



Thematic Review

Money laundering risks for Small and Medium Sized Practices offering Trust or Company Services

TCSP Thematic Review 2022

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1.0 Introduction

The Association of International Accountants (AIA) is a professional body supervisor for accountants in the United Kingdom under Schedule 1 of the Money Laundering Regulations 2017 (MLR).

In the Republic of Ireland AIA acts as a Designated Accountancy Body under the Criminal Justice (Money Laundering and Terrorist Financing) Act.

We monitor our supervised population and take measures where necessary to ensure compliance, including:

- ensuring that our supervised population complies with the regulations and obtains necessary approval of their beneficial owners, officers, and managers via Criminal Records Checks
- sharing intelligence with other professional bodies and law enforcement agencies
- adopting a risk-based approach and basing the frequency and intensity of our supervision on our comprehensive risk assessment
- encouraging reporting of actual or potential breaches of the regulations through our whistleblowing process

We take appropriate measures to review:

- firm-wide risk assessments carried out by firms

- client due diligence both at onboarding and as part of an ongoing relationship
- suspicious activity reporting processes and training
- the adequacy and implementation of our firms' policies, controls, and procedures

We enforce the money laundering regulations and carry out our work as an AML supervisor through:

- sharing and receiving information to prevent money laundering with other supervisors and law enforcement agencies
- publishing updated guidance on the regulations
- undertaking proactive risk-based supervision
- investigating potential breaches of the regulations and disciplining our supervised population where appropriate
- reporting suspicious activity encountered during our monitoring and supervision activity

This report outlines the outcomes of a thematic review undertaken on AIA supervised firms which provide Trust or Company Services to their current or prospective clients.

2.0 Understanding TCSP risks in our supervised population

Our supervised firms are required to:

- perform a firm-wide risk assessment of the money laundering risks within their firm and
- perform Customer Due Diligence (CDD) on each current and prospective client to assess the risks of that client using the firm to facilitate money laundering.

The United Kingdom [National Risk Assessment \(2020\)](#)¹ highlighted trust and company service providers (TCSPs) as being at a higher risk of exploitation by criminals to facilitate money laundering.

51% of our total population of supervised firms currently offer trust and company services to clients.

In Spring 2022 we undertook a thematic review

2.1 Methodology

We surveyed a sample of our supervised firms about the TCSP services they provide and sought more detail on whether those services are provided in conjunction with accountancy services.

We asked firms to describe their assessment of the risks that TCSP services present, including how they adapt their procedures to mitigate these risks and the number of Suspicious Activity Reports (SARs) they had submitted.

Firms were selected with a range of risk profiles which considered factors such as their client base and services provided. These factors are linked to the National Risk Assessment, which defines higher risk services and clients.

The findings show that all the firms we surveyed consider and assess the risk of providing TCSP services as lower when provided to existing clients with a clear business rationale expressed for the service.

to assess the nature of the trust and company services offered by the firms we supervise and to explore the risk that these services may be used to facilitate money laundering.

Understanding the underlying risk factors within our supervised population means we can better educate our firms to identify, mitigate and avoid these risks and protect themselves from unwittingly aiding economic crime.

This report therefore sets out a selection of the qualitative and quantitative data and trends we observed from the responses to questionnaires we sent to firms offering TCSP services.

We have also included a breakdown on what we believe our firms are doing well and what can be improved, alongside pointing to specific guidance we provide to our firms as a professional body supervisor.

Most of our supervised firms do not offer registered office and / or company formation services in isolation or without a business rationale and an ongoing service provision, which includes other accountancy services.

Our wider monitoring and supervision activity backs up this view and we often see that where company formation and registered office services are provided, they occur as normal activity for firms with an ongoing client relationship.

Similarly, it is certainly not uncommon for principals of the firm to be named as company secretaries for clients. Directorships are more unusual given the population surveyed. Looking across the broad spectrum of AIA supervised firms the impact of TCSP activity undertaken is comparatively low.

Generally speaking there are higher risks when TCSP services are combined with other recognised money laundering risk factors, such

¹ www.gov.uk/government/publications/national-risk-assessment-of-money-laundering-and-terrorist-financing-2020

as forming companies for new clients with complex structures, handling client money and forming companies for clients based overseas. In these circumstances firms generally consider the combined risks as part of their CDD procedures.

Services that are rarer and potentially higher risk include principals holding nominee shareholdings and / or holding the office of director for a client. There are very few AIA firms providing this service. For the firms which declared they undertook nominee shareholdings, there were very few held. These services pose one of the highest risks of our

firms being used to facilitate money laundering, however the risks are concentrated in only a very few firms.

We expect firms providing higher risk services to recognise the risks, have a documented money laundering risk assessment with adequate verification procedures and robust procedures for monitoring the ongoing relationship with these clients.





Further information about our approach to AML supervision is available at

www.aiaworldwide.com/insights/aml/aml-supervision/

2.2 Size and structure of AIA firms

Firms AIA supervises for the purposes of AML regulation vary in terms of size, services provided and structure.

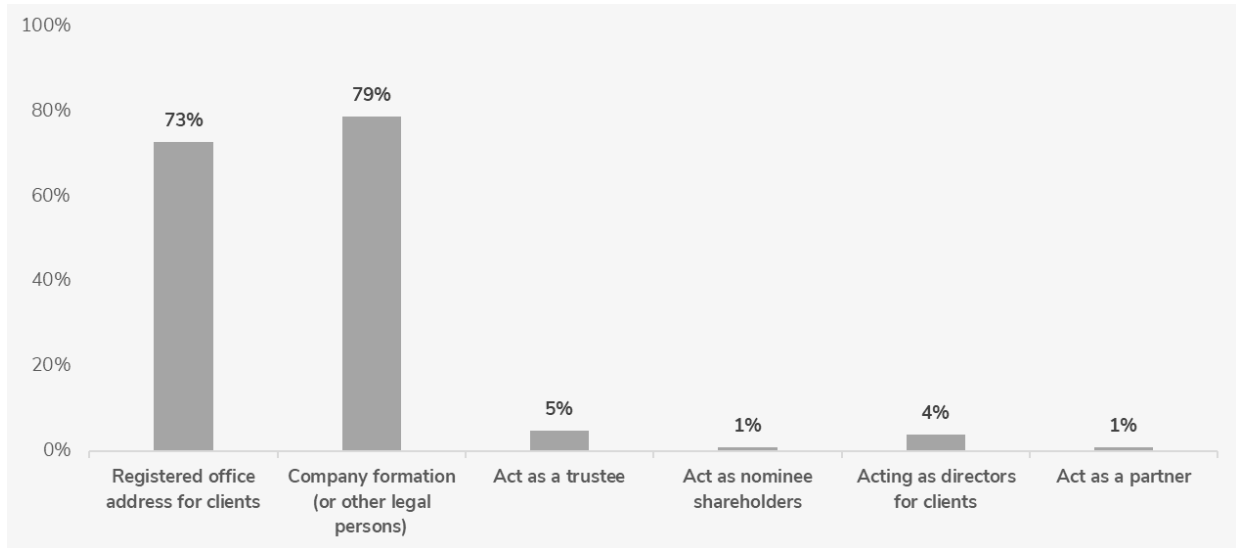
A proportion of AIA supervised firms undertake trust or company services. The typical AIA supervised firm undertaking this work is categorised as a SMP (Small or Medium Sized Practice).

	The average number of principals is 1.22	The highest number of principals is 3	The lowest number of principals is 1
	The average number of employees is 3.99	The highest number of employees is 40	The lowest number of employees is 0
	The average number of offices is 1.16	The highest number of offices is 4	The lowest number of offices is 1
	The average per year turnover is £223,852	The highest per year turnover is £4,500,000	The lowest per year turnover is £17,000
	The average number of clients is 268.60	The highest number of clients is 7,094	The lowest number of clients is 5

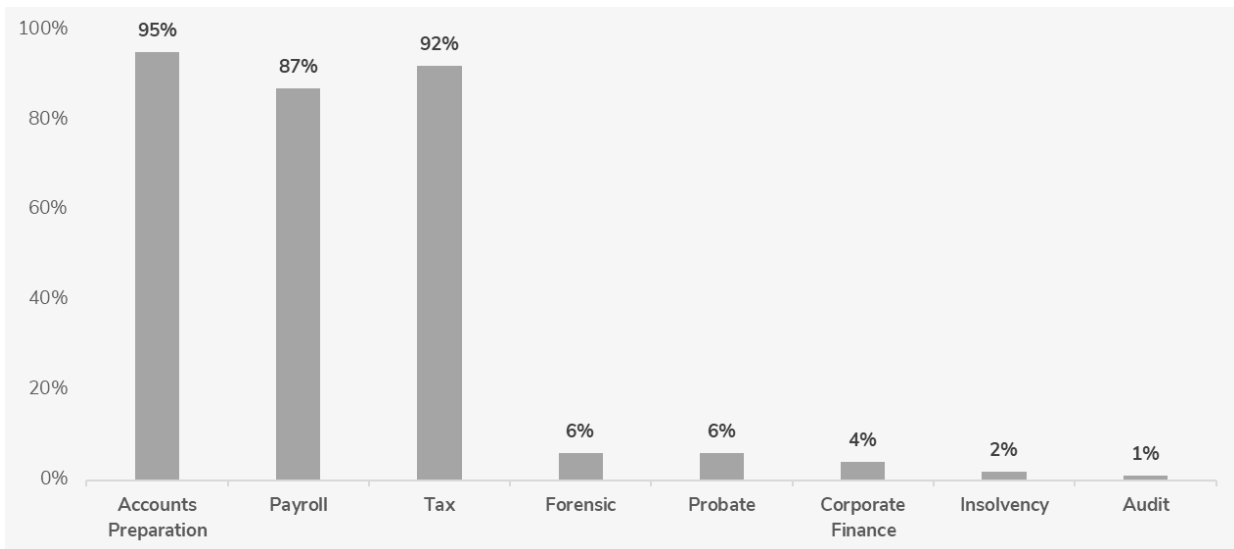
3.0 Findings

3.1 The nature of TCSP work provided

TYPES OF TRUST AND COMPANY SERVICES OFFERED



ANCILLARY ACCOUNTANCY SERVICES



WHAT DID WE FIND?

- Company formation (79%) and a registered office address for clients (73%) are the two most frequent services provided by AIA firms offering trust or company services.

- There are very few firms holding nominee shareholdings.
- The vast majority of firms provide ancillary accountancy services and TCSP work does not form 100% of their work.
- 95% of firms that offer TCSP services also prepare, and file, accounts and a smaller total undertake tax-related engagements.
- A very small number of firms offering TCSP services also offer specialist services such as Audit, Insolvency or Forensic accounting.
- Firms consider offering TCSP services to existing clients to be of lower risk than offering TCSP services to new clients.

WHAT ARE FIRMS DOING WELL?

- All firms offering a registered office address service keep a record of companies registered at their address.
- All firms with principals acting as directors for companies keep a log of directorships held.

WHAT CAN FIRMS DO BETTER?

- To effectively manage the risk associated with offering a registered office address service, firms should compare their own list of companies registered at their address with details held by Companies House. If firms receive correspondence for a company not registered at their address, AIA recommends firms follow this up with Companies House directly. There have been occasions where firms have had their address 'hijacked' by criminals and this remains a very real risk.
- Nominee shareholdings can be a way to mask ownership of an entity and should ordinarily be considered extremely high risk. The entity may then be used to launder money as the source of funds may be hidden. If firms are approached by a client/potential client who asks them to act as a nominee shareholder, we recommend they are alert to these high risks. The same risks apply if firms/principals are asked to act as a director. Firms should ensure they understand the client's structure, the beneficial ownership and that they are not being asked to provide this service as a means of obscuring the true ownership of an entity and therefore ultimately to facilitate money laundering.

FURTHER RESOURCES

Guidance on the risk of misuse of registered offices for members is available at www.aiaworldwide.com/my-aiia/ml/emerging-risks/misuse-of-registered-offices/.

3.2 Firm-wide procedures

Firms must take appropriate steps to identify and assess the risks of money laundering and terrorist financing to which their business is subject. To do so, they need to understand inherent risks and the effectiveness of controls in place to mitigate risks.

The firm-wide risk assessment is the foundation of a firm's approach to preventing money laundering and terrorist financing and its outcome should inform a firm's policies, procedures, and monitoring processes.

We asked firms about their firm-wide risk assessment procedures. We wanted to understand whether our firms consider the money laundering risks facing their firms and have developed AML policies and procedures that are responsive to risk and include guidance on when to perform Enhanced Due Diligence (EDD).

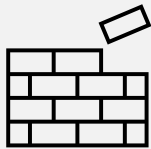
FIRM-WIDE RISK ASSESSMENTS AND PROCEDURES

Does your firm have a money laundering firm-wide risk assessment?	96%
If your firm provides TCSP services, do you identify these as higher risk services in your firm-wide risk assessment?	55%
Does your firm have written AML policies and procedures?	95%
Do your firm's AML procedures document when to perform Enhanced Due Diligence (EDD) on clients?	93%

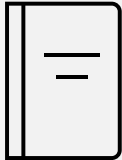
WHAT DID WE FIND?

- We found that 55% of firms providing TCSP services do not consider this to be a higher risk service in their firm-wide risk assessment.
- Many firms commented that they do not provide solely TCSP services to clients and, where they are provided, they are only offered where there is a clear business rationale for the service, for existing or current clients and not as a one-off service provision to a temporary customer with whom they have no ongoing business relationship.
- Comments suggested that firms consider it normal practice for a firm to offer to act as a registered office for a client and / or form a company.
- We found that firms do consider it a higher risk if principals were to hold multiple directorships and nominee shareholdings and almost all AIA supervised TCSPs who responded consider these aspects of TCSP work to be outside of their comfort and risk appetite.

WHAT ARE FIRMS DOING WELL?



96% of firms told us they had a firm-wide risk assessment and are therefore thinking about the risk of their firm being used to facilitate money laundering.



95% have written AML policies and procedures which codify their approach to managing money laundering risks and reporting suspicious activity.

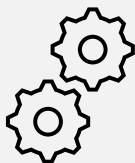


93% have procedures that explain in what circumstances to perform Enhanced Due Diligence (EDD).

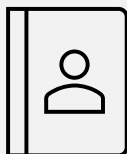
WHAT CAN FIRMS DO BETTER?



Having a firm-wide risk assessment is a requirement of the Money Laundering Regulations. Firms which do not maintain a firm-wide risk assessment should ensure they create one. Firm-wide risk assessments should also be updated regularly and approved by senior management where appropriate.



55% of firms agreed that offering TCSP services was identified as a high-risk activity within the firm-wide risk assessment. Whilst there may be reasons why firms consider there not to be a higher risk, e.g., offering to act as a registered office address in circumstances where they know the client well, firms should be alert to combined risk factors including forming companies for new clients with complex structures or clients based overseas seeking UK addresses.



Where principals hold multiple directorships or nominee shareholdings firms should consider carefully why they are offering these services and whether it exposes the firm to additional risks.

FURTHER RESOURCES

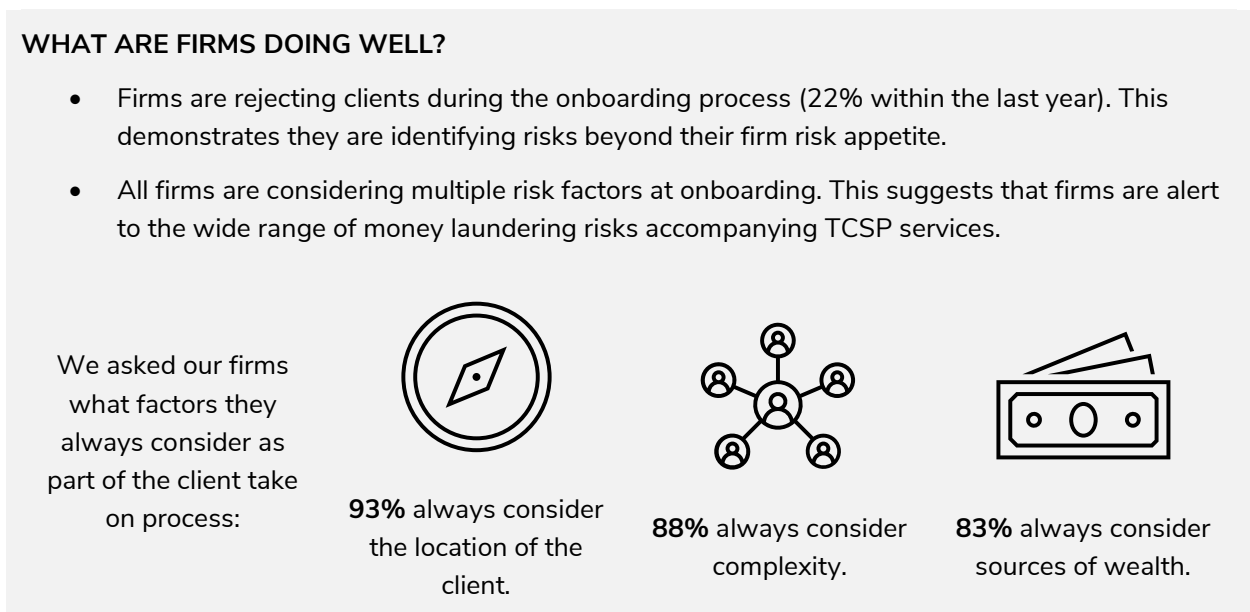
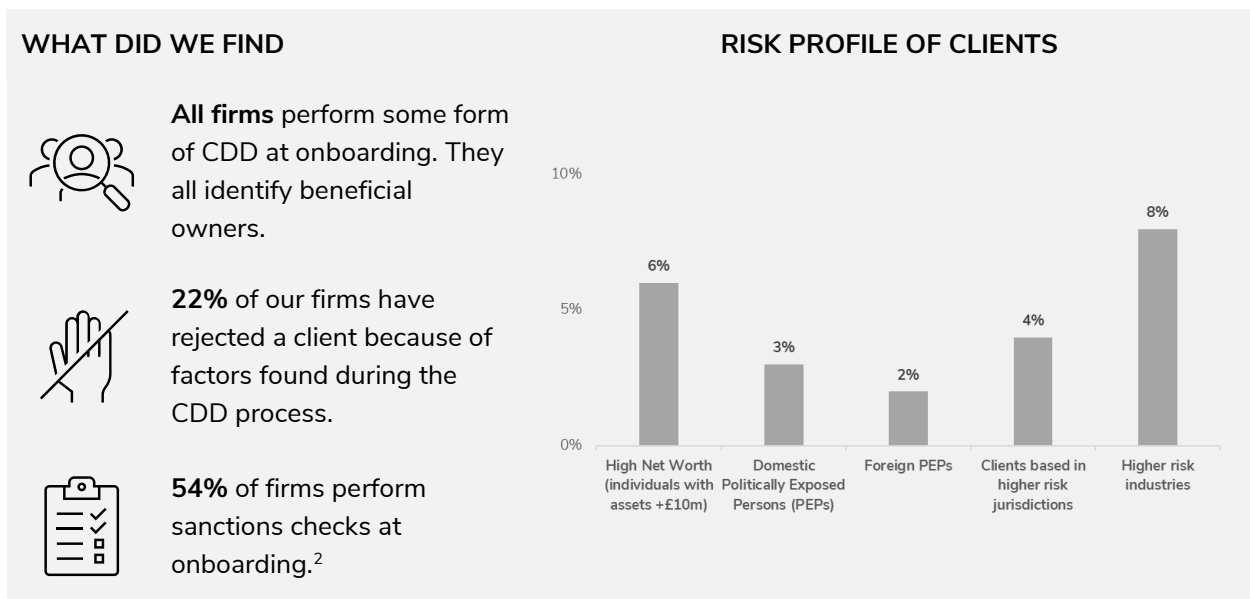
Guidance on creating a compliant firm-wide risk assessment for members is available at www.aiaworldwide.com/my-ai/aml/firm-wide-risk-assessment.

3.3 Customer due diligence and risk factors

Criminals often seek to mask their identity by using complex and opaque ownership structures. The purpose of customer due diligence (CDD) is to know and understand a client's identity and business activities so that any MLTF risks can be properly managed.

Effective CDD is, therefore, a key part of AML defences. By knowing the identity of a client, including who owns and controls it, a business not only fulfils its legal and regulatory requirements it equips itself to make informed decisions about the client's standing and acceptability.

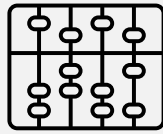
We asked our firms about their Customer Due Diligence (CDD) procedures and the risk factors considered when new firms are onboarded.



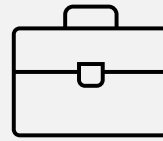
² Note: Thematic Review undertaken prior to Russia's invasion of Ukraine in February 2022 and the subsequent increase in messaging relating to undertaking sanctions screening of clients.



88% always consider whether the client is a Politically Exposed Person (PEP)



89% always consider the nature of services provided.



94% always consider the type of business the client is in.



90% always consider whether they have met the client.

- We provided space for comments relating to each question we asked so that firms could explain in more detail if they thought that would give more insight into their decision-making or risk appetite.
- Many of our firms noted that they were risk averse or had a low-risk appetite and would only take on certain clients they were comfortable engaging.
- Many firms also noted that they would never take on clients based overseas, complex clients or ones where they had not met them face-to-face.

WHAT CAN FIRMS DO BETTER?

- Ensure CDD procedures are communicated properly to staff and regularly updated.
- Ensure firms' take on procedures recognise the potential risks of providing TCSP services.
- If a firm is providing TCSP they should think about the business rationale for this, any ancillary services provided, and whether there are other higher risk factors, such as clients in a higher risk jurisdiction or sources of wealth, that require investigation.
- Ensure all relevant staff are trained to recognise red flags and risks when onboarding clients.

FURTHER RESOURCES

Guidance on customer due diligence for members is available at www.iaia-worldwide.com/my-iaia/aml/cdd-requirements/.

3.4 Enhanced due diligence

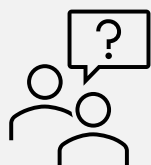
A risk-based approach to customer due diligence will identify situations in which there is a higher risk of MLTF.

Higher risk engagements should be subject to enhanced due diligence (EDD), for example where a person is established in a high-risk third country, the client is a Politically Exposed Person (PEP), or transactions are complex, unusual, or have no apparent economic or legal purpose.

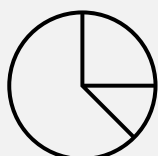
We asked our firms about their policies and procedures relating to EDD when taking on clients constituting a higher money laundering risk.

WHAT FACTORS INFLUENCE THE APPLICATION OF EDD (HIGHER RISK CLIENTS)?	YES	NO	SOMETIMES	N/A
Location of client and/or beneficial owners (higher risk countries)	85%	10%	0%	3%
If it is a new service provision for your firm	66%	20%	5%	3%
Client is a Politically Exposed Person (PEP)	77%	16%	0%	4%
Sources of wealth – client and owners	77%	9%	7%	4%
TCSP services provided	70%	15%	6%	6%
You have not met the client/beneficial owners	69%	20%	5%	5%
You are handling the client's money	47%	38%	1%	13%
Owner's/client's reputation/history	78%	10%	6%	5%
The client structure appears unduly complex	76%	14%	2%	5%

WHAT DID WE FIND?



Some firms surveyed have clients that they are required to conduct Enhanced Due Diligence (EDD) upon (e.g., Politically Exposed Persons). Where there are potential risks, these are concentrated in a small number of firms.



87% of relevant firms do perform EDD, however 21% of the total state it is not applicable. These firms are among those that consider their client base to be low / normal risk. The remaining 13% of relevant firms state they do not perform EDD in specific circumstances.



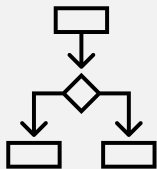
3% have domestic PEPs.



2% have foreign PEPs.



4% have clients in higher risk jurisdictions.



82% state consideration of TCSP services is a factor when deciding when to perform EDD.

WHAT ARE FIRMS DOING WELL?

- 89% of firms recognise the need to perform EDD when the client is in a higher risk jurisdiction.
- A smaller number, 81%, recognise the need to perform EDD when the client is a PEP.
- Where a client is unduly complex 85% of firms recognise that this poses a significant money laundering risk.

WHAT CAN FIRMS DO BETTER?



Firms need to understand when it is a legal requirement to perform EDD and ensure staff recognise when EDD must be applied. Consideration should be given to ensuring firm policies and procedures are updated to reflect current requirements.

FURTHER RESOURCES

Guidance on applying enhanced due diligence for members is available at www.aiaworldwide.com/my-aiia/aml/cdd-requirements/.

3.5 Suspicious activity reports (SARs)

Criminals employ a range of techniques to clean their 'dirty money'. Professionals working in the accountancy sector are targeted because of their expert skills and services, which can give a cloak of legitimacy to illicit cash. This gives professionals a crucial role to play in protecting the economy, and wider society, by reporting suspicious activity.

A Suspicious Activity Report (SAR) is required when, during the course of their business in a regulated sector, a relevant employee (e.g. a Member in Practice) develops a suspicion of a crime with proceeds.

We asked our firms how many SARs they submitted in 2019 and 2020. Each year during a firms' annual renewal we ask how many SARs have been submitted in the previous 12 months.

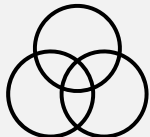
WHAT DID WE FIND?



86% of the entire sample submitted no SARs in 2020 and 86% submitted no SARs in 2019.



83% submitted no SARs in either 2019 or 2020.

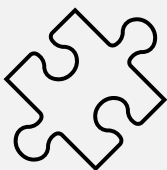


Some firms submitting SARs in 2020 varied from those that had submitted in 2019, but most of the firms that submitted SARs submitted in both years.

WHAT ARE FIRMS DOING WELL?



17% of firms have informed law enforcement of suspicious activity in the past two years.



A total of 89 SARs were submitted in 2019 and 2020. All SARs submitted can form a piece of a puzzle used by law enforcement to crack down on economic crime and money laundering.

WHAT CAN FIRMS DO BETTER?



Ensure a system is in place to report suspicious to the National Crime Agency (NCA). There are a sizeable proportion of firms that have not submitted a SAR in the reportable two-year period.



Ensure all staff understand what constitutes suspicious activity and how to make a SAR, whether this is through internal reporting to the MLRO or external reporting to the NCA.



Ensure understanding of what a Defence Against Money Laundering (DAML) is and when to request one. Whilst rare it is important for firms to understand their obligations when acting for clients they suspect.

FURTHER RESOURCES

Guidance on spotting and reporting suspicious activity for members, including case studies, red flags and a recorded webinar is available at www.iajworldwide.com/my-iaj/aml/suspicious-activity-reporting/.

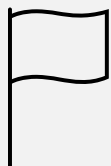
3.6 Training

Staff training is a vital AML and CTF control. This is because employees are a firm’s best defence against money launderers and terrorist financiers who may try to take advantage of the legitimate services offered for their own, illicit, purposes.

Failing to provide training to employees makes it easier for organised criminals to launder the proceeds of their crimes into the financial system, undermining the UK economy and can result in the firm becoming unwitting accessories to serious offences such as drug trafficking and human trafficking.

We asked our firms about the training they provide to staff. Where a firm has no staff members were asked about the training they undertake.

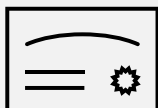
WHAT DID WE FIND?



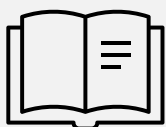
For firms with staff, AML training is mandatory for all staff. This training includes suspicion, red flags, and the process for internally reporting to the MLRO.



80% of firms providing TCSP services include in their training to staff that there are potential risks with these services.



79% of firms with staff provide training which incorporates a test of understanding.

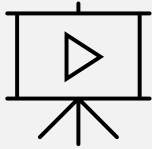


90% of those with staff keep a log of staff training.

WHAT ARE FIRMS DOING WELL?



All firms provide AML training of various types for their staff. Sole traders indicate they recognise the importance of AML training as part of their CPD requirements.



Where firms have staff, most firms are currently providing formal training – including AIA recorded webinars and guidance – to explain how to report an internal suspicion and money laundering red flags.



Many firms are educating staff that TCSP services can be higher risk, especially when combined with other services.

WHAT COULD FIRMS DO BETTER?

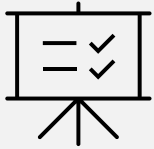
- Ensure staff have training on circumstances when certain TCSP services can be higher risk, for example when asked to form companies for overseas companies or those with links to higher risk jurisdictions.
- Keep a log of the training received by staff, including the topics covered, who has been trained, and when the training was carried out.
- Ensure all new staff are aware of the firm's AML procedures and who to report suspicion to.
- Incorporate AIA guidance and training materials into firm training policies.

FURTHER RESOURCES

Wide-ranging training resources for AIA members, including recorded AML webinars, are available at www.aiaworldwide.com/my-aia/aml/aml-training-guidance/.

4.0 Impact of results on AIA monitoring and supervision

WHAT WE HAVE DONE



Refreshed existing guidance and issued new standalone guidance for members undertaking trust or company services incorporating lessons learned from this review.



Implemented changes to AIA's AML Sector Risk Assessment and introduced a TCSP-specific risk assessment as part of our monitoring and supervision activity to assess the specific risk to our firms undertaking TCSP work in further depth.



Presented the findings of this thematic review to AIA's Regulatory Oversight Committee alongside copies of updated member guidance.

WHAT WE WILL DO



Use these results and trends to inform our continuing anti-money laundering monitoring and supervision activity.



Follow up with specific queries or seeking more information from certain firms where appropriate.



Use these results to inform the wider public policy debate around accountants providing trust or company services.

5.0 Glossary

Term	Definition
AML	Anti-money laundering
AML/CTF	Anti-money laundering and counter terrorist financing
BO	Beneficial owner
CDD	Customer Due Diligence – The process by which the identity of a client is established and verified, for both new and existing clients.
DAML	Defence Against Money Laundering or DAML (previously referred to as 'consent'). – A defence to carrying out an activity which you know, or suspect would otherwise constitute a primary money laundering offence. Generally granted by the NCA. The definition of, and governing legislation for, DAMLs can be found in s335 of POCA, which also deals with the passing of a DAML from the MLRO to the individual concerned s336 of POCA.
EDD	Enhanced Due Diligence – When there is a higher risk of a firm being used to facilitate money laundering, they must perform additional verification procedures.
High-risk jurisdiction	Countries or jurisdictions with serious strategic deficiencies to counter money laundering, terrorist financing, and financing of proliferation.
ML	Money laundering
ML/TF	Money laundering and terrorist financing
MLRs/the Regulations	Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.
MLRO	Money laundering reporting officer
NCA	National Crime Agency
NRA	National risk assessment of money laundering and terrorist financing 2020
PBS	Professional Body Supervisor
PEP	Politically Exposed Person – An individual who is entrusted with prominent public functions, other than as a middle-ranking or more junior official.
POCA	Proceeds of Crime Act 2002
RO	Registered Office – a registered office is the official address of an incorporated company, association, or any other legal entity.
SAR	Suspicious Activity Report – A document that financial institutions, and those associated with their business, must file with the UKFIU whenever there is a suspected case of money laundering or fraud.
TCSPs	Trust and company service providers
TF	Terrorist financing
UKFIU	UK Financial Intelligence Unit

6.0 About AIA

The Association of International Accountants (AIA) was founded in the UK in 1928 as a professional accountancy body and promotes the concept of 'international accounting' to create a global network of accountants.

AIA is recognised by the UK government as a recognised qualifying body for statutory auditors under the Companies Act 2006, across the European Union under the mutual recognition of professional qualifications directive and as a prescribed body under the Companies (Auditing and Accounting) Act 2014 in the Republic of Ireland. AIA also has supervisory status for its members in the UK under the Money Laundering Regulations 2017 and the Republic of Ireland under the Criminal Justice (Money Laundering and Terrorist Financing) Act. AIA is a Commonwealth Accredited Organisation.

As an approved supervisory body under the MLR2017 AIA is regulated by the Office for Professional Body Anti-Money Laundering Supervision (OPBAS). OPBAS is a regulator set up by the government to strengthen the UK's AML supervisory regime and ensure the professional body AML supervisors provide consistently high standards of AML supervision.

AIA also works in the public interest as part of the Accountancy AML Supervisors' Group (AASG) working closely with HM Treasury, the Home Office, and the National Crime Agency to represent members' views and to communicate up-to-date information and guidance back to members. The AASG is a subcommittee of the UK Anti-Money Laundering Supervisors Forum (AMLSF), a forum in which professional bodies work collaboratively to develop supervisory policy to promote consistency in standards and best practice and receive AML intelligence from law enforcement agencies and the government.

AIA works in collaboration with law enforcement agencies, regulators, and other professional body supervisors to share intelligence and actively combat money laundering and terrorist financing through the Accountancy Sector Intelligence Sharing Expert Group (ISEWG).

AIA is also a signatory to the Joint Fraud Taskforce Accountancy Charter which is a voluntary agreement between law enforcement, professional supervisory bodies, and government to better understand and tackle fraud. One of its long-term goals is to produce a fraud toolkit which includes advice and guidance to accountants on current fraud risks, checks they can undertake to help identify potential frauds and where to signpost victims to for support.

AIA believes in creating a global accountancy profession and supports the International Federation of Accountants (IFAC) in their vision of a global accountancy profession recognised as a valued leader in the development of strong and sustainable organisations, financial markets, and economies. AIA has adopted IFAC's Code of Ethics for professional accountants and incorporates IFAC's International Education Standards (IES) into its qualifications and policies.

AIA has members working throughout the whole spectrum of the accountancy profession. Many of our members are at the top of the accountancy industry, from senior management to director level. Conversely, significant numbers of our members work in small and medium sized businesses (SMEs) and we champion the importance of SMEs and their needs.

More insight into how AIA regulates its members for the purposes of anti-money laundering supervision can be found at www.aiaworldwide.com/insights/aml/aml-supervision/.



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