AASG
Accountancy AML Supervisors' Group

The Baroness Penn
Treasury Lords Minister
His Majesty's Treasury
1 Horse Guards Road
London
SW1A 2HQ

2 October 2023

Dear Baroness Penn,

Anti-money laundering (AML) and counter-terrorism financing (CTF) supervision

We represent all 13 Professional Body Supervisors (PBSs) which oversee AML/CTF compliance for the accountancy sector in the UK. We are writing to you to express our shared concern for some of the models proposed in the Treasury's consultation: "*Reforming anti-money laundering and counter-terrorism financing supervision*".

We share the government's ambition to reform the regime in a way that better tackles economic crime, but we believe only one of the models can support that ambition within a reasonable timescale, and without significant risks or costs: Model 1 (OPBAS+). The other three models carry with them significant risks which at best could see money laundering grow and at worst see the whole supervisory regime collapse.

As you may know, we have worked closely and in good faith with your officials at HM Treasury to best inform the consultation. However, such is the strength of concern we all have on these proposals, we wanted to share with you our feedback on the proposals directly. Principally, our concerns can be summarised into three main areas: transition and failure risk, loss of expertise, and feasibility.

Transition and failure risk

The consultation severely undervalues the importance of transition and failure risk. Models 2, 3 and 4 will require an enormous administrative task to ensure money laundering supervision is maintained while the respective supervisor is set up. The lack of an impact assessment of this consultation is very regrettable as it could properly evaluate the severe risks of transferring data and information from 22 PBSs, which supervise over 42,000 entities, to a new single supervisor.

Other transition risks include the quality of the data itself being compromised, existing supervisory collapse if the implementation of the three options is prolonged, and money laundering cases could be ignored or lost during the transition. All of these risks would put the UK in a vulnerable position ahead of FATF's 2026 Mutual Evaluation Review.

Failure risk is a particular issue with Model 2 (a consolidated PBS) which includes a possibility that HMRC also transfers the firms it supervises. Under this scenario, if a single PBS for the accountancy sector was to fail, whether commercially or for another reason, there would be no 'safety net' to cover the supervision. With all other PBSs no longer having a supervisory function for AML and HMRC resources already stretched, there would be no capacity left and could therefore lead to the collapse of the AML regime.

Loss of expertise

AML/CTF supervision in the accountancy sector is not suited to a one-size-fits-all approach. The reason there are multiple PBSs is because of the sheer scale and variety of supervision that is needed. It spans different sectors, professions, and sizes of businesses. This requires the PBS to have a detailed level of knowledge and expertise to supervise firms to a high standard and understand the unique characteristics of the profession they oversee.

It cannot be assumed that staff at PBSs can simply transfer over to a new single regulator as they will often have responsibilities outside of AML, including assessing members' compliance with the professional body's standards. These models would not only require extensive recruitment, training and investment (adding further costs to businesses), but also put at risk the broader standards of the accountancy profession. Supervisory expertise is therefore a critical element to the consultation's objective on effectiveness yet Models 2, 3 and 4 would lose this capability.

Feasibility

Feasibility is one of the consultation's three main objectives yet only Model 1 meets this in a meaningful way. Under Options 2, 3 and 4, fees would likely be significantly higher given the challenges a consolidated PBS would face, such as the recruitment and transition challenges outlined above. Firms would face the prospect of paying both for AML supervision and their professional body membership fees as well as a substantial administrative burden that will impact their productivity.

A public sector supervisor (Options 3 and 4) would also be very costly to the taxpayer and not proportionate to the problems the consultation seeks to solve. In this difficult economic climate, these costs and bureaucratic burdens to businesses and the taxpayer cannot be justified. While Option 1 is not without cost, it is arguably much lower, more efficient, and more feasible.

Model 1 (OPBAS+)

We do not support continuing the status quo and recognise the need for reform. As such, we believe Model 1 (OPBAS+) is the only solution of the four which meets the consultation's three objectives and addresses the concerns we have expressed above. We would respectfully disagree with the consultation that this would only see "incremental" change as it depends entirely on the new powers given to OPBAS.

If OPBAS were to be given more robust powers to hold PBSs accountable, and was operationally set-up to deliver those enhanced objectives, then we believe this would improve supervisory effectiveness. Its new powers could also be used to improve system co-ordination (another consultation objective) to ensure PBSs are sharing timely and accurate information with OPBAS and other bodies. As already acknowledged in the consultation, OPBAS+ already meets the final objective as it is "*the most immediately feasible, requiring no structural change*".

OPBAS+ would also build on significant progress that has been made since OPBAS was created. In its April 2023 report, OPBAS stated that PBSs continue to deliver iterative improvements in effectiveness under the current regime and OPBAS has also made strides to improve the regime, setting up the Information Sharing Expert Working Group, getting all PBSs on key information sharing systems such as SIS and FIN-NET, and improving supervisory systems. Furthermore, OPBAS is continually raising the standards on the outcomes they expect from PBSs to improve supervision. OPBAS+ is the only model that can build on this progress and deliver meaningful change without substantial risk. It would be far more effective than dismantling the regime and starting again.

While OPBAS+ would not solve the lack of a default supervisor in the legal sector, we would propose this issue is addressed separately. The accountancy sector has a well-structured regime in place for AML supervision and it would be counterproductive to choose a different model that is unsuitable for one profession just to meet a specific gap in the other.

Conclusion

The effectiveness of the UK's AML supervision in the accountancy sector has continually improved since OPBAS was established. In order to deliver the change that the government wants, it should build on this progress to ensure PBSs are held accountable, expertise is retained in the sector, failure risk is managed, and disruption and cost is kept to a minimum. We would therefore urge you to consider our feedback and support Model 1 (OPBAS+) once the consultation has closed.

Yours sincerely,

E. Smyth

MGiddings

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The members of the Accountancy AML Supervisors Group are:

- Association of Accounting Technicians
- Association of International Accountants
- Chartered Institute of Taxation
- Chartered Institute of Management Accountants
- Institute of Chartered Accountants of England and Wales
- Institute of Certified Bookkeepers
- Insolvency Practitioners Association
- Association of Chartered Certified Accountants
- Association of Taxation Technicians
- Chartered Accountants Ireland
- Institute of Accountants and Bookkeepers
- Institute of Chartered Accountants of Scotland
- Institute of Financial Accountants