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Financial Crime Controls

Of particular interest to: all firms

In brief

In the past month or so the FCA has updated its webpage on financial sanctions, publicised the findings from a 2021 review of firms' financial crime controls and released its three-year strategy which includes reducing and preventing financial crime. In the light of these, firms should consider taking the opportunity to assess their own financial crime controls.

Summary

In order to counter the risk that they may be used to further financial crime the updated **financial sanctions** webpage reminds firms of the need to screen against both the **UK Sanctions list** and the **UK list of asset freeze targets** for financial sanctions obligations. The updated webpage also reminds firms that breaches of financial sanctions may not only result in action being taken by the FCA against offending firms but that also monetary penalties can be imposed by the Office of Financial Sanctions Implementation (OFSI).

Although the published review of **financial crime controls** was focused on challenger banks, the areas looked at will be relevant to all firms.

The review of financial crime controls covered:

- governance and management information
- policies and procedures
- risk assessments
- identification of high risk / sanctioned individuals or entities
- due diligence and ongoing monitoring
- communication, training, and awareness

Key Findings

Financial Crime Control Framework – **Change management –**There were weaknesses in the effective management of financial crime change programmes. This included inadequate oversight and a lack of pace of implementation which meant that challenger banks' control frameworks were not able to keep up with changes to the business models.

Customer Risk Assessment Framework – These were not well developed and lacked sufficient detail; some firms did not have any.

Ineffective transaction monitoring alert management – There were incomplete and undocumented investigations at firms relating to fraudulent activities and the rationale used for discounting alerts was lacking detail to justify discounting an alert. There were also inadequate resources to review alerts and submit **Suspicious Activity Reports (SARs)** as soon as practicably possible in line with the requirements set out under the Proceeds of Crime Act 2002.

SARs submission - The FCA had concerns about the quality of SARs reported to the National Crime Agency given the lack of the adequacy of these banks' CDD and EDD checks when onboarding these customers. There were also inadequate resources to review alerts and submit **Suspicious Activity Reports (SARs)** as soon as practicably possible in line with the requirements set out under the Proceeds of Crime Act 2002.

Principle 11 Notification – Some challenger banks had failed to notify the FCA of known significant financial crime control failings in accordance with their obligations under Principle 11 of the FCA Handbook.

If you need support with the review or development of your financial crime controls framework, then please do get in touch with your usual Optima contact.

Useful Links

FCA: Financial Sanctions

UK Sanctions list

OFSI list of asset freeze targets

FCA Three-year strategy

Financial Crime Controls review

FCA Financial Crime Guide

If you have any comments on this article, or any questions in general, then please speak to your usual Optima consultant or contact us at info@optima-partners.com

Our mailing address is:
Terminal House, 1st Floor, 52 Grosvenor Gardens, Belgravia, London SW1W 0AU