

Anti-Money Laundering Strategy

October 2004



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EXECUTIVE SUMMARY

As one of the world's most successful financial centres, the UK is an international leader in effective money laundering controls. The present arrangements against money laundering have considerable strengths. They provide a clear structure of high level controls which comply with international standards and European obligations.

Nevertheless, work remains to be done. Internationally, the Financial Action Task Force (FATF) plans to maintain the pressure on countries to implement standards, to increase its focus on non-traditional means of transferring money and to improve the evidence base for its work.

Negotiations for a Third EC Directive on Money Laundering aim to implement the FATF's latest standards on combating money laundering. The FSA is working with the financial services industry and other stakeholders to achieve an effective but proportionate approach to "know your customer" (KYC) requirements. NCIS is continuing to look at ways to improve the efficiency of the suspicious activity reporting regime particularly through the provision of feedback to the reporting institutions.

We believe that there are three clear principles which should guide further action:

- **Effectiveness:** UK authorities will work to maintain an effective system of controls. In particular, by ensuring effective international standards and domestic controls are met through enhancing enforcement.
- **Proportionality:** UK authorities will continue to focus effort according to risk and to impose controls in a cost-effective way. In particular, by improving the evidence base, ensuring risk-based controls and setting flexible high level principles rather than prescriptive, detailed requirements.
- **Engagement:** UK authorities will work to engage well with those affected by the system of anti-money laundering controls. In particular, by ensuring effective consultation on new proposals, effective communication on an ongoing basis and improved feedback to the regulated sector on how their actions have contributed to reducing crime.

FOREWORD

The Government is committed to the fight against money laundering. Money laundering is not only a serious threat to the integrity of the financial system, it makes crime pay and it funds further crime. As events have demonstrated, it can also play a role in the financing of terrorism.

The International Monetary Fund (IMF) recently assessed that the UK has a strong and comprehensive regime to combat money laundering. Over the past two years, the Government has further strengthened the UK's defences. The Proceeds of Crime Act 2002 (PoCA), which was implemented in February 2003, revised and consolidated the primary legislation on money laundering. In 2002 the Government set up the Money Laundering Advisory Committee (MLAC) through which key stakeholders review the effectiveness of our arrangements. New Regulations and amendments to PoCA completing our implementation of the Second EC Money Laundering Directive came into force from 1 March 2004, and have widened the scope of money laundering controls to certain non-financial businesses.

This document sets out how the government will continue the fight against money laundering. It provides a clear statement of the current regime and our goals. It sets out the challenges for the future and affirms the government's commitment to a risk-based approach, which is able to identify vulnerabilities and combat money laundering in a cost-effective manner. The UK is engaged in discussions with European partners to ensure that proposals for a Third EC Money Laundering Directive are in line with UK priorities. We are determined that we should deliver money laundering controls in even "smarter" and more cost-effective ways.

The strategy will evolve as the changes evolve. We are very grateful to all those who contribute to making the current system of controls work. We look forward to continuing to work together to strengthen the UK's defences against "dirty" money.



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INTRODUCTION

1.1 The scale of money laundering and the damage that it causes to business and civil society demand a clear strategic response. This document reviews the current UK anti-money laundering regime and presents the government's strategy as the basis for future action.

1.2 The existing regime consists of measures ranging from provisions in the criminal law to punish money launderers and to deprive them of their proceeds, to the obligation on the financial services industry and certain other sectors and professions to identify their customers and to report suspicious activities when necessary. All these measures contribute to the general aim of combating crime and the abuse of the financial system as well as providing a basis for combating terrorist financing.

1.3 Money laundering is a term usually used to describe the ways in which criminals process illegal or "dirty" money derived from the proceeds of any illegal activity (e.g. the proceeds of drug-dealing, human trafficking, fraud, theft or tax evasion) through a succession of transfers and deals until the source of illegally acquired funds is obscured and the money takes on the appearance of legitimate or "clean" funds or assets.

CASE STUDY

In June 2004 a personal assistant in a City firm was sentenced to seven years in prison after stealing £4.3 million from bosses to fund a lavish lifestyle. The individual in question siphoned the money from the private accounts of her bosses and used it to buy £400,000 of Cartier jewellery as well as designer clothes. If she had not been arrested she would have taken delivery of a £150,000 power boat and a £175,000 Aston Martin she had on order. Her husband was jailed for 18 months and her mother was given a six-month suspended sentence, both for money laundering.

1.4 There are three internationally recognised phases to money laundering:

- Placement;
- Layering; and
- Integration.

1.5 **Placement** occurs when the cash generated from crime is placed into the financial system or used to purchase goods. This is the point at which the proceeds of crime are most apparent and therefore most at risk of detection. In this phase dirty money is very often (though not always) in the form of cash but may also, for example, be in the form of negotiable instruments such as travellers cheques. Those seeking to place dirty money might therefore, target deposit-takers such as banks or building societies or cash businesses such as money service businesses or dealers in high value goods.

1.6 **Layering** is where the dirty money passes through a series of transactions in order to obscure the origin of the proceeds. These transactions may involve different entities, such as companies and trusts, different financial assets such as shares or insurance products and/or multiple jurisdictions.

1.7 Once the original source of the funds has been obscured the final stage of the process is for the dirty money to reappear as legitimate funds or assets, for example, through income from legitimate business. This is known as **integration**. The criminal is subsequently free to enjoy the proceeds of crime with much less fear that they will be identified as criminal funds.

PROBLEM PROFILE

Smurfing is a common money laundering technique that launderers frequently employ to avoid detection when depositing cash, making financial transactions or sending money abroad. Launderers will break a large amount of money down into several much smaller amounts that will fall beneath the financial institution's automatic query system. In order to prevent drawing attention to themselves, launderers operating in this manner will tend to employ several other low-level criminals to make the deposits, which will be made at different branches or outlets of the same institution.

(Source NCIS)

1.8 Money laundering is an international phenomenon and frequently involves routing transactions through many countries to disguise the illegal origin of the money. Offshore financial centres can be used at this layering stage of money laundering.

1.9 This document aims to provide a **strategic framework** for a regime which strikes the right balance between effective crime prevention and detection and avoiding an excessive burden on industry. The government's strategy is based on three objectives:

- **Effectiveness:** maintaining an effective system of controls;
- **Proportionality:** focusing effort according to risk and imposing controls in a cost effective way; and
- **Engagement:** ensuring effective communication with stakeholders.

2

EFFECTIVENESS

Objective 1: “Maintaining an effective system of controls.”

2.1 There are clear reasons for having effective money laundering controls, including:

- **To provide a disincentive to crime by reducing its profitability and the pool of money available to finance future criminal activity.** Robust systems of controls to detect, intercept and confiscate criminal funds make it harder for individuals or groups to profit from their criminality and to fund their next crime.
- **To aid the detection and prosecution of crime.** The intelligence provided from money laundering controls may provide leads which can be crucial in convicting criminals of money laundering and/or the underlying predicate offence or for identifying assets to assist civil recovery efforts.
- **To protect the integrity of the financial system and reputation of UK business.** The competitive position of UK business depends upon its reputation for integrity and honest dealing.
- **To avoid economic and competitive distortions.** Legitimate businesses are disadvantaged when competing against businesses controlled by criminals who may be willing to accept lower rates of return or even losses to maintain the appearance of being legitimate investments.

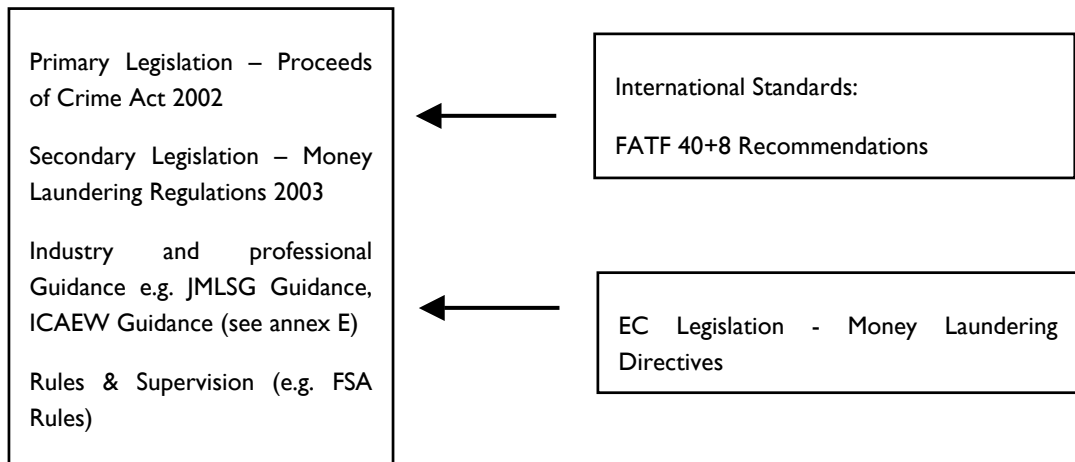
2.2 The present arrangements against money laundering have considerable strengths:

- a clear structure of controls and systems;
- compliance with international standards;
- cost-benefit analysis of money laundering controls;
- high level requirements in primary and secondary legislation which give flexibility for tailored application;
- a flexible enforcement regime of criminal and non-criminal sanctions; and
- a joined up agency approach between law enforcement, government and regulatory bodies.

2.3 The system is based on a robust, coherent framework of international standards, primary and secondary legislation, industry and professional standards and FSA Rules.

Figure I provides a broad overview of the UK's regulatory system for money laundering.

Figure I



2.4 The government is determined to maintain the effectiveness of these controls, in particular by:

- Ensuring effective international standards;
- Ensuring effective domestic controls; and
- Enhancing enforcement.

Ensuring Effective International Standards

2.5 Money laundering is an international phenomenon and frequently involves routing transactions through many countries to disguise the illegal origin of the money. Offshore financial centres are often used at this layering stage of money laundering. Anti-money laundering controls therefore have to be international if they are to be effective, which is why the development and enforcement of international standards against money laundering is so important.

2.6 The UK's domestic anti-money laundering regime is influenced by the FATF's **40 Recommendations** on combating money laundering and **8 Special Recommendations** on combating terrorist financing. FATF is an international group and its Recommendations, while not legally binding, incorporate elements of some treaties and conventions that are legally binding (e.g. Vienna Convention Against Drug Trafficking).

2.7 FATF undertakes “mutual evaluations” of its own members’ compliance with the 40 Recommendations on Money Laundering.

2.8 The UK contributed actively to the 2003 revision of FATF’s 40 Recommendations on Money Laundering¹. In May 2004, the FATF’s mandate to combat money laundering and terrorist financing was extended for a further eight years.

¹ The FATF’s Revised 40 Recommendations on Money Laundering are available at: http://www1.oecd.org/fatf/40Recs_en.htm#Forty

CASE STUDY

A man was jailed in December 2002 for eight years after admitting laundering £25 million of “dirty money” across the globe from business premises in Wolverhampton. The man was arrested in June 2001 as part of an investigation into the transfer of £46 million into bank accounts in Dubai. He ran the operation from Wolverhampton with a partner based in Dubai. Three businesses were based at the shop, with an annual turnover of less than £30,000. The man used a “hawala” money transmitter as a front for his money laundering activity. National Crime Squad Officers undertook surveillance of accounts in various banks in the Midlands between January 2000 and June 2001. When officers swooped in June 2001, they found £180,000 in the boot of a car and £220,000 in cash and three counting machines at the shop.

2.9 Moving forward, FATF will continue to set anti-money laundering and counter-terrorist financing standards in the context of an increasingly sophisticated financial system. In particular, FATF will enhance its focus on informal and non-traditional methods of financing terrorism and money laundering, including through cash couriers, alternative remittance systems and the abuse of non-profit organisations.

Goal 1(a) The UK will work with other States through FATF to ensure effective and proportionate international standards and an enhanced focus on informal and non-traditional methods of money laundering.

2.10 Following a successful 12 month pilot by the IMF and the World Bank to assess global compliance with the anti- money laundering and counter-terrorist financing standards articulated by the FATF, the institutions decided to make this work a permanent part of their financial assessments.

Goal 1(b) The UK welcomes the permanent inclusion of anti-money laundering and counter-terrorist financing compliance work as part of the IMF and World Bank’s assessments and will work to ensure good co-ordination between FATF and World Bank/IMF assessments.

Ensuring Effective Domestic Controls

2.11 Putting in place robust systems of control to detect, intercept and confiscate the proceeds of crime will make it harder for criminals to profit from their criminality. Squeezing the profits from crime reduces criminality in three ways. Firstly, there is less money available to finance future criminal activity. Secondly, lower criminal proceeds reduce the incentive of crime as a lifestyle. Finally, effective money laundering controls increase the risks of criminals being caught and prosecuted and this in turn upholds the reputation of the UK's regulated sectors.

2.12 The UK system of anti-money laundering controls has been the subject of a number of reviews. In early 2003, the International Monetary Fund (IMF) reviewed the UK system as part of the UK's Financial Sector Assessment Programme report and found that "The UK has a comprehensive legal, institutional and supervisory regime for AML/CTF."² Another example is the 2003 KPMG review of the Suspicious Activity Reporting (SAR) system³. The reviews have identified areas for improvement, but not wholesale structural change.

2.13 The UK's anti-money laundering regime consists of a number of elements including (see figure 1):

- The Proceeds of Crime Act 2002;
- The Money Laundering Regulations 2003;
- Industry and professional guidance; and
- FSA Rules/supervision.

2.14 The **Proceeds of Crime Act** provides for a single set of money laundering offences, applicable throughout the UK to the proceeds of **all crimes**. It defines money laundering in such a way that it captures not only "conventional" money laundering, but also possession by criminals of their own proceeds and the offence of handling stolen goods. The Act imposes a direct obligation on the regulated sector to make a suspicious activity report if they know or suspect or have reasonable grounds to know or suspect that money laundering has taken place. In addition, the Act also requires the regulated sector to seek consent to undertake a future activity or transaction which may constitute a prohibited act. For example, a customer wishing to withdraw funds from an account which an institution suspects are the proceeds of crime.

CASE STUDY

Over a long period of time premises in Brixton had been used for cannabis dealing. Customers travelled from all over the UK. A pro-active operation by the Metropolitan Police and Financial Investigation Unit resulted in uncovering two individuals who had laundered in the region of £1 million and had 'invested' the money in properties in London. In March 2004 the individuals were sentenced at the Inner London Crown Court to six and a half years and two and a half years imprisonment respectively on 11 counts of money laundering and drugs trafficking.

² A pdf version of the IMF's 2003 Report on the UK's Observance of Standards and Codes in the area of anti-money laundering and counter-terrorist financing controls is available at: <http://www.imf.org/external/pubs/ft/scr/2003/cr0346.pdf>

³ A pdf version of the KPMG report is available at: <http://www.ncis.co.uk/downloads/kpmgreport.pdf>

2.15 The **Money Laundering Regulations 2003** implement the Second EC Money Laundering Directive. They expand the regulated sector to include among others estate agents, casinos, accountants, lawyers and anyone conducting a business of dealing in goods accepting cash of approximately £10,000 or more in a single transaction. The requirements on the regulated sector include training, client identification, record keeping and the internal reporting of suspicions or knowledge of money laundering.

PROBLEM PROFILE

Money launderers can take advantage of the facilities offered by casinos, betting shops and other gambling facilities to disguise the origin of their funds. Launderers can take 'dirty' cash into a casino, exchange it for chips, spend a few hours gambling, and then exchange the chips (with a gain or loss according to their play) for a casino cheque which can subsequently be presented as the apparently legitimate source of the funds.
(Source NCIS)

2.16 The Regulations provide that, when deciding whether an offence has been committed, the court must consider whether the defendant followed any relevant **guidance** issued by an appropriate body and approved by HM Treasury. The Joint Money Laundering Steering Group (JMLSG) provides Guidance Notes for the UK financial sector on interpreting the Regulations. Other guidance notes exist for other parts of the regulated sector.

2.17 The FSA's **Money Laundering rules** require relevant firms to have effective anti-money laundering systems and controls in order to reduce the opportunities for money laundering and require that specified individuals exercise appropriate responsibilities. Supervisory bodies oversee other parts of the regulated sector.

2.18 Parts of the current regime are relatively new – the money laundering provisions of the Proceeds of Crime Act came into force in February 2003 and the Money Laundering Regulations in March this year. The regime will need time to “bed down” so that the new controls can be properly tested. During this time, the UK government will monitor carefully the effectiveness of the regime.

Goal 1(c): The UK will continue to monitor the effectiveness of the domestic anti-money laundering regime and, once the new controls have been properly tested, will consider whether changes are necessary to improve their effectiveness.

2.19 In April 2004 the Treasury launched a review of the regulatory framework for **money service businesses** (MSBs); these businesses include money remitters, cheque cashers and bureaux de change. Prior to June 2002 MSBs, unlike most other financial businesses, were not supervised by a regulator such as the FSA or a professional body for their compliance with the Regulations.

2.20 The Money Laundering Regulations 2001 introduced a system for regulating MSBs. Since June 2002 all MSBs have been required to register with Customs unless the activity is carried out by a firm regulated by the FSA (in which case the firm has to notify the FSA of its bureau de change activity only).

2.21 The review is focusing primarily on the Customs regime for regulating MSBs. The overarching question the review seeks to answer is whether the existing regulatory system for MSBs is getting the balance right in terms of targeting controls on sectors subject to the highest risk from money laundering and terrorist financing while making sure that these controls are implemented in a way that is effective and not over-burdensome.

2.22 The findings from this review will determine whether the current regulation of MSBs is proportionate and will influence the Government's domestic, European and international policy on the regulation of this sector.

Goal 1(d): The UK will report in 2004 on the review of the effectiveness of the regulation of Money Service Businesses.

Enhancing Enforcement of Money Laundering Controls

2.23 UK legislation provides for **information sharing and co-operation** in money laundering investigations, prosecutions and subsequent confiscation proceedings. Increased use of these mechanisms is likely to be a feature of future cases and will continue to be promoted actively, at least until such co-operation becomes routine. Co-operation against money laundering within the European Union will be greatly assisted by measures recently approved by Parliament to give effect to agreements relating, for example, to the provision of banking information. The UK will press for these and other new tools to be used effectively.

2.24 The UK will also continue to play a part in building capacity in overseas financial intelligence units (FIUs) and law enforcement agencies through technical assistance and training programmes. An extensive programme of technical assistance will continue to be made available through the relevant departments and agencies.

Goal 1(e): The UK will continue to promote actively international co-operation and information sharing in money laundering investigations, prosecutions and subsequent confiscation.

CASE STUDY

A money service business (MSB) submitted SARs to NCIS because two customers, X and W, exchanged large quantities of currency without seeking, as is normal, to negotiate a preferential rate of commission. One party was identified by the National Crime Squad along with a third person, Y, as being the subject of an ongoing drug trafficking investigation. X was previously unknown to the investigating team. X, W and Y were found to have made several visits to the MSB, exchanging currency in excess of £200,000.

2.25 The Financial Intelligence Division of NCIS is the UK's FIU. It is responsible for receiving and analysing SARs received from the regulated and non-regulated sectors and for disseminating targeted intelligence to law enforcement agencies. These SARs contribute to law enforcement operations both domestically and internationally by providing intelligence, identifying the proceeds of crime and prompting investigations into previously unknown criminal activities. In 2003, NCIS received around 100,000 disclosures, an increase of nearly 60 per cent on the previous year.

2.26 On some SARs, consent to act on a future transaction or activity may be required under the Proceeds of Crime Act 2002. The number of such SARs has increased by a factor of ten and NCIS' partner agencies now prioritise the handling of consent referrals. As of March 2004, £25 million had been protected (e.g. restrained or seized) as a result of consent decisions.

2.27 The KPMG review of the money laundering reporting system published in May 2003 highlighted concerns about a backlog of SARs which had accumulated as well as the effectiveness of the internal processes to deal with the increasing number of reports. Most of the key recommendations in the report and enforcement follow-up directed at NCIS have been implemented or are subject to ongoing work. The Home Office led Money Laundering Reporting Taskforce, which was set up to monitor the SAR regime, has reported that information from SARs is now being analysed much more effectively and that targeted intelligence is being sent to law enforcement agencies in a more timely fashion. But it also stressed that these improvements must be sustained and that much still remains to be done.

2.28 Therefore, Ministers have asked the Taskforce for a further report, at which point consideration will be given to how best we can continue to drive forward and monitor progress on this important matter.

Goal 1(f): The suspicious activity reporting system is a key element of the government's strategy to combat money laundering. The government will work to ensure that recent reforms are built on so that the information from reports is used as effectively as possible in order to detect and deter criminals.

2.29 The government recently announced a new incentive scheme for the police. The scheme will give **police forces** a direct financial incentive to recover even more criminally acquired wealth, by giving them a stake in the assets they recover. They will receive a third of all assets above £40 million recovered in 2004-05, increasing to 50% in 2005-06. The maximum benefit available to the police will be £43 million in 2004-05, rising to £65 million in 2005-06. The police incentive scheme is in addition to the £22.5 million a year for the years to 2005/6 from recovered assets already committed to communities and front-line agencies. This money included the funding for the Regional Asset Recovery Teams (located in the North West, the North East, Midlands, London and Wales). The Home Office will evaluate the police incentive scheme in 2005/6. From 2006-07 a new incentive scheme will be introduced under which all agencies involved in asset recovery will, wherever possible, get back 50% of the receipts they recover.

Goal 1(g): The UK Government will work to achieve greater enforcement success by giving law enforcement agencies a stake in the assets taken from criminals.

2.30 In February 2004, it was announced that a **Serious Organised Crime Agency** will be set up in 2006, bringing together the responsibilities which currently fall to the National Criminal Intelligence Service, the National Crime Squad, Home Office responsibilities for organised immigration crime, and the investigation and intelligence responsibilities of HM Customs and Excise in tackling serious drug trafficking and recovering related criminal assets. The Agency will have a specific responsibility for investigating and tackling the proceeds of crime.

2.31 One consequence of the “all crimes” approach of the Proceeds of Crime Act and the Money Laundering Regulations is that tax related offences also trigger money laundering offences. Consequently, the **Inland Revenue** has established an Anti-Money Laundering Unit (AMLU) in its Special Compliance Office. AMLU has a remit to undertake criminal investigations into acts of money laundering predicated on tax offences. The Unit will also become a centre of excellence in tackling such money laundering, will raise awareness of money laundering within the Revenue and will work closely with other law enforcement agencies where appropriate⁴.

Goal 1(h): The Inland Revenue’s Anti-Money Laundering Unit will become a centre of excellence in tackling money laundering predicated on tax offences.

2.32 The Proceeds of Crime Act also established the **Assets Recovery Agency** (ARA) with unique powers to take civil recovery action or tax the proceeds of crime. In the initial 130 cases which have been referred to the Agency, 7% have money laundering as the major form of unlawful activity, and in a further 20%, money laundering is a related activity.

⁴ In 2005, the Inland Revenue will merge with HM Customs and Excise and will no longer be a prosecutory body. Prosecution cases will be dealt with by an independent office – the Revenue and Customs Prosecution Office (RCPO) (see Annex A for further details).

2.33 ARA also has responsibility for the Centre of Excellence for the training and accreditation of Financial Investigators and has developed a well received course to increase the skills of financial institutions in dealing with money laundering.

2.34 ARA is working closely with NCIS to identify typologies from the cases currently under investigation. Initial findings have been published and circulated to the regulated sector. The research will be ongoing.

Goal 1: The Assets Recovery Agency will continue to deliver training in the area of money laundering, within the overall suite of courses, and will continue the analysis and development of typologies jointly with NCIS.

Objective 2: “Focusing effort according to risk and imposing controls in a cost effective way”

3.1 Risk assessment is crucial for an effective anti-money laundering regime. It is a principle for which the UK has helped to secure international acceptance by means of the FATF Recommendations. It means identifying the major money laundering risks in the economy, a sector or an individual institution (a mix of product, customer and circumstantial considerations) and targeting controls and resources accordingly. It therefore follows that other areas of the economy considered to be less vulnerable need not be subject to the same degree of control or be expected to devote the same resources to combating money laundering.

Improving the Evidence Base

3.2 Risks change as money launderers adapt their operations in response to controls and attack weaknesses in the system. Therefore, a risk based approach must be flexible and adapt accordingly. In order to do so effectively, money laundering controls must be supported by **good evidence** of the means used by criminals to launder the proceeds of crime.

3.3 The need for better information so as to improve the evidential basis upon which policy decisions are made is increasingly recognised by policy makers across the world. FATF has recently affirmed the importance of intensifying its study of the techniques and trends in money laundering and terrorist financing and in 2004 published a report on money laundering and terrorist financing typologies⁵. The UK has led the calls for more resources to be devoted to this work and for a stronger link between the FATF typologies exercises (which provide an opportunity for member countries to identify current money laundering trends and effective counter measures) and standard setting. The UK is playing a leading role in the project groups which have been set up to take this work forward.

3.4 For example, the UK chaired the Working Group looking at money laundering vulnerabilities in the **insurance** sector. The Group examined the vulnerabilities among the various parts of the sector and in different insurance products. It is planned that it will develop money laundering indicators which will assist the industry and regulators in identifying potential money laundering techniques. They are expected to report their findings in 2005.

⁵ A pdf version of the FATF Report on Money Laundering and Terrorist Financing Typologies is available at:
http://www.fatf-gafi.org/pdf/TY2004_en.PDF

CASE STUDY

South American cocaine traffickers were discovered to have laundered tens of millions of US Dollars via complicit insurance intermediaries by purchasing hundreds of life policies from companies based around the world, including UK Crown Dependencies. The high value policies were financed by cheques and wire transfers, as opposed to cash, and some were opened in the names of the criminals' family members to further hide the source of the funds. While some of the traffickers wished to retain these policies for the long term, others surrendered the policies at a loss within months of their inception, receiving a "clean" refund from the insurer, as a method of layering and integrating the proceeds of their crimes into the legitimate economy.

3.5 The UK is also a member of the FATF Working Group looking at **wire transfers** and terrorist financing. The group has been looking in particular at the common factors which distinguish terrorists' use of wire transfers and whether a minimum threshold of reporting is appropriate for the requirements of the FATF's Special Recommendation VII which introduces obligations for financial institutions to send originator information with the wire transfer. This work will lead to updated wire transfer guidance. The UK is also contributing to a number of on-going typologies exercises looking at the not-for-profit sector and cash couriers.

Goal 2(a): The UK will take a lead role in the work of the FATF to improve the evidence base underpinning international standards.

3.6 The **Home Office** has launched a new programme of research on the scale of, and harm caused by, organised crime. Among other things, it will seek to estimate the value of the organised crime market. Work is also being undertaken to establish an estimate of the level of money laundering undertaken in the UK and in turn to determine the value of the stock of criminal assets available for confiscation.

Goal 2(b): The Home Office will conduct research on the level of money laundering in the UK and the value of criminal assets available for confiscation.

3.7 NCIS provides in-depth reviews and assessments of new and emerging money laundering trends and typologies to law enforcement agencies. This helps to identify money laundering more effectively and so increase the disruption of criminal enterprises engaged in money laundering and/or the underlying predicate offence within the UK:

- **Strategic and Tactical assessments** review the major threats and greatest harm caused to the UK and to the regions. Each year NCIS publishes a National Threat Assessment which outlines the current dynamic of organised crime and forecasts trends⁶.
- **Problem profiles** describe and aid understanding of specific aspects of a threat, particularly where and how criminal groups operate and those sectors or products which may be more vulnerable to money laundering. This is also to help inform the efforts of law enforcement agencies. Where appropriate and relevant, copies of these products have been circulated to the regulated sector.
- **Target profiles** identify those major criminals and criminal organisations which have often been disclosed through SARs which may not already be the basis of national and regional investigations leading to law enforcement for investigative action.
- **Current Intelligence Assessments**⁷ identify specific intelligence in a more concise and timely format and can augment a previous Problem or Target Profile. They are used to inform law enforcement, the regulated sector and the various regulators of any new or emerging intelligence on money laundering.

Goal 2(c): The UK will increase in 2004/05 the number of reviews and assessments undertaken in order to better inform law enforcement action and to assist the regulated sector in spotting suspicious transactions and/or new and emerging money laundering trends.

Ensuring Risk Based Controls

3.8 Money laundering regulation should only intervene when necessary. In other words, the regime must be proportionate to the risk posed by money laundering and must justify the compliance cost imposed. A risk-based approach underpins the UK's money laundering strategy.

3.9 The revised methodology for the conduct of FATF Mutual Evaluation Reports makes clear that a country may decide not to apply certain requirements or to reduce or simplify the measures being taken on the basis that there is low or little risk of money laundering⁸.

3.10 Equally, the revised FATF 40 Recommendations extend controls to sectors not previously covered such as lawyers and accountants because these sectors play an important role as “gatekeepers” to the financial system. This is borne out by recent research by NCIS which shows that property purchase, cash rich businesses and front companies are the most prevalent money laundering methods in the UK. Therefore, the conveyancing and company formation services provided by legal professionals and the auditing and book-keeping roles of accountants give these 'gatekeeping' professionals a pivotal role in combating laundering.

⁶ NCIS' 2003 Threat Assessment is available at: <http://www.ncis.co.uk/ukta/2003/default.asp>

⁷ Current Intelligence Assessments are distributed by NCIS to trade organisations and other relevant bodies

⁸ The FATF's Revised Methodology for the conduct of FATF Mutual Evaluations is available at: http://www1.oecd.org/fatf/pdf/Meth-2004_en.PDF

However, this also means that they are prime targets for corruption by serious and organised criminals. Indeed, intelligence of organised crime groups known to operate in the UK shows that a large proportion retain the use of a solicitor and/or accountant, and it is estimated that many more 'gatekeepers' are unwittingly providing laundering services for serious and organised criminals.

Goal 2(d): The UK will carefully monitor the implementation of the revised 40 Recommendations and methodology to ensure that country evaluations properly reflect a risk based approach.

PROBLEM PROFILE

The services of a legal practitioner are attractive to serious and organised criminals for the specialist legal knowledge and statutory services only they can provide. For example, only a solicitor or licensed conveyancer can offer conveyancing services and it would take the specialist legal skills of a company law specialist to create, maintain and give a veil of legitimacy to a string of front companies through which criminal monies can flow. Similarly, the services of an accountant are attractive to criminals because of the statutory and specialist skills only they can provide. For example, all firms which cross 2 of 3 thresholds (revenue over £2.8m, more than 50 employees, net assets more than £1.4m) are required under law to have a statutory audit by an accredited auditor. Even if an organisation does not cross this threshold, an accountant is generally needed to provide bookkeeping services. Therefore if a criminal group was laundering through front companies/cash rich businesses an accountant would be needed to maintain and/or audit the books. Accountants can also be used by criminals for their financial skills to move criminal monies in such a way as to create a complex audit trail which effectively hides criminal assets. Lawyers' and accountants' knowledge of company and tax laws can also be abused by criminals to facilitate tax evasion. (Source NCIS)

3.11 Conducting effective Regulatory Impact Assessments (RIAs) is an important component of the risk based approach. An RIA is an analysis of the costs and benefits of a proposal. No proposal for regulation which has an impact on businesses can be considered without a RIA being carried out. The latest legislative measure subject to this cost-benefit analysis is the **Third Money Laundering Directive**. The two main aims behind this measure are to consolidate the previous two EC directives on money laundering and to amend those directives in the light of the revision of the FATF Forty Recommendations. As with all legislation in the UK, all anti-money laundering measures have been the subject of cost-benefit analysis. RIAs were carried out prior to the introduction of the Money Laundering Regulations 2003⁹ and 2001¹⁰ as well as the Proceeds of Crime Act 2002¹¹.

⁹ A full Regulatory Impact Assessment of the Money Laundering Regulations 2003 is available at: http://www.hm-treasury.gov.uk/media/4ADBC/fullriamlr03_80.pdf

¹⁰ A full Regulatory Impact Assessment of the Money Laundering Regulations 2001 is available at: http://www.hm-treasury.gov.uk/media/3DB75/money_laundering_ria.pdf

¹¹ The provisional full Regulatory Impact Assessment proceeding the Proceeds of Crime Act 2002 is available at: <http://www.archive.official-documents.co.uk/document/cm50/5066/5066-13.htm>

3.12 The government is determined to improve the quality of the cost-benefit analyses that it undertakes on the money laundering regime. The European Commission’s proposals for a Third Money Laundering Directive have now been published and the Regulatory Impact Assessment is being updated in the light of this. We are using information on likely costs and benefits that has emerged during the process of consulting stakeholders on the directive.

Goal 2(e): In negotiating the Third Money Laundering Directive the UK will seek to ensure that the resulting measure follows a risk based approach.

3.13 Know your customer (KYC) controls have been the source of some criticism. The requirements to identify customers are a key element in international and UK money laundering obligations generally. However, these controls do not specify how this should be done and the details of implementation are left to industry-produced guidance. For example, the Joint Money Laundering Steering Group (JMLSG) has for some years published guidance for financial institutions. Nevertheless, there have been concerns on the part of both the regulated sector and consumers as to whether the regime for identifying customers is proportionate and effective.

3.14 In recognition of these concerns, the FSA set up an **ID Working Group**. The aim of the Working Group has been to ensure that the obligations on regulated financial firms to identify customers can be met in a cost-effective and convenient way which meets the reasonable needs of firms, their customers and law enforcement. The work of the Group will feed into the revision of the Joint Money Laundering Steering Group Guidance Notes for the financial sector. The aims are to:

- lower industry costs and align them better with risk;
- deliver better value for the costs and efforts incurred by firms and their customers;
- minimise inconvenience to customers and to firms;
- improve industry and customer understanding of the reasons for and value of identification to society as a whole and to their own interests;
- improve customer understanding and expectations of how identification is done;
- increase customer confidence that their personal information is properly used; and
- change negative perceptions held by customers, the industry, industry employees, the media etc.

3.15 The work relates to all kinds of financial firms regulated by the FSA including banks, building societies, insurers, friendly societies, investment and private banks, institutional and personal fund managers, IFAs and securities and derivatives brokers.

3.16 In practice, this work is also likely to be relevant to other businesses in the regulated sector who face many of the same issues over identifying their customers for the purposes of complying with the Money Laundering Regulations 2003. It may also be useful to other businesses that need to identify their customers for other purposes including fraud prevention.

3.17 The FSA has published a report on behalf of the working group indicating general agreement on the key issues and the revised Guidance Notes will provide an opportunity to simplify identification procedures.

Goal 2(f): By end 2005 the UK authorities, working with the financial services sector, will have addressed issues around customer identification and will seek to ensure that other businesses in the regulated sector benefit from this work.

Setting High Level Objectives

3.18 According to the Better Regulation Task Force's "Principles of Good Regulation":

"Solutions that give stakeholders the flexibility to solve problems themselves are often preferable to imposing rules on them¹²."

3.19 A key element of the UK's anti-money laundering system is to set out high-level objectives in legislation but not to prescribe how these objectives are reached. In order to achieve these objectives effectively and efficiently, the regulated sector is encouraged to draw up its own detailed guidance to implement the Money Laundering Regulations, and where appropriate, the regulatory or supervisory authority's rules.

3.20 Several associations have issued guidance to their members about how they should implement their legal obligations. Best known is the guidance issued by the JMLSG to banks and other financial institutions. Guidance is not legally binding, but the Proceeds of Crime Act 2002 provides that, in deciding whether a "failure to disclose" offence has taken place, a court must consider whether the alleged offender followed any such guidance approved by the Treasury¹³. The JMLSG is currently reviewing its Guidance Notes in order to make them more proportionate and risk-based.

Goal 2(g): The UK authorities will continue to work closely with the regulated sector, in particular with new members of the regulated sector, to ensure effective guidance notes.

¹² See: <http://www.brtf.gov.uk/taskforce/reports/entrypages/principlesentry.htm>

¹³ See sections 330(8) and 331(7) of the Proceeds of Crime Act 2002: <http://www.legislation.hmso.gov.uk/acts/acts2002/20020029.htm>

4

ENGAGEMENT

Objective 3: “Ensuring effective engagement with stakeholders”

4.1 In order to maintain an effective and proportionate system of money laundering controls it is important that the UK authorities engage well with those affected by them. The UK authorities are committed to improving the way they listen to and where possible act on the views of the public and key stakeholder groups. Equally, it is vital that the UK authorities provide feedback to stakeholders on the outcome of efforts such as suspicious activity reports. It is important that a closer partnership between all stakeholders is in place particularly as part of the process of continually improving the system for the benefit of all.

Effective Consultation

4.2 The government is committed to improving the way that it consults with stakeholders on policy proposals. A demonstration of this commitment is the recent informal exercise which took place on the **Third Money Laundering Directive**¹⁴. As explained in chapter three, the aim of the Directive is to consolidate and revise the previous money laundering Directives, principally to take account of FATF's revised Forty Recommendations. One of the key issues for the UK will be the provisions on customer due diligence procedures. The UK government has from the start stressed the importance of consulting public and private sector stakeholders, and is firmly committed to this ongoing process. It is also involved in a constructive dialogue with the European Commission and other Member States. The UK was one of the few EU Member States to have consulted on the draft Commission proposal for a Third Money Laundering Directive.

Goal 3(a) : In negotiating the Third Money Laundering Directive, the UK will work closely with stakeholders to ensure an effective outcome.

4.3 The FATF's **Special Recommendation VII** seeks to prevent terrorists and other criminals from moving their funds by wire transfer by imposing obligations on financial institutions to provide originator information. The Commission held a short consultation period from December 2003 to February 2004 on Special Recommendation VII and other payments issues. In drafting its response the UK consulted widely with industry and other interested stakeholders. In January 2004, the Treasury hosted a roundtable meeting to discuss the Commission's proposals attended by representatives from banks, e-money issuers, mobile network operators, card schemes, consumer organisations and regulators. In addition, the Treasury is engaged in an ongoing series of bilaterals with key stakeholders¹⁵.

¹⁴ A pdf version of the Informal Consultation Document on the Third Money Laundering Directive is available at: http://www.hm-treasury.gov.uk/media/1/13555/ECmoney_launering_may04_291.pdf

¹⁵ The EU has decided to implement Special Recommendation VII at Community level as a Regulation in order to ensure uniformity of implementation. The European Commission is expected to publish a legislative proposal in July with the aim of reaching an agreement for implementation by the FATF deadline.

CASE STUDY

Analysis of a number of SARs received by NCIS showed a significant amount of money being remitted by a group of nurses working for the NHS to their country of origin. On investigation, it was identified that the average account turnover often exceeded £60,000, with the nurses' standard salary being only £25,000 per year. Further analysis showed that the recipients of the funds often shared personal details, and that some remitted funds were additionally passed through business accounts within the transmission agent to confuse the trail of money.

Ensuring Effective On-Going Communication

4.4 As well as consulting on new proposals, it is plainly important to communicate effectively on an ongoing basis on the functioning of the anti-money laundering regime. Effective communication is important at several levels including:

- with international partners;
- with the public at large; and
- with the regulated sectors.

4.5 Money laundering is an international problem and an effective solution requires all countries to put in place measures to address it. Ongoing dialogue with other countries is therefore important in ensuring the effectiveness of the global anti-money laundering regime. We will:

- Engage effectively in FATF Plenary meetings to promote full implementation of standards;
- Participate in the Egmont Group of Financial Intelligence Units to facilitate information sharing and co-operation in money laundering investigations, prosecutions and subsequent confiscation proceedings;
- Engage bilaterally, at both political and operational levels, with countries of particular importance/risk to the UK, through the FCO's network of posts; and
- Provide, where appropriate, UK expert advisors overseas and sponsor visits of foreign officials to the UK to discuss issues surrounding the formulation and implementation of anti-money laundering regulations.

Goal 3(b): The UK will continue to work with international partners to ensure an effective global response to tackling money laundering.

4.6 The Government recognises that greater industry and public awareness of and support for anti-money laundering controls can only be achieved through an effective and targeted communications strategy. Industry and Government efforts to improve communications to the public are demonstrated by the publication of the customer leaflet on fighting crime and terrorism¹⁶. In addition the FSA issued in May 2004 a fact sheet on ID (“Checking your identity – the fight against money laundering, financial crime and terrorism). The film, “The Laundry Bill”, produced recently by the Foreign Office explains the adverse effects of money laundering and emphasises the importance of having systems in place to detect and deter this crime¹⁷.

4.7 Various bodies act as an interface between the authorities and stakeholders to promote discussion on the effectiveness of the regime. HM Treasury chairs the **Money Laundering Advisory Committee (MLAC)**¹⁸. It brings together representatives from government, law enforcement, trade bodies and consumer representatives. The aim of MLAC is to strengthen the co-ordination and coherence of the UK’s anti-money laundering regime. For example, it examines industry-produced guidance notes and makes recommendations prior to submission for government approval. Given recent changes to the money laundering regime (for example the Money Laundering Regulations 2003 which extended the scope of regulation to new sectors), HM Treasury is currently reviewing the aims and membership of MLAC in order to ensure that it is fully representative and responsive to stakeholders’ needs.

Goal 3(c): The UK government will review the aims and membership of MLAC in order to ensure that it is fully representative and responsive to stakeholders needs.

4.8 In July 2003 the Home Office set up the **Money Laundering Reporting Taskforce (MLRTF)** to streamline and modernise the system for reporting suspect financial activity. The Taskforce is made up of representatives from the private sector, law enforcement agencies and Government. It is monitoring the overhaul of the Suspicious Activity Reporting system with a view to ensuring it delivers maximum intelligence and benefit to law enforcement agencies in the fight against crime, and that it operates as efficiently as possible.

Goal 3(d): The MLRTF will continue to monitor the effectiveness of the reporting system

Improving Feedback

4.9 The regulated sector has contributed enormously to the effectiveness of the anti-money laundering regime. It is recognised however that the UK authorities need to do more to improve some aspects of the system, for example, improving feedback to help those sending in reports to spot activities which indicate crime.

¹⁶ A pdf version of the leaflet is available at: <http://www.fsa.gov.uk/pubs/press/2003/q&a.pdf>

¹⁷ Details on how to obtain a copy of the “Laundry Bill” are available at info@fcofilmunit.co.uk

¹⁸ See: http://www.hm-treasury.gov.uk/Documents/Financial_Services/money/fin_money_index.cfm

4.10 In response, NCIS has recently established a Policy and Liaison Unit. Part of its remit will be to work jointly, through direct contact, with the reporting financial institutions, trade bodies and regulators. It is hoped that this interface will lead to improvements in the quality and effectiveness of the reporting regime. A further aspect of the Policy and Liaison Unit will be their attendance as speakers at conferences and meetings in order to update industry on new initiatives, developments, case studies and typologies.

Goal 3(e) NCIS will work closely with the regulated sector to provide feedback on the quality and value of Suspicious Activity Reports and to highlight any new and emerging money laundering trends.

4.11 As a short term move, the Assets Recovery Agency has developed a monthly e-mail to circulate to the institutions, the regulated sector, and law enforcement agencies, some of the outcomes from law enforcement activity, and to update on legal developments, training courses etc. This now has a wide primary circulation in addition to the general fortnightly Proceeds of Crime Update¹⁹.

Goal 3(f): The Assets Recovery Agency will continue to produce and circulate the Proceeds of Crime Updates and Money Laundering Supplements to provide an additional form of feedback.

¹⁹ The latest "Proceeds of Crime Updates" and "Money Laundering News" are available at: <http://www.assetsrecovery.gov.uk/media.html>

Conclusion

5.1 The UK is regarded as a world leader in risk based money laundering controls, something which would not be possible without the support of the regulated sector and beyond. Nevertheless, work remains to be done. This strategy provides a framework for future action. The government will strive to ensure the effectiveness of anti money laundering controls. It will seek to ensure that internationally and domestically, standards are risk based and flexible. Also, it will continue and will build upon its engagement with industry, in particular, on the development of policy and feedback on enforcement action.

5.2 The Government will review progress in implementing this strategy by December 2005.

Comments on this strategy should be sent to:

Money Laundering Branch
Financial Systems and International Standards
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

fincrime.branch@hm-treasury.x.gsi.gov.uk

A

UK ANTI-MONEY LAUNDERING REGIME - KEY ROLES AND RESPONSIBILITIES

HM Treasury Leads for the UK in international bodies, including negotiation of international regulatory standards (e.g. FATF and EU).

Responsible for policy and legislation on anti-money laundering and counter-terrorist financing systems and controls for the regulated sector e.g. financial institutions, accountants, estate agents, lawyers, high-value dealers, casinos etc.

Issues the Money Laundering Regulations.

Approves, under the Proceeds of Crime Act and Money Laundering Regulations, guidance notes produced by industry bodies.

Home Office Responsible for policy and legislation relating to the recovery of the proceeds of crime.

Responsible for the UK primary legislation and international co-operation with regard to the criminal law on money laundering and terrorist financing.

Financial Services Authority Devises and enforces the rules applicable to FSA regulated firms including specific money laundering rules.

Has power to bring criminal prosecutions for breaches of the Money Laundering Regulations (but not the primary money laundering law).

Money Laundering Advisory Committee A forum for key private and public stakeholders to co-ordinate the anti-money laundering regime and review its efficiency and effectiveness. Chaired by HM Treasury.

Foreign and Commonwealth Office Provides technical assistance to priority countries and promotes international anti-money laundering standards globally, including through regional bodies.

Provides the overseas network for Law Enforcement Liaison Officers.

Promotes effective financial regulation in the Overseas Territories.

Money Laundering Reporting Taskforce A group comprising key private and public sector stakeholders responsible for ensuring the effective operation of the suspicious activity reporting regime. In particular to ensure that the reporting regime generates valuable intelligence for law enforcement and revenue agencies, at as low a cost to disclosing institutions and other agencies, as is practicable. Chaired by the Home Office.

Reviewing follow up work on the KPMG Report and implementation of its recommendations.

National Criminal Intelligence Service The Financial Intelligence Unit for the UK, responsible for receiving and analysing SARs and for disseminating targeted intelligence to UK law enforcement agencies including Police, HM Customs & Excise and the Inland Revenue.

Ensuring implementation of the key NCIS KPMG recommendations contained within the KPMG report.

Police Responsible for investigating money laundering, predicate criminal offences and terrorist financing cases.

HM Customs & Excise An investigatory body for money laundering, drug trafficking and a number of other assigned matters.

Operates the supervision of Money Service Businesses (MSBs) and dealers in high value goods (HVDs) under the Money Laundering Regulations.

Inland Revenue Investigatory body for the laundering of the proceeds of tax, national insurance contributions or tax credit fraud.

Revenue & Customs Prosecution Office In 2005 HM Customs and Excise will merge with the Inland Revenue to become HM Revenue and Customs. An independent office to be known as the **Revenue and Customs Prosecution Office** will deal with prosecution cases for money laundering and will take over the prosecuting responsibilities of Customs and the Inland Revenue.

Serious Fraud Office Investigatory and prosecuting authority.

Crown Prosecution Service Prosecuting authority

B

SUMMARY OF GOALS

	HM Treasury	Home Office	FCO	FSA	NCIS	Law Enforcement, including Police, Customs, Asset Recovery Agency etc ...
I. EFFECTIVENESS						
Ensuring Effectiveness International Standards						
Goal I(a): The UK will work with other States through FATF to ensure effective and proportionate international standards and an enhanced focus on informal and non-traditional methods of money laundering	√					
Goal I(b): The UK welcomes the permanent inclusion of AML/CTF compliance work as part of the IMF and World Bank's assessments and will work to ensure good co-ordination between FATF and World Bank/IMF assessments.	√					
Ensuring Effectiveness Domestic Controls						
Goal I(c): The UK will continue to monitor the effectiveness of the domestic anti-money laundering regime and, once the new controls have been properly tested, will consider whether changes are necessary to improve their effectiveness.	√	√		√		
Goal I(d): The UK will report in 2004 on the review of the effectiveness of the regulation of Money Service Businesses .	√					√

	HM Treasury	Home Office	FCO	FSA	NCIS	Law Enforcement, including Police, Customs, Asset Recovery Agency etc ...
I. EFFECTIVENESS (cont)						
Enhancing Enforcement of Money Laundering Controls						
Goal I(e): The UK will continue to promote actively international co-operation and information sharing in money laundering investigations, prosecutions and subsequent confiscation.	√	√	√	√	√	√
Goal I(f): The suspicious activity reporting system is a key element of the government’s strategy to combat money laundering. The government will work to ensure that recent reforms are built on so that the information from reports is used as effectively as possible in order to detect and deter criminals.		√			√	√
Goal I(g): The UK government will work to achieve greater enforcement success by giving law enforcement agencies a stake in the assets taken from criminals.		√				√
Goal I(h): The Inland Revenue’s Anti-Money Laundering Unit will become a centre of excellence in tackling money laundering predicated on tax offences.	√					

	HM Treasury	Home Office	FCO	FSA	NCIS	Law Enforcement, including Police, Customs, Asset Recovery Agency etc ...
Goal 1(i): The Assets Recovery Agency will continue to deliver training in the area of money laundering, within the overall suite of courses, and will continue the analysis and development of typologies jointly with NCIS.					√	√
2. PROPORTIONALITY						
Improving the Evidence Base						
Goal 2(a): The UK will take a lead role in the work of the FATF to improve the evidence base underpinning its standards.	√	√	√	√	√	√
Goal 2(b): The Home Office will conduct research on the level of money laundering in the UK and the value of criminal assets available for confiscation.		√				
Goal 2(c): The UK will increase in 2004/05 the number of reviews and assessments undertaken in order to better inform law enforcement action and the regulated sector in identifying money laundering trends.					√	
Ensuring Risk Based Controls						
Goal 2(d): The UK will carefully monitor the implementation of the revised 40 Recommendations and methodology to ensure that country evaluations properly reflect a risk based approach.	√		√			

	HM Treasury	Home Office	FCO	FSA	NCIS	Law Enforcement, including Police, Customs, Asset Recovery Agency etc ...
2. PROPORTIONALITY (cont)						
Goal 2(e): In negotiating the Third Money Laundering Directive we will seek to ensure that the resulting measure follows a risk based approach.	√					
Goal 2(f): By end 2005 the UK authorities, working with the financial services sector, will have addressed issues around customer identification and will seek to ensure that other businesses in the regulated sector benefit from this work.				√		
Setting High Level Objectives						
Goal 2(g): The UK authorities will continue to work closely with the regulated sector, in particular with new members of the regulated sector, to ensure effective guidance notes .	√	√	√	√	√	√
3. ENGAGEMENT						
Effective Consultation						
Goal 3(a): In negotiating the Third Money Laundering Directive , the UK will work closely with stakeholders to ensure an effective outcome.	√					

	HM Treasury	Home Office	FCO	FSA	NCIS	Law Enforcement, including Police, Customs, Asset Recovery Agency etc ...
3. ENGAGEMENT (cont)						
Ensuring Effective On-Going Communication						
Goal 3(b): The UK will continue to work with international partners to ensure an effective global response to tackling money laundering	✓	✓	✓	✓	✓	✓
Goal 3(c): The UK government will review the aims and membership of MLAC in order to ensure that it is fully representative and responsive to stakeholders' needs.	✓					
Goal 3(d): The MLRTF will continue to monitor the effectiveness of the reporting system.		✓				
Improving Feedback						
Goal 3(e): NCIS will work closely with the regulated sector to provide feedback on the quality and value of Suspicious Activity Reports and to highlight any new and emerging money laundering trends .					✓	
Goal 3(f) The Assets Recovery Agency will continue to produce and circulate the Proceeds of Crime Updates and Money Laundering Supplements to provide an additional form of feedback.						✓

UK STRATEGY FOR IMPLEMENTING FINANCIAL SERVICES LEGISLATION

Following the Financial Services Action Plan (FSAP), the UK is developing a new strategic approach to implementing financial services legislation which includes legislation to combat money laundering. This approach is centred on five priorities which are set out in the box below.

Over the past five years the Financial Services Action Plan (FSAP) has been the vehicle for developing the Single Market in financial services. The FSAP has now been largely adopted. Nevertheless, some important barriers to cross-border integration and competition remain.

The EU institutions and the financial sector in Europe have begun to debate what the future strategy towards financial integration should be. The UK authorities – the Treasury, Financial Services Authority and Bank of England – welcome this debate.

The UK authorities believe that there are five priorities which should guide further action:

- **better implementation and enforcement of EU measures affecting the financial sector.** A significant number of the FSAP measures that have been adopted have still to be implemented nationally. That should be a top priority, together with their subsequent enforcement;
- **alternatives to EU regulation.** In general, EU legislation should be a last resort, and alternative approaches to policy making, such as more use of EU competition policy, market-based solutions and initiatives at national level, should be considered first;
- **better regulation.** In some specific cases, market failure analysis may demonstrate that further new EU legislation in financial services could be necessary. When new EU legislation on financial services is being considered, a proper assessment of the costs and benefits should be undertaken, and financial market participants should be fully consulted;
- **making the Lamfalussy arrangements work well.** These new regulatory arrangements are now in place to supervise financial services across the EU. They have been shown to work for securities markets and are being extended to banking and insurance. They need to be further developed; and
- **recognising the global nature of financial services.** It is crucially important to remember that financial markets are global. A global perspective is needed when considering the impact of EU financial services regulation on the competitiveness of EU-based firms and financial centres. International action will sometimes be needed to tackle global issues.

These five priorities were set out in detail in *After the EU Financial Services Action Plan: A new strategic approach*, published by the UK authorities on 19 May 2004, See: http://www.hm-treasury.gov.uk/media//7F594/after_FSAP_190504.pdf

D

ACRONYMS AND ABBREVIATIONS

AML	Anti-Money Laundering
AMLU	Anti-Money Laundering Unit
ARA	Assets Recovery Agency
CPS	Crown Prosecution Service
CTF	Counter Terrorist Financing
FATF	Financial Action Taskforce
FSA	Financial Services Authority
FSAP	Financial Services Action Plan
FIU	Financial Intelligence Unit
IMF	International Monetary Fund
ICAEW	Institute of Chartered Accountants for England and Wales
JMLSG	Joint Money Laundering Steering Group
MLAC	Money Laundering Advisory Committee
MLRTF	Money Laundering Reporting Taskforce
MSB	Money Service Business
NCIS	National Criminal Intelligence Service
NCS	National Crime Squad
POCA	Proceeds of Crime Act 2002
RIA	Regulatory Impact Assessment
SAR	Suspicious Activity Report
SFO	Serious Fraud Office

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