

FCA warns firms over anti-money laundering failings

Of particular interest to: All UK firms

In brief

On 5 March 2024, the Financial Conduct Authority (FCA) issued a “Dear CEO” letter to Annex 1 Firms warning them about common failings found in their ability to prevent money laundering, terrorist financing and proliferation financing (hereafter “financial crime”). Whilst the letter sets out the FCA’s expectation for these firms (including the need to complete a gap analysis within the next six months), the findings will be relevant to all FCA authorised firms.

Summary

The FCA assessed Annex 1 firms’ Financial Crime policies, controls, and procedures, and found common weaknesses across several areas outlined further below. For the avoidance of doubt, an Annex 1 firm is defined in the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (“MLRs”) and its definition covers a wide range of businesses such as lending, financial leasing and payment services firms which are not authorised persons for the purposes of the Financial Services and Markets Act 2000.

Whilst only Annex 1 firms were assessed by the FCA, the anti-money laundering failings (“AML”) identified within the “Dear CEO” letter reinforces the FCA’s commitment to reduce and prevent financial crime, as stated within the FCA’s **Business Plan 2024/25**. The “Dear CEO” letter also serves as an essential reminder to **all firms** subject to the MLRs, to review the FCA’s findings, and assess their AML programs against the common AML failings identified. The FCA’s review identified the below common weaknesses:

1. Business Model

Discrepancies were found between the activity performed by a firm and what the firm was initially registered to perform, as well as inadequate financial crime controls (i.e. financial crime frameworks) that did not align with a firm’s business growth, and or complexity in operations. Further weaknesses identified were the lack of employee trainings carried out and senior management involvement in financial crime controls.

2. Risk Assessment

The FCA discovered that business wide risk assessments were either missing or poorly performed, which is essential to creating and putting in place effective controls to guard against and identify financial crime risks. Customer risk assessments (CRA) were also identified as a weakness, as most firms failed to tailor their CRA towards individual characteristics, which could cause a failure in assessing the level of due diligence required to manage risks.

3. Due diligence, Ongoing Monitoring, and Policies and Procedures

The deficiencies identified in Customer Due Diligence (CDD) policies and procedures concerned the lack of details, vague action plans, and outdated policies. The FCA highlighted ambiguity in policies

creates uncertainty about the level of CDD measures to be applied based on risk ratings, particularly during the onboarding stage and insufficient details on when and how to implement simplified CDD and enhanced due diligence measures, especially for customers from high-risk third countries which pose a substantial risk.

Additionally, the absence of appropriately documented policies for investigating and recording suspicious activity reports further exacerbates the weaknesses in firms' controls. The FCA requests that firms urgently review and enhance their policies, providing clear and up-to-date guidance to staff, ensuring proper compliance with the MLRs, which ultimately contributes to a more robust defence against financial crime.

4. Governance, Management Information and Training

As highlighted within the “Dear CEO” letter, the FCA found that financial crime teams were under-resourced and lacked oversight from senior management. As a result, the FCA urges senior management to take explicit responsibility for managing financial crime risks and allocate sufficient resources, particularly in relation to training. The FCA also emphasised the need for comprehensive training, especially on laws related to financial crime, with regular sessions and thorough record-keeping.

Governance and management information gaps in recording financial crime decisions were also referenced as deficiencies firms need to address. As a result, the FCA recommended making financial crime a standing agenda item in senior management meetings, ensuring active engagement from management, and establishing an independent audit function, to evaluate and monitor policy effectiveness and MLR compliance.

Annex 1 firms are mandated to conduct a comprehensive gap analysis within six months, addressing deficiencies identified in financial crime controls, risk assessments, inadequate resourcing and oversight and discrepancies between firms’ registered and actual activities. Moreover, the “Dear CEO” letter provides the expectations that the FCA has for all firms subject to the MLRs, both for preventing and identifying AML control failings and deficiencies.

Useful Links

[Dear CEO letter: Action needed in response to common control failings identified in anti-money laundering frameworks \(fca.org.uk\)](#)
[FCA warns firms over anti-money laundering failings | FCA](#)
[Annex 1 Common terms - FCA Handbook](#)
[Business Plan 2023/24 | FCA](#)