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## UK Receives Top Ranking Globally for Anti-Money Laundering and Terrorist Financing Measures

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The Financial Action Task Force (**FATF**) has awarded the UK its highest ranking globally for anti-money laundering (**AML**) and counter-terrorist financing (**CTF**) measures.<sup>1</sup> In a report published in December 2018, FATF praised the UK for having “a well-developed and robust regime” in which money-laundering and terrorist finance activities are “*routinely and aggressively*” investigated and prosecuted.<sup>2</sup>

Unsurprisingly, the report has been trumpeted by the government as a success for its economic crime-fighting strategy. Ben Wallace, Minister for Security and Economic Crime, declared: “*The UK has taken a leading role in the global fight against illicit finance. I’m delighted with today’s report which shows our efforts are being recognised*”.<sup>3</sup>

The reaction of anti-corruption campaigners, in contrast, has been far from positive. A joint statement by Corruption Watch, Global Witness and Transparency International UK noted that the glowing report seemed somewhat at odds with the NCA’s estimate that hundreds of billions of pounds are laundered through the UK each year.<sup>4</sup> In the words of Global Witness, “*this gold star... suggests the anti-corruption watchdog is asleep on the job*.”<sup>5</sup>

### The FATF report

FATF evaluates the AML and CTF measures of thirty-six countries world-wide by the effectiveness of eleven so-called Immediate Outcomes, each covering different areas of compliance and supervision. Out of available ratings of High, Substantial, Moderate and Low, FATF awarded the UK four Highs, four Substantials and three Moderates. No areas were deemed Low.

In addition to Immediate Outcomes, FATF uses a second, more detailed evaluation system of Technical Compliance Ratings. Out of forty technical compliance areas, the UK was judged compliant or largely compliant in thirty-eight areas. To put these ratings in international context, the UK achieved fourteen more compliant/largely compliant ratings than the USA, and seventeen more than Switzerland.

### Areas requiring improvement

In amongst the positives, however, FATF's report identified a number of weaknesses in the UK's AML/CTF regime. Areas singled out as requiring improvement were as follows:

#### **a) Suspicious Activity Reports (SARs)**

FATF considered the UK's SAR regime to require *"a significant overhaul."*<sup>6</sup> The report highlighted widely recognised failings such as the low level of SAR reporting in sectors such as law, accountancy and real estate, as well as the *"poor quality"* of a significant number of SARs filed. FATF also noted that it had *"serious concerns"* about the SAR online reporting tool, which it considered to be insufficiently adapted for use by non-banks. As a *"priority action"*, FATF therefore recommended that the UK *"prioritize reform of the SAR regime, including by modernising reporting mechanisms."*

#### **b) UK Financial Intelligence Unit**

Linked to the poor quality of SARs, FATF singled out the UK Financial Intelligence Unit (UKFIU)<sup>7</sup> as a *"serious concern."*<sup>8</sup> FATF noted that the UK had pursued a *"deliberate policy decision to limit the role of the UKFIU in undertaking operational and strategic analysis"*; as a result, it suffers from a lack of human and IT resources which means that financial intelligence is inadequately exploited. To remedy this, FATF recommended that the UK *"substantially increase"* both the human resources available to the UKFIU and its IT capacity.

#### **c) Persons of Significant Control (PSC) Register**

FATF also raised concerns regarding the PSC Register, set up in 2016 to create transparency as to the ultimate controllers of UK-incorporated companies.<sup>9</sup> FATF noted that although the information on the register *"is subject to basic checks, it remains largely unverified"*, while *"individuals and entities are not screened against targeted financial sanctions lists when registering companies."*

#### **d) Supervision**

Finally, FATF identified *"significant weaknesses"* in supervision by the twenty-two legal and accountancy sector supervisors, deeming their understanding of money-laundering / terrorist-financing risk to be *"highly variable."*<sup>10</sup> Although noting that OPBAS had been established to address [these concerns](#), FATF recommended that the UK *"closely monitor"* OPBAS in the performance of this work going forward.

### **Reactions to the report**

Critics of the report clearly consider that FATF did not go far enough in flagging concerns. In their joint statement, Corruption Watch, Global Witness and Transparency International UK deemed the UK's "Substantial" rating for the investigation/prosecution of money laundering to be *"generous"*, pointing to (i) the low number of convictions for failure to disclose money laundering (despite under-reporting in the legal, real estate and accountancy sectors) and (ii) the fact that *"no bank has ever been prosecuted in the UK for its role in money laundering"* despite *"the mention of large UK banks in many money-laundering scandals."*<sup>11</sup>

The anti-corruption NGOs levelled further criticism at FATF's verdict on Companies House. In

particular, FATF's mention of Companies House using sanctions as a last resort for non-compliance was deemed to "*grossly understate the poor track record of enforcement of the rules*"; to date, the sole prosecution for false filings is that of an individual who expressly incorporated fictitious companies to highlight Companies House verification failings.<sup>12</sup>

In short, anti-corruption campaigners have warned against FATF's favourable report inducing government "*complacency*" when they consider there is still much to be done.<sup>13</sup>

The government has naturally welcomed FATF's overall positive assessment. Although it remains to be seen whether it will take FATF's recommendations on board, a number of issues flagged were in fact already acknowledged as failings and in the early stages of being addressed. In October 2018, for example, the Minister for State and Security announced a crackdown on the "*facilitators*" of economic crime, including a drive to increase the number of SARs filed in the accountancy, real estate and legal sectors. Indeed, improvements in this area already seem to be underway; at the end of 2018, the NCA reported a year-on-year increase in SAR filings of 32% from estate agents and 13% from accountants.<sup>14</sup>

As for FATF's concerns regarding the UKFIU, the Economic Secretary to the Treasury, John Glen, stated in response that that "*the NCA is increasing the staffing of the UKFIU by more than 30%...with further increases envisaged in future years.*"<sup>15</sup> He added that "*an improved IT system*" would also be provided to help process and analyse SARs. Glen further announced that the government plans to legislate in 2019 to introduce a register of beneficial ownership for overseas entities which own or purchase UK property.

Concluding his statement, Glen noted that FATF's report "*underlines where more work can be done and will help to focus these efforts over the coming years.*"<sup>16</sup> We await the government's full response to the report which it has stated will be published in due course.<sup>17</sup> It seems likely, however, that we will see the weaknesses identified by FATF prioritized in the next few years.

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<sup>1</sup> FATF is an inter-governmental body established in 1989 to set standards and promote the implementation of legal and regulatory measures for combating money laundering and terrorist financing. Thirty-six jurisdictions are currently members of FATF (including most major financial centres across the world).

<sup>2</sup> Please see an executive summary of FATF's report at <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-Kingdom-2018-Executive-Summary.pdf>.

<sup>3</sup> <https://www.gov.uk/government/news/uk-takes-top-spot-in-fight-against-dirty-money>.

<sup>4</sup> See joint statement at [Bond\\_Anti-Corruption\\_Group\\_FATF\\_briefing.pdf](#).

<sup>5</sup> <https://www.globalwitness.org/it/press-releases/dismay-g7-anti-corruption-watchdog-gives-uk-highest-ever-rating-despite-country-laundering-hundreds-billions-pounds/>.

<sup>6</sup> See pages 4 and 6 at <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-Kingdom-2018-Executive-Summary.pdf>.

<sup>7</sup> The UKFIU is the body responsible for the gathering, analysis and dissemination of the financial intelligence received from SARs.

<sup>8</sup> See pages 4 and 6 at <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-Kingdom-2018-Executive-Summary.pdf>.

<sup>9</sup> See page 11 at <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-Kingdom-2018-Executive-Summary.pdf>.

<sup>10</sup> See pages 9 and 12 at <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-Kingdom-2018-Executive-Summary.pdf>.

<sup>11</sup> See joint statement at [Bond\\_Anti-Corruption\\_Group\\_FATF\\_briefing.pdf](#).

<sup>12</sup> To date, the sole prosecution for false filings is that of Kevin Brewer, who incorporated fictitious companies with the express purpose of highlighting Companies House verification failings; see joint statement at [Bond\\_Anti-Corruption\\_Group\\_FATF\\_briefing.pdf](#).

<sup>13</sup> <https://www.transparency.org.uk/fatf-review-is-no-grounds-for-complacency-in-fight-against-dirty-money/>.

<sup>14</sup> Although the legal sector bucked this trend with a year-on-year decrease of 12%.

<sup>15</sup> <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-12-10/HCWS1162/>.

<sup>16</sup> *Ibid.*

<sup>17</sup> *Ibid.*