For the <i>firm's</i> business subject to the <i>Money Laundering Regulations</i> :		
7-16	Please provide the number of the <i>firm's</i> customer relationships located in the following geographical areas:	<p>The location for <i>customer</i> or <i>client</i> relationships should be determined by the location in which the <i>customer</i> or <i>client</i> is based. Where a <i>customer</i> or <i>client</i> has multiple addresses, the location reported should be the primary correspondence address as determined by the <i>firm</i>.</p> <p>Where the relationship is with a trust, the <i>firm</i> should report the location as the location of the trust.</p> <p>Except for the <i>United Kingdom</i> and <i>EEA</i>, for the purposes of this question geographical areas should be determined with reference to <i>SUP 16 Annex 42CG</i>.</p>
17	Please provide the number of the <i>firm's</i> customers linked to those jurisdictions considered by the <i>firm</i> to be high-risk:	<p>The <i>firm</i> should provide the number of customers judged by the <i>firm</i> to have links to jurisdictions identified by it as high-risk in question 3B.</p> <p>Links to a high-risk jurisdiction, for the purposes of this question, means <i>customers</i> or <i>clients</i> that are resident/domiciled/incorporated in a jurisdiction identified as high-risk by the <i>firm</i>.</p>
18A&B	Please provide the number of customer relationships refused or exited for financial crime reasons during the reporting period:	<p>The number of 'refused' relationships refers to the number of <i>customers</i> or <i>clients</i> that the <i>firm</i> did not take on, where financial crime was the principal driver behind the decision.</p> <p>It would not include <i>customers</i> or <i>clients</i> whose application did not proceed because, for example, they lacked appropriate documentary evidence of identity or who failed Immigration Act 2014 checks. It would include <i>customers</i> or <i>clients</i> whose application was escalated to management (due to financial crime concerns) for a decision on whether to proceed, and was rejected.</p> <p>'Relationships exited' covers any <i>customers</i> or <i>clients</i> with whom the <i>firm</i> ceased to do business where financial crime was the principal driver behind the decision. This covers criminal behaviour by the <i>customer</i> or <i>client</i> where such behaviour has a financial element, e.g. benefits fraud.</p>
Section 3: Compliance information		
Please provide the number of suspicious activity reports (SARs) under Part 7 of the Proceeds of Crime Act 2002 (POCA):		
19A	Submitted internally to the nominated officer/ <i>MLRO</i> , within the <i>firm</i> , as at the end of the reporting period.	This includes reports filed internally from staff to the <i>MLRO</i> that relate to the staff member's concerns, suspicions or knowledge of <i>money laundering</i> . The reported figure should include SARs generated by the AML/compliance function and system-generated SARs. These reports will be considered by the <i>MLRO</i> in order to decide whether a formal submission to the authorities is justified.

		The figure should not include (either for staff-generated or system-generated SARs) any reports filtered out at an earlier stage.
19B	Disclosed to the National Crime Agency as at the end of the reporting period.	The number of SARs disclosed to the National Crime Agency within the reporting period, as at the end of the reporting period.
19C	The number of those SARs which were consent requests under s. 335 POCA.	The number of disclosed SARs which sought consent from the National Crime Agency within the reporting period, as at the end of the reporting period.
20	Please provide the number of SARs disclosed to the National Crime Agency under the Terrorism Act 2000 during the reporting period:	The number of SARs disclosed to the National Crime Agency under the Terrorism Act 2000 (including consent SARs) within the reporting period, as at the end of the reporting period.
21	Please provide the number of investigative court orders received as at the end of the reporting period:	<p>This refers to production orders, disclosure orders, account monitoring orders and customer information orders as defined by the POCA, and/or the Terrorism Act 2000, received by the <i>firm</i> from law enforcement agencies or accredited financial investigators from other bodies as set out in an Order under section 453 of the POCA.</p> <p>This would include, for example, investigative court orders relating to suspected benefits fraud.</p> <p>The figure reported for this field should be the number of court orders received, regardless of the number of relationships to which these relate.</p>
22A&B	Please provide the number of restraint orders being serviced/in effect as at the end of the reporting period and the number of new restraint orders received during the reporting period:	<p>A 'restraint order' here refers to either a restraint order under section 42 of the POCA or a property freezing order under section 245A of the POCA.</p> <p>The number of restraint orders being serviced should include all restraint orders which are still in effect as at the end of the reporting period.</p> <p>The number of new restraint orders received should include all new restraint orders received by the <i>firm</i> during the reporting period, as at the end of the reporting period.</p> <p>The figure reported for this field should be the number of restraint orders received, regardless of the number of relationships to which these relate.</p>

23A&B	Please provide the number of relationships maintained with natural or corporate <i>persons</i> (excluding group members) which introduce business to the <i>firm</i> . Please also provide the number of these relationships which have been exited for financial crime reasons during the reporting period.	This question refers to individuals who, or corporate entities which, directly introduce <i>customers</i> or <i>clients</i> to the <i>firm</i> under a formal agency/broker agreement in return for a direct or indirect fee, commission or other monetary benefit.
If the <i>firm</i> has appointed representatives (ARs):		
24	Please provide the number of <i>appointed representative</i> (AR) relationships exited due to financial crime reasons:	<i>Firms</i> should report the number of existing AR relationships terminated for financial crime reasons during the reporting period.
For all <i>firms</i> :		
25	As at the end of the reporting period, please provide the total full time equivalent (FTE) of UK staff with financial crime roles:	<p><i>Firms</i> should provide an FTE figure on a reasonable endeavours basis.</p> <p>For example, if the <i>firm</i> has 20 part time staff that work 50% of normal hours, the figure would be 10 FTE.</p> <p>This field facilitates the entry of numbers to two decimal places. Integers should therefore be provided in the format [n].00.</p> <p>If this report is being completed on a <i>group</i> basis this figure should be the FTE for the specified <i>group</i>.</p> <p>Where this report is being completed on a single regulated entity basis and services are shared across multiple <i>firms</i>, <i>firms</i> may provide an estimate of the FTE spent on each reported entity on a best endeavours basis.</p> <p>In <i>firms</i> where financial crime responsibilities are divided up among staff with other roles rather than managed by a dedicated function, the figure should reflect the aggregated FTE spent on financial crime activity.</p> <p>The phrase ‘financial crime roles’ for the purposes of this</p>

		<p>question is intended to cover staff employed in a dedicated financial crime function (for example AML or compliance teams) who take decisions on financial crime issues. Therefore it would not cover teams or individuals responsible for collecting customer due diligence or those who submit internal suspicious activity reports.</p> <p>Outsourced financial crime activities should not be included in this figure.</p>
Of which:		
26	Please provide the percentage of the FTE stated above dedicated to fraud responsibilities	<p><i>Firms</i> should provide a percentage figure on a reasonable endeavours basis. This field facilitates the entry of numbers to two decimal places. Integers should therefore be provided in the format [n].00.</p> <p>If this report is being completed on a <i>group</i> basis this figure should be the percentage for the specified <i>group</i>.</p> <p>Where this report is being completed on a single regulated entity basis and services are shared across multiple <i>firms</i>, <i>firms</i> may provide an estimate of the percentage spent on each reported entity on a best endeavours basis.</p>
Section 4: Sanctions-specific information		
27	Does the <i>firm</i> use an automated system (or systems) to conduct screening against relevant sanctions lists?	<p><i>Firms</i> should answer 'Yes' or 'No'. Note there is no explicit regulatory or legal requirement for the use of automated screening tools. This question relates to automated systems for screening <i>customers</i> and <i>clients</i> only.</p> <p>Relevant sanctions lists are the lists against which the <i>firm</i> screens its <i>customers</i> and <i>clients</i>.</p>
28	How many TRUE sanction matches were detected during the reporting period?	<p>The number of confirmed true sanctions alerts which matched against the <i>firm's customer, client or payment</i>.</p> <p>The number to be reported relates to any matches against any relevant sanctions lists and is defined as any matches reported to the relevant authorities, regardless of whether these are confirmed as true by the authority.</p> <p>Relevant sanctions lists are the lists against which the <i>firm</i> screens its <i>customers</i> or <i>clients</i>.</p>
29	Does the <i>firm</i> conduct repeat customer sanctions screening?	<p><i>Firms</i> should answer 'Yes' or 'No'.</p> <p>This question relates to repeat <i>customer or client</i> sanctions screening only.</p>
Section 5: Fraud		

<p>30-35A-D</p>	<p>Please indicate the <i>firm's</i> view of the top three most prevalent frauds which the <i>FCA</i> should be aware of and whether they are increasing, decreasing or unchanged.</p>	<p>NB. This question is not mandatory.</p> <p>This question is designed to obtain the <i>firm's</i> view on the most prevalent frauds relevant to the <i>firm's</i> business and will be used by the <i>FCA</i> to understand whether the organisation is aware of the fraud risks identified by the broader industry.</p> <p>The fraud typologies available in the dropdown list are a subset taken from the Action Fraud A-Z of fraud types and are specified below. Please refer to the Action Fraud definitions in answering this question.</p> <p>The identified fraud typologies may or may not be those by which the <i>firm</i> has been specifically impacted, but should be those that the <i>firm</i> considers most prevalent as at the end of the reporting period.</p> <p>Fraud typologies</p> <p>419 emails and letters</p> <p>Abuse of position of trust</p> <p>Account takeover</p> <p>Advance fee fraud</p> <p>Application fraud</p> <p>Asset misappropriation fraud</p> <p>Bond fraud</p> <p>Carbon credits fraud</p> <p>Cashpoint fraud</p> <p>Cheque fraud</p> <p>Companies – fraudulent</p> <p>Computer hacking</p> <p>Credit card fraud</p> <p>Debit card fraud</p> <p>Expenses fraud</p> <p>Exploiting assets and information</p> <p>Fraud recovery fraud</p> <p>Hedge fund fraud</p> <p>Identity fraud and identity theft</p> <p>Insurance fraud</p> <p>Landbanking fraud</p> <p>Loan repayment fraud</p> <p>Short and long firm fraud</p>
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		<p>Malware-enabled fraud</p> <p>Mandate fraud</p> <p>Mortgage fraud</p> <p>Other (to be used where the specified typologies are not applicable). Please provide the fraud type in the free text box.</p> <p>Other investment fraud</p> <p>Pension liberation fraud</p> <p>Phishing</p> <p>Ponzi schemes</p> <p>Procurement fraud</p> <p>Pyramid schemes</p> <p>Share sale fraud</p> <p>Smishing</p> <p>Vishing</p> <p>Suspected perpetrators</p> <p>Customer</p> <p>Internal employee</p> <p>Organised crime group</p> <p>Other (to be used where the suspected perpetrator typologies are not applicable). Please provide the perpetrator type in the free text box.</p> <p>Third party contractor</p> <p>Third party professional</p> <p>Third party supplier</p> <p>Unknown third party</p> <p>Primary Victim</p> <p>Customer</p> <p>Other (to be used where the suspected perpetrator is neither a customer nor a regulated <i>firm/electronic money institution</i>). Please provide the primary victim type in the free text box.</p> <p>Regulated <i>firm/electronic money institution</i> (all jurisdictions).</p> <p>Incidence</p> <p>Decreasing</p>
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		Emerging risk Increasing Stable
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16 Annex 42CG Guidance Notes: Geographical breakdown for section 2 of SUP 16 Annex 42AR

General Notes

Questions 7 – 16 of the form in SUP 16 Annex 42AR require a breakdown of a *firm's* customers by geographical area. This annex specifies, for the avoidance of doubt, how countries are categorised in this breakdown.

References to the *European Economic Area (EEA)* and the *United Kingdom (UK)* are defined in the *FCA Handbook*, and *firms* should use these definitions when completing relevant questions in the form in SUP 16 Annex 42AR.

Note: Question 3 requires jurisdictions to be reported under ISO 3166-1 3-digit codes. These may be more granular than the classification below but this does not affect the categories in questions 7 – 16. For example, Jersey and Guernsey should be reported under their respective 3-digit codes in question 7, but for brevity have been included under 'Channel Islands' below.

This classification will be reviewed every two years. If a *firm* does business in a jurisdiction not listed, the *firm* should include that business under the region it considers most appropriate.

Classification of jurisdictions by geographical area for the purposes of SUP 16 Annex 42AR

Europe	
Åland Islands	Lithuania
Albania	Luxembourg
Andorra	Malta
Austria	Moldova
Belarus	Monaco
Belgium	Montenegro
Bosnia and Herzegovina	Netherlands

Bulgaria	Norway
Channel Islands	Poland
Croatia	Portugal
Cyprus	Romania
Czech Republic	Russia
Denmark	San Marino
Estonia	Serbia
Faroe Islands	Slovakia
Finland	Slovenia
France	Spain
FYR Macedonia	Svalbard and Jan Mayen islands
Germany	Sweden
Gibraltar	Switzerland
Greece	Turkey
Greenland	Ukraine
Hungary	United Kingdom
Iceland	Holy See (Vatican)
Ireland	
Isle of Man	
Italy	
Latvia	
Liechtenstein	

Middle East & Africa	
Algeria	Morocco
Angola	Mozambique
Bahrain	Namibia

Benin	Niger
Botswana	Nigeria
Burkina Faso	Oman
Burundi	Palestine
Cameroon	Qatar
Cape Verde	Reunion
Central African Republic	Rwanda
Chad	Saint Helena, Ascension and Tristan da Cunha
Comoros	Sao Tome and Principe
Congo	Kingdom of Saudi Arabia
Democratic Republic of Congo	Senegal
Cote d'Ivoire	Seychelles
Djibouti	Sierra Leone
Egypt	Somalia
Equatorial Guinea	South Africa
Eritrea	South Sudan
Ethiopia	Sudan
Gabon	Swaziland
The Gambia	Syria
Ghana	Tanzania
Guinea	Togo
Guinea-Bissau	Tunisia
Iran	Uganda
Iraq	United Arab Emirates
Israel	Western Sahara
Jordan	Yemen
Kenya	Zambia

Kuwait	Zimbabwe
Lebanon	
Lesotho	
Liberia	
Libya	
Madagascar	
Malawi	
Mali	
Mauritania	
Mauritius	
Mayotte	

North America	
Bermuda	Saint Pierre and Miquelon
Canada	United States
Mexico	

Central America & Caribbean	
Anguilla	Honduras
Antigua and Barbuda	Jamaica
Aruba	Martinique
Bahamas	Montserrat
Barbados	Nicaragua
Bonaire, Sint Eustatius and Saba	Panama
Belize	Puerto Rico
British Virgin Islands	Saint Barthelemy
Cayman Islands	Saint Kitts and Nevis

Costa Rica	Saint Lucia
Cuba	Saint Martin (French)
Curacao	Saint Vincent and the Grenadines
Dominica	Sint Maarten (Dutch)
Dominican Republic	Trinidad and Tobago
El Salvador	Turks and Caicos Islands
Grenada	US Virgin Islands
Guadeloupe	
Guatemala	
Haiti	

South America	
Argentina	Guyana
Bolivia	Paraguay
Brazil	Peru
Chile	Suriname
Colombia	Uruguay
Ecuador	Venezuela
Falkland Islands	
French Guiana	

Asia	
Afghanistan	Philippines
Armenia	Singapore
Azerbaijan	Sri Lanka
Bangladesh	Taiwan
Bhutan	Tajikistan

Brunei Darussalam	Thailand
Cambodia	Timor-Leste
PR China	Turkmenistan
Democratic People's Republic of Korea	Uzbekistan
Georgia	Vietnam
Hong Kong	
India	
Indonesia	
Japan	
Kazakhstan	
Republic of Korea	
Kyrgyzstan	
Laos	
Macao	
Malaysia	
Maldives	
Mongolia	
Myanmar	
Nepal	
Pakistan	

Oceania	
American Samoa	Northern Mariana Islands
Australia	Palau
Cook Islands	Papua New Guinea
Fiji	Pitcairn
French Polynesia	Samoa

Guam	Solomon Islands
Kiribati	Tokelau
Marshall Islands	Tonga
Federated States of Micronesia	Tuvalu
Nauru	Vanuatu
New Caledonia	Wallis and Futuna Islands
New Zealand	
Niue	
Norfolk Island	

Financial Conduct Authority



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