



HM TREASURY

# **Anti-Money Laundering and Counter Terrorist Finance Supervision Report 2010-11**

November 2011





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# 1

# Introduction

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## Background

**1.1** There are a number of businesses which are vulnerable to misuse by money launderers and those facilitating the movement of terrorist finance<sup>1</sup>. International standards have been developed (agreed by the 36 Member States of the Financial Action Task Force) to ensure that there are sufficient controls and procedures in place to counter the risk of abuse across a number of sectors. European Union (EU) and national legislation (EU third Money Laundering Directive<sup>2</sup> and Money Laundering Regulations 2007) reflect these standards by placing necessary and proportionate obligations on businesses to help prevent misuse. They also ensure that businesses can be monitored to ensure compliance with their obligations. This is in line with the Government's objectives to deter, detect and disrupt money laundering and terrorist financing<sup>3</sup>. There are 28 appointed Supervisors (full list shown in Annex A) which oversee eight broad sectors including a diverse range of businesses. These include financial institutions, legal professionals, accountants, estate agents, credit institutions and casinos<sup>4</sup>.

**1.2** The Supervisors are a highly diverse group including large global professional bodies, smaller professional and representative bodies and a number of public sector organisations. Some have been Supervisors for anti-money laundering and counter terrorist finance purposes (AML/CTF) since the first Money Laundering Regulations (the Regulations) were implemented in 1993; others were introduced when the Regulations were last updated in 2007. Government bodies have been appointed as Supervisors, along with professional bodies which oversee businesses such as external accountants and legal professionals, to ensure that professional standards for their industry are being met, as well as ensuring that sufficient AML/CTF procedures are in place. The Government supports self-regulation and has enabled as many businesses as possible (EU legislation permitting) to be regulated by their professional body. In each area of supervision, the Supervisor's approach needs to be proportionate to the nature and associated risks of the businesses being supervised.

**1.3** HM Treasury is responsible for appointing Supervisors<sup>5</sup> to effectively monitor their respective sectors and for the Regulations which set out their role<sup>6</sup>. In order to improve the transparency and accountability of supervision and to encourage good practice, HM Treasury has worked with Supervisors to develop this report. It is the first edition of what is intended to become an annual publication.

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<sup>1</sup> For the full list of 'relevant persons' who are subject to the Money Laundering Regulations 2007, see Regulation 3 <http://www.legislation.gov.uk/uk/si/2007/2157/regulation/3/made>

<sup>2</sup> EC Regulation 1781/2006 on the Transfer of Funds

<sup>3</sup> As set out in the strategy document 'The financial challenge to crime and terrorism' by HM Treasury, Home Office, Serious Organised Crime Agency and the Foreign and Commonwealth Office [http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/media/C/B/financialchallenge\\_crime\\_280207.pdf](http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/media/C/B/financialchallenge_crime_280207.pdf)

<sup>4</sup> Full list of supervised sectors include: credit institutions; financial institutions; auditors, insolvency practitioners, external accountants and tax advisers; independent legal professionals; trust or company service providers; estate agents; high value dealers; and casinos.

<sup>5</sup> The adoption of supervisors is ultimately subject to Parliamentary approval.

<sup>6</sup> The duties of the Supervisors for the purposes of the Regulations are set out in Regulation 24. <http://www.legislation.gov.uk/uk/si/2007/2157/regulation/24/made>

## Methodology

**1.4** Since 2009, HM Treasury has been developing a reporting framework in consultation with Supervisors. A pilot exercise was carried out in 2010, when Supervisors were asked to provide information to HM Treasury about their supervisory activities during the preceding year. This covered a range of topics, including: education and awareness raising; resources and training of staff employed by Supervisors; number of compliance visits carried out; enforcement activities; risk assessment of their respective sectors; and their strategies for developing and implementing a risk based approach to supervision<sup>7</sup>.

**1.5** HM Treasury analysed the returns and produced an internal report which was discussed with Supervisors. HM Treasury also gave Supervisors feedback on the information provided in their returns and on their supervisory approach. Many Supervisors commented that this was a useful process. The pilot highlighted some information gaps, which meant the questions were changed this year to improve HM Treasury's ability to collect a range of basic data on the Supervisors' activities e.g. resources committed to AML/CTF supervision. The full list of questions can be found in Annex B.

**1.6** The information collected is used by HM Treasury to build a greater understanding of how the Supervisors operate. It must be noted that due to the diversity of the supervised population, it is not always sensible to compare the different approaches of the Supervisors. Each Supervisor is encouraged to design its approach according to its own circumstances. However, the analysis in this report does highlight areas of good practice which can be relevant to all Supervisors. Trends are highlighted, alongside examples of individual approaches, to give a flavour of how Supervisors are carrying out their AML/CTF duties.

**1.7** In this report, HM Treasury has included references to the responses from stakeholders to the Review of the Money Laundering Regulations 2007 (the Review). A Call for Evidence ran between 9 October and 11 December 2009 to seek stakeholder views on all aspects of the Regulations including supervision.

**1.8** During that same period, meetings and discussion forums were held to capture the views of over 250 stakeholders from public, private and third sectors. This included regulated businesses, Supervisors and customers (businesses and private individuals). Ongoing engagement with stakeholders continued throughout 2010 and 2011. Where views from stakeholders are mentioned in this report, they are the stakeholder views reflected in the Government response to the Review that was published in June 2011<sup>8</sup>.

**1.9** The next chapter sets out HM Treasury's analysis of the information provided by Supervisors under a number of subject headings. Where relevant and helpful to the analysis, individual Supervisors are named in this report. However, they are not otherwise identified, in order to avoid inappropriate comparisons being drawn across the Supervisors.

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<sup>7</sup> It did not cover fees. Supervisors are required to be self-funded and recover the cost of supervision for the businesses they supervise. HM Treasury Ministers do receive and respond to letters of complaint about fees charged and Supervisors are encouraged to ensure they are fair, transparent and proportionate to the risks of money laundering and terrorist finance and the costs of supervision.

<sup>8</sup> [http://www.hm-treasury.gov.uk/fin\\_gov\\_response\\_money\\_laundering\\_regs.htm](http://www.hm-treasury.gov.uk/fin_gov_response_money_laundering_regs.htm)

# 2

## Analysis

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**2.1** This chapter sets out HM Treasury's analysis of the information provided by the Supervisors. This covers the following areas, which are discussed in turn, highlighting good practice where possible:

- Risk based approach
- Compliance visits
- Enforcement action
- Advice and outreach
- Information sharing.

### Risk based approach

#### Context

**2.2** The Financial Action Task Force (FATF) is the global standard setter on AML/CTF. The recommendations it makes determine the way member countries design and implement their domestic AML/CTF regimes. The FATF recommends that member states and the regulated sectors adopt a risk based approach to tackling money laundering and terrorist finance. For example, Recommendation 5, which sets out Customer Due Diligence (CDD) measures, suggests that regulated sectors 'may determine the extent of such measures on a risk sensitive basis depending on the type of customer, business relationship or transaction.' This allows businesses to adjust requirements on customers and the amount of time and resource devoted to performing CDD measures according to the level of risk. This approach is reflected in the third EU Money Laundering Directive and the Regulations. The Government strongly advocates the use of a risk based approach in the development of international standards by the FATF, at EU level and within the UK. As is noted in the explanatory memorandum for the Money Laundering Regulations 2007 'a key part of the UK's Financial Crime strategy is to entrench the risk-based approach'<sup>1</sup>.

**2.3** In practice, the risk based approach means that, first, Supervisors should ensure that the businesses they supervise have systems in place to assess and respond to the relative risk of their clients and, second, that Supervisors should pursue a risk based approach in conducting their own supervisory activities. This means that Supervisors should fully consider the risks associated with the businesses they supervise and ensure that resources are prioritised accordingly to address those risks.

**2.4** Guidance has been produced at both international and national level to explain further the risk based approach and how it should be applied. The FATF has developed a series of guidance documents<sup>2</sup> for both the private and public sector in close co-operation with national authorities and representatives from the sectors supervised for the purposes of AML and CTF. The FATF has

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<sup>1</sup> P.3 Explanatory Memorandum for the Money Laundering Regulations 2007 <http://www.legislation.gov.uk/ukSI/2007/2157/memorandum/contents>

<sup>2</sup> [http://www.fatf-gafi.org/document/63/0,3746,en\\_32250379\\_32236920\\_44513535\\_1\\_1\\_1\\_1,00.html](http://www.fatf-gafi.org/document/63/0,3746,en_32250379_32236920_44513535_1_1_1_1,00.html)

recognised that this guidance was produced a number of years ago and, in order for it to remain relevant, it will need to be updated on a regular basis in future. The FATF is expected to update its guidance on the risk based approach over the course of the next year, as part of its preparation for the fourth round of mutual evaluations.

**2.5** The Joint Money Laundering Steering Group (JMLSG) guidance (drafted with the financial services sector in mind, but also relevant to other sectors including those which do not have sector specific guidance) notes that 'No system of checks will detect and prevent all money laundering or terrorist financing. A risk-based approach will, however, serve to balance the cost burden placed on individual firms and their customers with a realistic assessment of the threat of the firm being used in connection with money laundering or terrorist financing. It focuses the effort where it is needed and will have most impact.'<sup>3</sup> Examples of risks in particular industry sectors are set out in the sectoral guidance in Part II of the JMLSG guidance and on the JMLSG website<sup>4</sup>.

**2.6** Although relevant and useful guidance exists, responses to the Review showed that a number of stakeholders think there is a need for more sector specific guidance. Stakeholders also felt that there is a lack of guidance or advice on the practical application of the risk based approach in specific circumstances. HM Treasury has noted in its response that Supervisors and others should seek to ensure that guidance provides useful advice on the application of the approach, but acknowledges that it is difficult for guidance to anticipate every possible circumstance. There is also evidence that Supervisors spend significant time and effort producing, taking feedback on and updating guidance for their supervised businesses.

## Analysis

**2.7** All Supervisors are aware of the risk based approach and, through the Anti-Money Laundering Supervisors' Forum<sup>5</sup> (AMLSF), have produced their own reference document on this topic<sup>6</sup>. Most Supervisors indicate that they adopt a range of risk assessment tools in assessing which businesses are high risk and therefore merit prompter, more frequent or longer visits or other supervisory measures (such as desk top reviews). How this works in practice varies across the Supervisors, depending on the way they assess risk and the strategies they have in place to respond to those risks.

**2.8** Some Supervisors indicate that they devote significant time and effort in designing, implementing and updating their approach to analysing the risk of the firms they supervise (influenced by the size of the supervised population and level of risk). This is evidenced by clearly articulated risk based models which are amended regularly to take account of redundant and emerging risk factors.

**2.9** Understandably, the level of sophistication of the risk based models adopted varies, which to an extent reflects the nature of the relationship the Supervisor has with its supervised population. For example, professional bodies often have a closer working relationship with the businesses they supervise for AML/CTF purposes due to their interaction with the same businesses to assess their professional standards. Their enhanced understanding of the way the businesses operate helps them identify relevant risk factors for AML/CTF purposes as well as for professional purposes. A few Supervisors note that they use some 200 risk criteria, including the type of clients the supervisee has, how the supervisee handles clients' money, and the extent of

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<sup>3</sup> P.34 Part I JMLSG guidance <http://www.jmlsg.org.uk/industry-guidance/article/part-i-part-ii-part-iii-and-treasury-ministal-approval>

<sup>4</sup> [www.jmlsg.org.uk](http://www.jmlsg.org.uk)

<sup>5</sup> The Anti-Money Laundering Supervisors' Forum is a forum run by the Supervisors for the Supervisors and it meets three times a year. These meetings are used to discuss and solve supervisory problems, receive updates and briefings from law enforcement, present on good practice and review approaches to supervision (e.g. approach to effective enforcement).

<sup>6</sup> [http://www.fsa.gov.uk/pages/About/What/financial\\_crime/pdf/amlsf\\_mar08.pdf](http://www.fsa.gov.uk/pages/About/What/financial_crime/pdf/amlsf_mar08.pdf)

their investment business activities. Another Supervisor has developed software which enables it to request information and documentation electronically, both annually and by exception, to ensure that its risk matrix contains current and relevant information.

**2.10** Collecting comprehensive information from firms is necessary to enable Supervisors to adopt an effective risk based approach to supervision and can reduce the overall burden of regulation on businesses. However, Supervisors recognise that requests for information are also a burden on firms and they seek to strike the right balance.

**2.11** Information used to assess the overall risk of the sectors and individual members comes from a number of sources. This information includes: information/intelligence received from external parties (including other Supervisors and law enforcement bodies), registration details, annual returns, complaints received, historic visit records, evidence of non-compliance with other non-AML/CTF related regulations and consideration of the environment in which the business operates (e.g. size of the firm and resources devoted to compliance).

**2.12** Some Supervisors carry out additional work on particular risk areas to help them update their approach. For example, the Financial Services Authority (FSA) has recently published a thematic review of how banks manage their money laundering risks, particularly around their management of high risk customers including Politically Exposed Persons, correspondent banking relationships and wire transfer payments.<sup>7</sup> Another Supervisor has sought to compare how firms are operating their AML/CTF systems in compliance with the Regulations by developing a benchmarking exercise<sup>8</sup>. The results were shared with all participants. This exercise helped to reveal evidence that some firms are doing more CDD work than is necessary with clients which are not considered as presenting the highest risks. The Supervisor is addressing this directly with the benchmarked firms and with other firms via guidance and training.

**2.13** A number of Supervisors have noted that they regularly review their risk based approach and the risk factors they use in order to ensure their model remains effective. Some Supervisors also quality assure their risk reports by submitting them to experienced senior staff for review, who recommend changes to risk scores as appropriate. Another Supervisor has carried out its own self assessment on the effectiveness of its risk based approach and its wider AML/CTF regime. It has shared the process it went through and the results with other Supervisors. More information on this is shown in Box 2.A.

#### **Box 2.A: Case Study - Self-review of approach to AML regime**

In order to assess effectiveness and identify improvement opportunities, a gap analysis was carried out. A set of guiding principles was used as a benchmark, including the need to conduct risk based monitoring of the compliance of the supervised population, provide clear guidance on AML/CTF legal obligations and good practice, and encourage supervised firms to employ risk based policies. A number of recommendations were made, including: introduce a thematic approach to assess levels of compliance; conduct a piece of work to review Suspicious Activity Report submission processes within supervised businesses; review the provision of AML training; and re-establish AML forums with industry with objectives agreed by all parties. The recommendations were subsequently put into place and the methodology and findings of this exercise were shared with other Supervisors.

<sup>7</sup> [www.fsa.gov.uk/pubs/other/aml\\_final\\_report.pdf](http://www.fsa.gov.uk/pubs/other/aml_final_report.pdf)

<sup>8</sup> <http://www.icaew.com/en/technical/legal-and-regulatory/money-laundering/anti-money-laundering-supervision/about-the-aml-benchmarking-survey>

## Compliance visits

### Context

**2.14** On site compliance visits are one of a number of ways Supervisors can check that their members are complying with the Regulations. Other methods used by Supervisors include telephone interviews and desk based monitoring (by analysing all relevant information available to the Supervisor about its members, including for example, data from annual returns).

**2.15** In 2005, Sir Philip Hampton produced a review<sup>9</sup> which considered how to reduce unnecessary administration for businesses, without compromising the UK's regulatory regime. The Hampton review set out some key principles which should be applied by all Supervisors, including:

- Comprehensive risk assessments are used to concentrate resources on the areas that most need them;
- Regulators are accountable for the efficiency and effectiveness of their activities, while remaining independent in the decisions they take;
- No inspection should take place without reason and businesses should not have to give unnecessary information or the same piece of information twice; and
- Businesses that persistently break regulations should be identified quickly and face proportionate and meaningful sanctions.

**2.16** In response to the Hampton review, the Regulators' Compliance Code<sup>10</sup> was drafted. It asks regulators to 'perform their duties in a business-friendly way, by planning regulation and inspections in a way that causes least disruption to the economy'. Regulators must have regard to the Code when determining policies, setting standards or giving guidance in relation to their duties.

**2.17** Businesses were asked for their views on compliance visits during the Review. A number of responses suggest that businesses believe that a risk based approach is not always used in practice, and that sometimes Supervisors fail to advise businesses on the steps they need to take to ensure compliance. Respondents noted that some Supervisors are pragmatic and practical whereas others are less flexible and use a tick box approach. Respondents point out that the Supervisors' ability to adopt the former approach is dependent on having a comprehensive understanding of the businesses they supervise. Some businesses do not feel that their Supervisor has an adequate understanding of how they operate to enable them to understand where the risks lie. Generally these comments applied to Supervisors new to their supervised population, but also applied in some cases to more established Supervisors. Supervisors are committed to ensuring they have a developed understanding of how their supervised population operates.

### Analysis

**2.18** The majority of Supervisors routinely carry out regular compliance visits. Some Supervisors assess the level of risk amongst the businesses they supervise as low enough not to warrant on site inspection. These Supervisors do, however, continue to assess the risks of the businesses they supervise to decide whether or not visits are necessary. One Supervisor has only recently

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<sup>9</sup> 'Reducing administrative burdens: effective inspection and enforcement' <http://www.bis.gov.uk/policies/better-regulation/improving-regulatory-delivery/assessing-our-regulatory-system>

<sup>10</sup> For more information visit <http://www.bis.gov.uk/policies/better-regulation/improving-regulatory-delivery/implementing-principles-of-better-regulation/the-regulators-compliance-code>

adopted a formal visiting programme and has drawn from the experience of other Supervisors to develop its own approach. The remaining Supervisors either carry out visits purely for AML/CTF purposes, or cover these matters on visits which also examine the wider professional competence of the business. For example, this integrated visit approach is common amongst professional bodies which oversee legal professionals and accountants.

**2.19** Amongst many professional bodies, those who carry out the compliance visits have worked in the sector they are supervising and therefore can demonstrate a developed understanding of how the businesses they are inspecting operate. In contrast, other Supervisors have less experience of the sectors they supervise and have more than one sector to oversee. For example, Trust and Company Service Providers (TCSPs) and Accountancy Service Providers (ASPs) are comparatively new sectors for HM Revenue and Customs (HMRC) to oversee for AML/CTF purposes. Strategic risk assessments are being taken forward in 2011/12 with other HMRC business areas which interact with these businesses.

**2.20** Some Supervisors have outsourced their compliance visit programme to other bodies that carry the visits out on their behalf. This is with the intention of minimising the disruption to businesses and to optimise the efficiency of the visit process. When necessary, the body carrying out the visit will refer any AML/CTF issues or concerns to the Supervisor, the Serious Organised Crime Agency (SOCA) and/or the Police. In addition, when appropriate the Office of Fair Trading (OFT) is empowered by the Regulations to enter into agreements with Trading Standards to carry out visits which cover AML/CTF on its behalf. One Supervisor has agreed to arrange for other Supervisors to shadow its visiting officers, to give them a better understanding of its approach to visiting businesses.

**2.21** Some Supervisors do not only rely on inspection visits to ensure compliance. They have tailored their approach and use more or less resources according to the level of risk e.g. by using a telephone interview instead of an inspection visit. This approach can allow Supervisors to be more time efficient and reduces the burden on businesses which are not thought to present the highest risks. An example of one Supervisor's approach is shown in Box 2.B.

**2.22** Some Supervisors use a combination of a risk based approach to visit selection, random selection and selection of visits on a rolling basis. The frequency of visits depends on a number of factors, including: whether or not non-compliance has been identified on previous inspections; the need to inspect businesses for non AML/CTF reasons (e.g. to assess professional standards); and the overall level of risk associated with the sector.

**2.23** Many compliance officers (who are responsible for carrying out business inspections) carry out analysis of the firms they are visiting before they conduct a visit. This is sometimes completed during the risk assessment and visit selection process. For other Supervisors, this is a separate exercise which involves analysing all relevant information about the business. This includes analysis of the responses to annual questionnaires, pre-visit questionnaires, compliance history and other relevant information/intelligence received<sup>11</sup>. This enables Supervisors to go into businesses prepared and with an understanding of where possible areas of non-compliance might be. One Supervisor is making improvements to the way its compliance officers prepare for visits, to ensure that they have a better understanding of how the supervised business operates and to ensure they tailor their visit questions, rather than using a tick box approach.

**2.24** During visits, Supervisors question businesses on a number of areas to ensure that: the firm has a nominated officer to take responsibility for compliance; staff are provided with appropriate training; necessary AML/CTF policies and procedures are in place; a proportionate risk based approach is adopted; and suspicious activity and transactions are reported when necessary.

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<sup>11</sup> This of course depends on the necessary safeguards in place to protect intelligence.

**2.25** The Supervisors' ability to engage with businesses and obtain relevant information from visits varies. Some have a relatively small supervised population and established working relationships with their members; others cover a number of sectors populated by a large number of firms with diverse business models. One Supervisor notes that about a third of the nominated officers of the businesses it supervises are former police officers.

**2.26** Many Supervisors produce written feedback for businesses post inspection on how well they are complying with the Regulations. Supervisors use different communication methods including formal written letters, follow up meetings and comprehensive visit reviews. This very specific feedback is complemented by ongoing information and assistance provided through newsletters, conferences, workshops and guidance notes.

#### **Box 2.B: Case Study - Tailoring approach to compliance visits**

The Supervisor's approach to compliance is tailored according to the risk associated with individual businesses. As part of the risk assessment process, businesses are asked to complete pre-visit questionnaires. This includes questions about the AML/CTF policies and procedures in place and risk indicators including whether certain types of higher risk business activities are undertaken. Based on this information and other relevant information or intelligence about the business, visits are tailored accordingly. For firms which do not present the highest risks visits may not occur as frequently. A newly introduced AML/CTF self assessment certification process allows the Supervisor to gather information from all members regarding their own assessment of AML/CTF compliance. This information will be factored into the Supervisor's risk assessments and inspection scheduling.

## **Enforcement action**

### **Context**

**2.27** As with any new or changed obligations on businesses, it is reasonable for Supervisors to focus initially on education to ensure that businesses are aware of what they need to do to comply with the Regulations. This was the case following the implementation of the 2007 Regulations, which introduced some Supervisors who needed to acquire knowledge about the businesses under their remit. Now that the Regulations have been in place for a number of years, the expectation is that businesses will continue to be provided with guidance and advice to help them comply, but that Supervisors will not hesitate in taking robust, proportionate and necessary enforcement action against serious and/or persistent non-compliance with the Regulations.

**2.28** Supervisors have a variety of enforcement powers which include civil and criminal sanctions. Supervisors can refer non-compliant businesses to the relevant authorities for criminal investigation and prosecution and some Supervisors can enforce criminal sanctions themselves. The FSA, HMRC, OFT and Department for Enterprise, Trade and Investment Northern Ireland (DETI NI) also have powers to obtain information, enter and inspect premises and administer monetary civil penalties. Professional bodies have additional sanctions specific to their supervisory population, for example, the ability to expel businesses from membership. The threat of removing professional accreditation in this way can be particularly effective in motivating compliance.

**2.29** The Review has shown that stakeholders generally feel that Supervisors have an appropriate range of enforcement powers. Generally Supervisors believe there is an appropriate range of powers to enable them to supervise effectively. However, it was suggested that HMRC may not have a sufficiently flexible range of powers to discharge its duties as a Supervisor effectively and proportionately. There are a small number of areas where they suggest their powers are limited,

unclear, or ambiguous. The proposals for consultation following the Review include a number of powers which are currently viewed to be lacking, including: powers to penalise the unreasonable refusal to admit a Supervisor to business premises; powers to obtain information in all cases; and the ability to de-register a business that obtained its initial registration on the basis of misleading information, or where for other reasons a registration is no longer in the public interest.

**2.30** Under the Regulations, some Supervisors have the power to prosecute criminal offences.<sup>12</sup> Criminal penalties have not been widely used and several responses to the Review argued that their existence causes those responsible for compliance to be unreasonably risk adverse. However, many responses maintain that the criminal penalties serve a useful purpose and that there are other reasons why those responsible are risk averse in their implementation of the Regulations. As part of the Review, HM Treasury has consulted on whether or not existing criminal sanctions should be wholly or partly repealed. The outcome of the consultation will be published on HM Treasury's website.

## Analysis

**2.31** Under the Regulations, Supervisors should be able to enforce effective, proportionate and dissuasive penalties, or refer to a law enforcement body that can. Some Supervisors have had evidence to impose significant sanctions where appropriate. One Supervisor has mainly focused on educating its supervised population to ensure compliance with AML/CTF obligations. This Supervisor has acknowledged feedback suggesting that it could tailor its approach to businesses, to ensure that those businesses which are not responding to education are addressed effectively. This Supervisor is developing a customer strategy to shape its approach to different types of businesses. The same Supervisor is also working on better risk targeting and use of intelligence to ensure that non-compliant activity is effectively identified and acted upon.

**2.32** Supervisors seek to promote compliant behaviour, which generally means that members who are found to be non-compliant are given an opportunity to correct their behaviour before sanctions are imposed. This has an impact on the number of serious sanctions imposed, which in the most part tends to be rare. There is, however, evidence that some Supervisors have taken robust action where necessary. For example, Supervisors have struck businesses off their membership list for breaching their AML/CTF obligations. Others have taken decisions to suspend members for up to five years.

**2.33** In situations where businesses are given more information from the Supervisors about the remedial actions they need to take, some Supervisors have very clear ways of following this advice up. This is to ensure that businesses are taking the recommendations seriously and in a timely manner. For example, some Supervisors use action plans to respond to non-compliant activity, setting out the regulatory requirement breached, the steps required to ensure compliance and a date by which evidence of compliance should be provided to the Supervisor. More information about one Supervisor's approach is provided in Box 2.C. These plans are not used where there is evidence of actual facilitation of money laundering, or where there is evidence that a member has blatantly disregarded a requirement of the legislation. One Supervisor issued sixteen action plans in 2010. All sixteen members responded accordingly to the plans and no disciplinary action was necessary.

**2.34** During autumn 2010, a group of Supervisors led an initiative within their affinity group to share information on enforcement and penalties policies and procedures and to compare their approaches to imposing penalties (including context, severity and options employed). This work has continued in 2011 and has proved to be helpful in encouraging greater consistency among

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<sup>12</sup> These are separate from the money laundering offences provided for under the Proceeds of Crime Act 2002 (POCA) and the Terrorism Act 2000 (TACT).

Supervisors, while taking into account the diversity of their members. Some Supervisors have recognised the need to ensure consistency of approach amongst their compliance staff. Some Supervisors have developed a handbook which records monitoring procedures to help ensure consistency of approach.

**2.35** For many of the professional bodies, their enforcement regime for non-compliance is integrated into processes for dealing with non-compliance with industry rules and codes of practice more generally. In these circumstances Supervisors have a number of additional sanctions at their disposal. For example, for many professional bodies the ultimate disciplinary sanction available to them is exclusion from membership and withdrawal of supervision, which is taken very seriously by members. There are also a number of other actions they can take including, asking an external party to conduct a quality review on certain areas of work, restricting the take on of new clients in a particular discipline and suspension of a member's practicing certificate.

#### **Box 2.C: Case Study - Action plans for businesses**

Action plans are used to clarify the steps firms need to take in order to address non-compliance with the Regulations. These plans use action points agreed between the firm and the visiting quality adviser to set out what businesses need to do in order to make the necessary improvements to their AML/CTF policies and procedures. Agreed timeframes range between three to six months, by which time the firm is required to provide additional evidence to support the implementation of the agreed action(s). Firms that received action plans in the past year have addressed all the points raised within the given time frame and have provided relevant evidence. Failure to satisfy the action plans would result in a referral to the Supervisor's disciplinary committee to enforce disciplinary sanctions. Firms that have completed the cycle have commented that this approach is appreciated, as it gives the right level of support to ensure compliance with the Regulations and is seen as giving a value added benefit to membership.

## **Advice and outreach**

### **Context**

**2.36** Supervisors are not required by the Regulations to offer advice to the businesses they supervise. However, it is accepted good practice (recognised by the Regulators' Compliance Code) to have appropriate arrangements in place to offer both general and targeted information and practical advice in a range of formats. Supervisors provide a variety of different types of guidance. HM Treasury has approved guidance for the vast majority of regulated businesses across all sectors. The most widely used and established guidance is that for financial institutions issued by the Joint Money Laundering Steering Group (JMLSG). The JMLSG comprises representatives from trade associations across the financial services industry. It highlights good practice and gives practical assistance in interpreting the Regulations. A full list of approved guidance is published on the HM Treasury website<sup>13</sup>.

**2.37** The Review showed that guidance has been well received and is well used in general, particularly the JMLSG Guidance Notes. However, there is criticism that some guidance can be too long, difficult to read and often puts off smaller businesses in particular. HM Treasury is keen to ensure that guidance helps businesses really understand what the expectations of them are, particularly in relation to taking a risk based approach, using the simplification provisions

<sup>13</sup> [http://www.hm-treasury.gov.uk/d/fin\\_aml\\_ctf\\_guidance.pdf](http://www.hm-treasury.gov.uk/d/fin_aml_ctf_guidance.pdf)

where appropriate and reporting suspicious activity. Guidance should communicate the main messages about how the Regulations should be implemented in practice and be clear and accessible. It should be easy for readers to pull out the main points about the Regulations. To that end it should include a short accessible summary that communicates key points and refers readers to sections of the guidance and relevant legislation.

## Analysis

**2.38** Across all Supervisors, there is evidence that significant time and effort is spent producing and updating specific guidance for their supervised businesses. This effort has been rewarded by positive feedback in some cases. Many traditional methods of communication are used, including guidance specifically on AML/CTF (or incorporated into wider industry specific materials), newsletters, magazines, toolkits and help sheets, most of which are available online. Many accountancy Supervisors (and a Government Supervisor) refer their members to guidance produced by the Consultative Committee of Accountancy Bodies (CCAB) which has produced unified guidance for the accountancy profession in the UK. It is notable that professional bodies, not currently appointed as Supervisors under the AML/CTF regime, have also worked together to produce single industry guidance for the property sector which HM Treasury has approved.

**2.39** Many Supervisors are coming up with new ways of providing advice to their members. For example, some Supervisors have recently started to host webinars; created podcasts; produced an AML e-learning program, which allows their members to test their knowledge; and created a dedicated MLRO e-forum, which includes relevant SOCA Alerts and other intelligence based products on new warning signs and trends. Others provide weekly or monthly email updates or bulletins, updates on their respective websites and quarterly publications. Supervisors have also provided articles for trade associations and the trade press.

**2.40** In addition to written and other online materials, many Supervisors provide a number of opportunities for their businesses to meet with them face to face. Many Supervisors hold conferences, seminars, presentations and training courses. Some Supervisors have forums for the nominated officers in the sectors they supervise. Almost all of the Supervisors also have dedicated email addresses and hotlines which businesses can use if they have AML/CTF related queries. One Supervisor with a population of over 10,000 firms/150,000 members receives approximately 600 enquiries on AML/CTF issues each month. Another Supervisor with less than 500 members receives around five queries per month. Another Supervisor with over 12,000 members (which have over 24,000 premises), received over 6,500 enquiries last year (including email, telephone and written enquiries). One Supervisor noted that enquiries have included asking for advice about whether to submit a SAR and seeking consent from SOCA.

**2.41** Some Supervisors provide road shows and other training events, where views and comments can be exchanged. One Supervisor organises road shows which are specifically aimed at new firms, where it always makes reference to core AML/CTF requirements. Another Supervisor aims to contact all businesses by phone within nine months of them joining its register to explain their AML/CTF responsibilities and talk through its policies and procedures.

**2.42** Some Supervisors actively seek feedback from members which influences the materials they produce and methods of engagement. One Supervisor measures the effectiveness of changes in guidance and policy by inviting feedback by way of surveys and questionnaires and by observing changes in professional practice. Another Supervisor consults with businesses and their representative bodies on a quarterly basis. An additional Supervisor reviews the guidance it produces every two years. During this process it actively seeks views from businesses. Some Supervisors encourage their members to proactively provide feedback on the full range of services they provide. For example, one Supervisor seeks ongoing feedback on its helpline services, information on its website and events it hosts. More information about one Supervisor's approach to receiving feedback is shown in Box 2.D.

### **Box 2.D: Case Study - Methods for receiving feedback from businesses**

Supervised firms are invited each year to provide feedback on the extent to which they utilise AML/CTF products and services provided by the Supervisor and their levels of satisfaction. Feedback is sought from delegates at all training and networking events. This feedback has resulted in the selection of new venues for training, the creation of an online introductory AML course, the extension of the training courses to three hours to enable greater discussion, and the inclusion of more interactive scenarios. Feedback from these sessions and trends from calls to the helpline are used to identify areas of compliance which are challenging the supervised firms. The Supervisor uses this to better target articles in regular e-alerts and topics for forthcoming training. Finally, through networking groups and round table events, supervised firms are updated on potential legislative changes and asked for their views.

## **Information sharing**

### **Context**

**2.43** Supervisors were asked to provide feedback on information sharing arrangements in place and working arrangements with other Supervisors and SOCA. There are a number of forums which facilitate information sharing amongst the Supervisors, including the AMLSF, which SOCA and HM Treasury attend. The forum is used to discuss a range of issues and to inform policy development. It enables Supervisors to share best practice, raise commonly faced issues and ensure that a consistent approach is taken across Supervisors.

**2.44** In addition, the Money Laundering Advisory Committee (MLAC), jointly chaired by HM Treasury and the Home Office, provides a forum for representatives from industry, law enforcement, Supervisors and Government to oversee and advise on the operation of an effective and proportionate AML/CTF regime in the UK; to inform evidence based policy making; to review industry guidance; and to inform the development of global standards.

**2.45** Many Supervisors also share information through their respective affinity groups. These groups are organised by the Supervisors and meet according to need. There are three groups, one of which consists of all Government Supervisors; another which includes all Supervisors who oversee legal professionals; and one group of Supervisors who collectively oversee the accountancy, taxation, bookkeeping and insolvency professions.

**2.46** Following the Lander Review of the Suspicious Activity Reports (SARs) Regime in 2006, there was a recommendation that SOCA should agree a Memorandum of Understanding (MOU) with each Supervisor. In 2010, SOCA made a decision not to enter into new joint working agreements with Supervisors and to allow existing agreements to lapse. SOCA remains committed to working collaboratively with Supervisors to ensure that businesses within the regulated sector are provided with support in protecting themselves against money laundering and terrorist financing.

**2.47** SOCA will continue to explore opportunities for data sharing with Supervisors and, if a project or operational imperative is identified, will enter into a bespoke agreement. These agreements will clearly define the terms of reference and ensure the effective management and governance of the data, thus protecting the SARs regime and its participants.

**2.48** In response to the Review, there have been calls for information sharing powers to be strengthened. Specifically, HM Treasury have asked for views on whether or not 'the ability of

Supervisors to exchange information with each other for the purposes of discharging their AML supervisory functions should be strengthened, if necessary by the creation of new gateways to allow for the exchange of information?<sup>14</sup> This is to ensure that Supervisors can inform each other if one of its members is choosing to move from one Supervisor to another. It would also allow Supervisors who have expelled members to share information with other Supervisors, so they have access to all appropriate background information on the business.

## Analysis

**2.49** Across the Supervisors, there is a shared appetite for interacting with their counterparts through meetings of the AMLSF, MLAC and affinity groups, and also through more ad hoc informal contact as the need arises. There is general consensus that these meetings are necessary to share best practice, ensure consistency in approach and avoid duplication.

**2.50** Two Supervisors have led a joint initiative amongst the Supervisors in their affinity group to share information on their enforcement and penalties policies and procedures and compared their respective approaches to imposing penalties. This has helped to encourage greater consistency, as Supervisors are able to benchmark the enforcement action they take against actions taken by other Supervisors. More information about this project is shown in Box 2.E.

**2.51** For some Supervisors, information sharing gateways are especially important if there are a number of Supervisors overseeing the same type of business. For example, the insolvency sector (where individuals rather than firms are required to be registered) is regulated by seven recognised professional bodies (RPBs) or by the Insolvency Service as a competent authority. In addition, some Supervisors license various non members who have met the examination and competence requirements (called Regulated Non Members). This means that there are often occasions when within one firm there are insolvency practitioners who are registered by different bodies. There is a MOU in place between the seven RPBs and the insolvency service. This provides a regulatory information gateway and is used, for example, if serious issues arise that have a direct impact on another RPB's monitoring of its own licence holders.

**2.52** There are examples of effective joint working with SOCA and the Police across the Supervisors, even where there is no formal joint working agreement in place. Agreements with the Association of Chief Police Officers (ACPO) are reported in at least two cases and there are several cases where agreements are in place with Irish and Scottish equivalents.

### **Box 2.E: Case Study - Ensuring a consistent approach to enforcement**

During Autumn 2010, two Supervisors led an initiative to facilitate information sharing amongst operationally focused members in their affinity group about their approaches to enforcement and penalties. Information collated and shared included the context in which the penalties were applied, the types of penalties used and the factors considered when deciding what action to take. This information has been co-ordinated into indicative guidance available for all affinity group members and all other Supervisors. This work has continued into 2011 and has included identification of further areas where consistency and aligned working will enhance effective supervision and monitoring. Future exercises lined up for the coming year include a review of reliance provisions. The aim of this review is to overcome the challenges faced by the regulated sector, in particular in adopting reliance as a mechanism for reducing the perceived administrative burden on practitioners and their clients, in complying with their responsibilities under the Regulations.

<sup>14</sup> P.23 of the Government response to the Review. [http://www.hm-treasury.gov.uk/fin\\_review\\_laundering\\_regs.htm](http://www.hm-treasury.gov.uk/fin_review_laundering_regs.htm)



# 3

## Conclusions

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**3.1** HM Treasury is grateful to the Supervisors for the time and effort which has gone into providing information about their supervisory activities. This information shows that Supervisors are generally meeting all of their AML/CTF obligations and that there many examples of good practice. There are also further opportunities for Supervisors to learn from each other and strengthen their approach.

### Risk based approach

**3.2** Naturally there will be differences in the risk based approach of Supervisors depending on a number of factors, including the nature of the sectors they supervise. However, responses to the Review show that stakeholders are concerned about inconsistency in the application of the risk based approach within and across the Supervisors. **HM Treasury welcomes the work which one affinity group has done in comparing approaches to compliance and enforcement to ensure consistency.**

**3.3** Some Supervisors have provided evidence that they have thorough risk based models and ways of updating their approach in response to changing risk factors. **HM Treasury will work with Supervisors to ensure that in future reporting rounds evidence is provided from all Supervisors which demonstrates that Supervisors have clear risk based models in place, agreed by senior management, fully understood by staff and updated regularly to reflect current risks.**

**3.4** Few of the Supervisors share their observations on the risk based approaches of the businesses they supervise. An exception is one Supervisor who has carried out a benchmarking exercise to assess its members' approaches. **HM Treasury will consult with Supervisors to ensure that information on the risk based approach of supervised businesses is collected in future returns.** It is an integral part of the role of the Supervisor to check that firms are focusing their efforts sufficiently on high risk customers, products and transactions.

### Compliance visits

**3.5** While it is understood that not all visiting officers are able to have in-depth knowledge and experience of the businesses they are visiting, HM Treasury expects that officers have prepared thoroughly ahead of visits and have requested information prior to visits as necessary. This is to ensure that questions asked and information requested on site is limited to what is necessary and proportionate to assess compliance. This is also to ensure that visits are as time efficient as possible. **Supervisors aim to make the most of powers which enable them to request information ahead of visits where appropriate.**

**3.6** The Government remains fully committed to ensuring a hostile environment for illicit finance while minimising the burden on legitimate businesses. With this in mind, **Supervisors seek to identify opportunities to save time and resources by working collaboratively with others who visit the businesses they supervise.**

### Enforcement action

**3.7** After a compliance visit is carried out, all Supervisors are obliged to notify businesses of any areas of non-compliance and highlight any corrective action required. Some businesses have

highlighted through the Review that it is not always clear what follow up actions are necessary to ensure compliance. **Supervisors seek to provide clear advice to businesses which are found to be non-compliant and ensure that businesses are aware of any necessary corrective action.**

**3.8** Supervisors should apply disciplinary measures where the failures to meet AML/CTF obligations are significant or behaviour is unresponsive to advice to ensure compliance. **Supervisors aim to ensure that businesses which are seriously and/or persistently non-compliant are penalised effectively.**

**3.9** It is important to know whether or not effective enforcement action has taken place consistently by the Supervisors. The action they have taken as a result of non-compliant behaviour is more evident in some Supervisors than others. Some Supervisors are assessing their respective approaches to taking effective enforcement action and whether there is sufficient consistency amongst Supervisors with similar supervised businesses. **HM Treasury will work with the Supervisors to develop a better understanding of enforcement action taken.**

## **Advice and outreach**

**3.10** A variety of engagement methods is essential to ensure that businesses across the supervisory population can interact effectively with the relevant Supervisor and gain access to relevant guidance. Not all businesses can be reached through seminars, conferences, presentations and road shows. **HM Treasury is pleased that almost all Supervisors have specific email addresses and hotlines which members can use to ask AML/CTF questions.**

**3.11** It is important to have targeted outreach to ensure that those who are difficult to reach, are new to the sector, or are most likely to be non-compliant are made aware of their obligations. **HM Treasury notes that one Supervisor has targeted one of its road shows at new firms. Where resources allow for a more targeted approach to be taken to outreach and guidance, this is encouraged.**

**3.12** HM Treasury notes that many Supervisors actively seek feedback from their members on the advice they provide to ensure that it is relevant and useful. **Active engagement and full consideration of views and comments from businesses when designing guidance and advice is encouraged.**

## **Information sharing**

**3.13** This report does not cover how effectively Supervisors use information provided by law enforcement, but there is evidence of joint working between Supervisors, SOCA and the Police. In future reporting rounds, it will be important to capture this information as access to relevant and actionable intelligence is vital in informing risk assessments and identifying non-compliant businesses. **Working with the Supervisors, HM Treasury will seek to develop a better understanding about how intelligence based products are received and used by Supervisors.**

# A

## List of Supervisors

<b>Professional Bodies, Part 1</b>	
Association of Chartered Certified Accountants	<a href="http://www.accaglobal.com/">http://www.accaglobal.com/</a>
Council for Licensed Conveyancers	<a href="http://www.conveyancer.org.uk/">http://www.conveyancer.org.uk/</a>
Faculty of Advocates	<a href="http://www.advocates.org.uk">http://www.advocates.org.uk</a>
General Council of the Bar	<a href="http://www.barcouncil.org.uk/">http://www.barcouncil.org.uk/</a>
General Council of the Bar of Northern Ireland	<a href="http://www.barlibrary.com/about-us/the-general-council-of-the-bar-of-northern-ireland/">http://www.barlibrary.com/about-us/the-general-council-of-the-bar-of-northern-ireland/</a>
Institute of Chartered Accountants in England and Wales	<a href="http://www.icaew.com/">http://www.icaew.com/</a>
Institute of Chartered Accountants in Ireland	<a href="http://www.charteredaccountants.ie/">http://www.charteredaccountants.ie/</a>
Institute of Chartered Accountants of Scotland	<a href="http://www.icas.org.uk/icas/">http://www.icas.org.uk/icas/</a>
Law Society	<a href="http://www.lawsociety.org.uk/home.law">http://www.lawsociety.org.uk/home.law</a>
Law Society of Scotland	<a href="http://www.lawscot.org.uk/">http://www.lawscot.org.uk/</a>
Law Society of Northern Ireland	<a href="http://www.lawsoc-ni.org/">http://www.lawsoc-ni.org/</a>
<b>Professional Bodies, Part 2</b>	
Association of Accounting Technicians	<a href="http://www.aat.org.uk/">http://www.aat.org.uk/</a>
Association of International Accountants	<a href="http://www.aiaworldwide.com/">http://www.aiaworldwide.com/</a>
Association of Taxation Technicians	<a href="http://www.att.org.uk/">http://www.att.org.uk/</a>
Chartered Institute of Management Accountants	<a href="http://www.cimaglobal.com/">http://www.cimaglobal.com/</a>
Chartered Institute of Public Finance and Accountancy	<a href="http://www.cipfa.org.uk/">http://www.cipfa.org.uk/</a>
Chartered Institute of Taxation	<a href="http://www.tax.org.uk/">http://www.tax.org.uk/</a>
Faculty Office of the Archbishop of Canterbury	<a href="http://www.facultyoffice.org.uk/">http://www.facultyoffice.org.uk/</a>
Insolvency Practitioners Association	<a href="http://www.insolvency-practitioners.org.uk/">http://www.insolvency-practitioners.org.uk/</a>
Institute of Certified Bookkeepers	<a href="http://www.bookkeepers.org.uk/Homepage">http://www.bookkeepers.org.uk/Homepage</a>
Institute of Financial Accountants	<a href="http://www.ifa.org.uk/home">http://www.ifa.org.uk/home</a>
International Association of Book-keepers	<a href="http://www.iab.org.uk/index.asp">http://www.iab.org.uk/index.asp</a>
<b>Others (Public sector bodies)</b>	
Department of Enterprise, Trade, and Investment Northern Ireland	<a href="http://www.detini.gov.uk/">http://www.detini.gov.uk/</a>
Financial Services Authority	<a href="http://www.fsa.gov.uk/">http://www.fsa.gov.uk/</a>
Gambling Commission	<a href="http://www.gamblingcommission.gov.uk/">http://www.gamblingcommission.gov.uk/</a>
HM Revenue & Customs	<a href="http://www.hmrc.gov.uk/index.htm">http://www.hmrc.gov.uk/index.htm</a>
Insolvency Service	<a href="http://www.bis.gov.uk/insolvency">http://www.bis.gov.uk/insolvency</a>
Office of Fair Trading	<a href="http://www.oft.gov.uk/">http://www.oft.gov.uk/</a>



# B

## Questionnaire for Supervisors 2010/11

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- 1 The nature of their organisation;
  - Its role, size and membership. How the body is constituted.
  - A summary of their approach to AML supervision, and its relationship to wider supervisory activity (if any). An indication of the internal mechanisms such as membership rules, bye-laws, codes or statutory provisions under which supervision is carried out.
  - The resources that the Supervisor applies to AML supervision – ideally give an indication in staff years of the resources (whether employees, volunteers or others) committed to AML supervision.
  - We expect Supervisors to confirm that their AML resources are appropriate.
- 2 A summary of the supervised population; its nature (member firms or individuals) and their number. An indication of the nature of the supervised population by reference to size (turnover, number of employees etc; an indication of a typical or representative business if possible). How does the Supervisor ensure it supervises all the businesses it is responsible for under the Regulations?
- 3 A summary of their risk-based approach as Supervisors; how the risk presented by a supervised business is assessed, how that assessment informs the supervisory judgement and the nature, frequency and duration of supervisory activity. How supervisory interventions (visits, inspections, or other) are triggered.
- 4 A summary of the advice and information available to supervised businesses. Does it include web based material, publications (books, manuals, magazines, newsletters etc), expert advice by email or telephone, events such as workshops, conferences, or other means? A brief indication of the level of activity would be helpful, such as the number of newsletters, technical enquiries, and conferences and attendees.
- 5 A summary of the role and use made of inspection or audit visits to businesses. It will be helpful to include the number of visits carried out and the number of businesses visited where more than one visit may be made to a business.
- 6 A summary of their compliance policy and activity. Please include a summary of the range of compliance tools or sanctions; the compliance process; and a summary of the steps taken in 2010-2011 to impose how many sanctions of what type. (This should be interpreted broadly to cover all formal steps taken to improve standards or address failures, varying from formal advice through to fines or other punitive steps).
- 7 A summary of information sharing arrangements in place and working arrangements with SOCA and other Supervisors.
- 8 A summary of accountability and governance arrangements, including how a supervisor already reports (for example to its members) about AML activities, and how and where important decisions are made about AML supervision.

- 9 An overall assessment of the businesses that are supervised and their compliance; overall, are they meeting the regulatory requirements effectively and proportionately? Is compliance improving? Do identifiable groups of businesses that are supervised consistently present a high or low risk of being used to facilitate money laundering?
- 10 Supervisors should feel free to draw any additional issues to the attention of HM Treasury.
- 11 It would be helpful if Supervisors could comment on their arrangements for making SARs themselves, further to Regulation 24(2)? How many SARs did they make in the last year?
- 12 The Regulations (as Regulation 24(2) itself shows) refer to the twin threats of money laundering and terrorist financing. Accordingly we welcome any information about supervision in relation to terrorist finance, and any information on related initiatives or outputs as part of this exercise.



### **HM Treasury contacts**

This document can be found in full on our website: <http://www.hm-treasury.gov.uk>

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