



*Trust and company
service providers (TCSPs)
thematic review 2021*

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Understanding TCSP risks in our supervised population

ICAEW is the anti-money laundering (AML) supervisor of 11,000 firms.

Our firms are required by law to:

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

The [National Risk Assessment \(2020\)](#) has highlighted trust and company services providers (TCSPs) are at a higher risk of being used by criminals to facilitate money laundering. Almost 7,000 of our supervised firms offer trust and company services to clients.

We undertook this thematic review to assess the nature of the trust and company services (TCSP services) offered by the firms we supervise and to explore the risk that these services may be used to facilitate money laundering. If, as a money laundering supervisor, we understand the underlying risk factors within our community, we can educate our firms to identify, mitigate and possibly avoid such risks where they exist.

This report sets out some of the qualitative and quantitative data and trends we observed from the responses to questionnaires we sent to a sample of firms we supervise. We have included a commentary on the responses, as well as our observations on what our firms are doing well and what can be improved.

METHODOLOGY

We surveyed a number of firms about the TCSP services they provide and whether those services are in conjunction with accountancy services. We also asked them to describe their assessment of the risks that TCSP services present, how they adapt their procedures to mitigate those risks and the number of Suspicious Activity Reports (SARs) they had submitted.

We selected firms with a range of risk profiles considering factors such as the client base and services they provide. The factors are linked to the National Risk Assessment, which defines higher risk services and client typologies. All the firms selected provide TCSP services. 82 firms responded fully to the survey.

We also held a focus group discussion with ICAEW quality assurance (QAD) reviewers. These reviewers visit our firms and assess the quality and application of anti-money laundering (AML) policies and procedures. Further information about our approach to AML supervision is available at [icaew.com/aml-supervision](https://www.icaew.com/aml-supervision)

The reviewers were asked for their views of the risks associated with TCSP provision using their experience gained through firm reviews.

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

Many firms are clear that they do not offer registered office and/or company formation services without a business rationale and an ongoing service provision, that includes other accountancy services.

For insolvency practitioners, the registered office address service is a legal requirement for holding office.

Our monitoring activity confirms this view. Our QAD reviewers see the provision of company formation and registered office services as normal activity for firms with an ongoing relationship with a corporate client. It is not uncommon for principals to be named as company secretaries for clients, although directorships are more unusual.

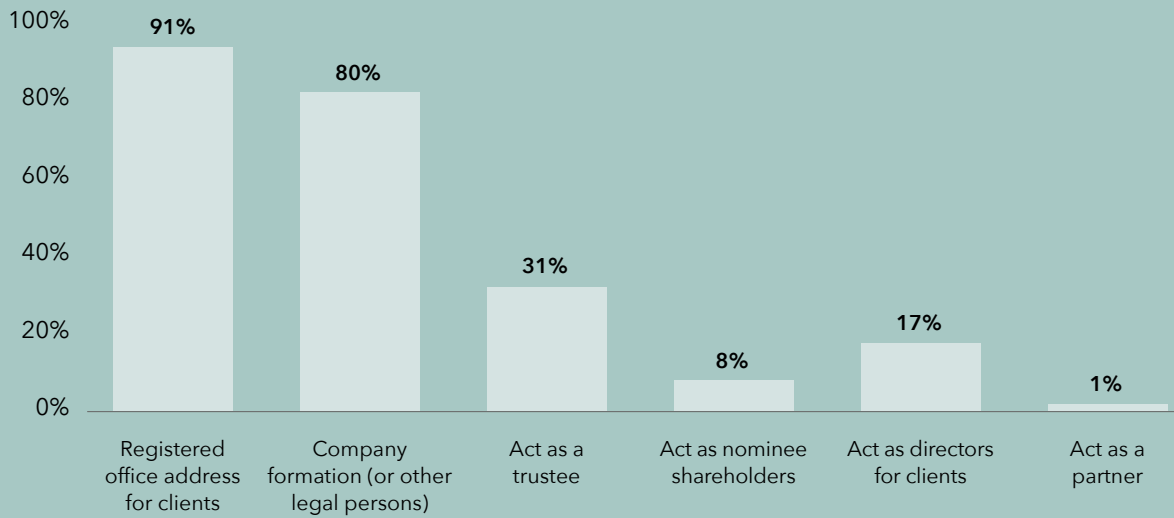
There are higher risks when TCSP services are combined with other recognised money laundering risk factors, such as forming companies for new clients with complex structures, handling client money and forming companies for clients based overseas. In these circumstances the combined risks are generally considered as part of the firm's CDD procedures.

Services that are rarer and potentially higher risk are principals holding nominee shareholdings and/or holding the office of director for a client. For the firms declaring nominee shareholdings, they stated there were very few held. We consider these services pose a higher risk of our firms being used to facilitate money laundering. The risks are concentrated in very few firms. We expect firms providing these services to recognise the risks, have a documented money laundering risk assessment with adequate verification procedures and robust procedures for ongoing monitoring of these clients.

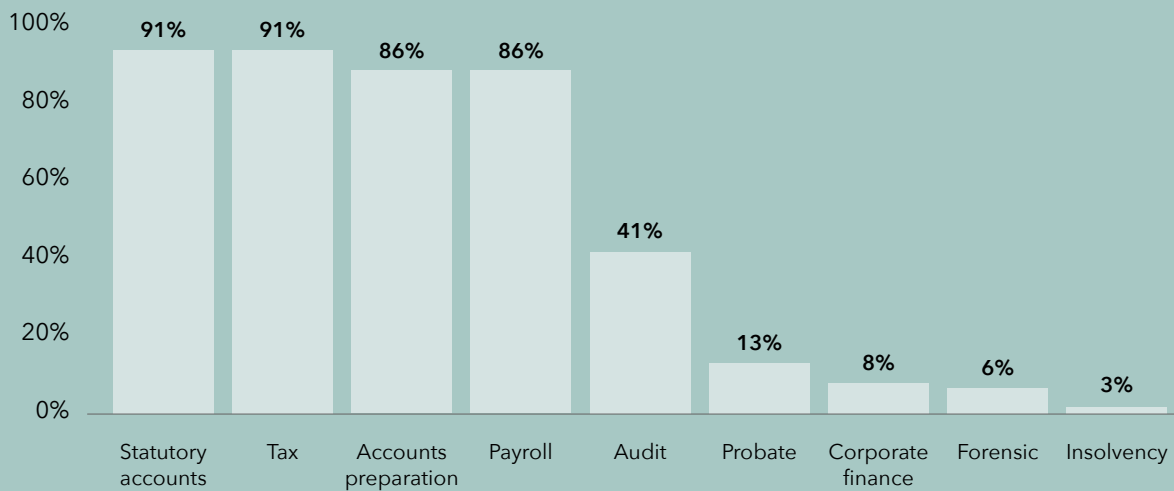
Findings

THE NATURE OF TRUST AND COMPANY SERVICES (TCSPs) PROVIDED

TYPE OF TRUST AND COMPANY SERVICES OFFERED



ANCILLARY ACCOUNTANCY SERVICES



WHAT DID WE FIND?

- The two most frequent services provided are:
 - a registered office address (91%); and
 - company formation (80%).
- Of the firms offering trustee services, all bar one are solely offering to UK trusts.
- There are very few firms holding nominee shareholdings. Those that do hold nominee shareholdings do not hold many.
- All firms provide ancillary accountancy services or are part of a group where connected entities provide accountancy services.
- 91% of our firms that offer TCSP services also prepare and file statutory accounts. Those that do not file accounts are insolvency firms which must act as a registered office for clients when administering the insolvency.
- Firms consider offering TCSP services to existing clients to be of lower risk than offering TCSP services to new clients.

'The firm only forms companies for current clients - it does not form companies for people who walk in off the streets.'

'The firm does not offer a registered office address service for companies not associated with current clients.'

WHAT ARE FIRMS DOING WELL?

- Almost 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, your firm should compare your own list of companies registered at your address with the list held by Companies House. If you receive correspondence for a company not registered at your address, we recommend you follow this up with Companies House. We are aware of several occasions where firms have had their address 'hijacked' by criminals.

Further guidance

- [Misuse of registered offices](#)
- [ICAEW supports Companies House powers extension to block firm address abuse](#)
- Nominee shareholdings can be a way to mask ownership of an entity and should ordinarily be considered high risk. The entity may then be used to launder money as the source of funds may be hidden. If you are approached by a client/potential client who asks you to act as a nominee shareholder, be alert to the risks. The same risks apply if you are asked to act as a director.

Ensure you understand:

- the client's structure;
- the beneficial ownership; and
- that you are not being asked as a means of obscuring control and to facilitate money laundering.

FIRM-WIDE PROCEDURES

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?	98%
If your firm provides TCSP services, do you identify these as higher risk services in your firm-wide risk assessment?	54%
Does your firm have written AML policies and procedures?	93%
Do your firm’s AML procedures document when to perform Enhanced Due Diligence (EDD) on clients?	91%

WHAT DID WE FIND?

- We found that almost half of firms providing TCSP services do not consider it a higher risk service in their firm-wide risk assessment.
- Many firms can justify their conclusion. These services are not provided in isolation. They are only offered where there is a clear business rationale for the service, for existing/current clients and not as a one-off service provision to a walk-in customer with whom they have no ongoing business relationship.
 - Accountancy firms tend to use company formation agents to form the companies.
 - Some note that clients do not want their home addresses publicly available at Companies House and ask for the firm to act as the registered office for them.
- In our focus group discussions with ICAEW quality assurance (QAD) reviewers, the view prevailed that often when these services are ancillary to many other accountancy services this is not necessarily indicative of risk. They consider it normal practice for a firm to offer to act as registered office for a client; and/or form a company. However, they do consider it a higher risk where principals hold multiple directorships and nominee shareholdings.

‘We only get caught by TCSP services because we do occasionally set up standard limited companies. We can only ever set these up if there is a clear business reason to do so and we verify all beneficial owners etc. We use a company secretarial company to do this for us.’

‘We only provide a registered office address as TCSP services. This is mainly for companies where owners do not want to use their home address as the registered office at Companies House. We view this as a reasonable explanation and not deemed to be of higher risk.’

WHAT ARE FIRMS DOING WELL?



98% of our sample have an AML firm-wide risk assessment and are therefore thinking about the risk of their firm being used to facilitate money laundering.



93% have written AML policies and procedures.



91% have procedures that explain when to perform Enhanced Due Diligence (EDD).

WHAT CAN FIRMS DO BETTER?



Ensure your firm has a money laundering firm-wide risk assessment. This is a requirement of the Money Laundering Regulations. [View the ICAEW firm-wide risk assessment methodology.](#)



54% of our sample highlighted offering TCSP services as a risk in the firm-wide risk assessment. If your firm offers TCSP services think about whether this enhances risk. There may be reasons why you consider there not to be a higher risk - for example, if you are offering to act as a registered office address or forming companies, in circumstances where there is a clear business rationale and you know the client well. However, be alert to combined risk factors, such as forming companies for new clients with complex structures, handling client money, or clients based overseas looking for UK registered office addresses.

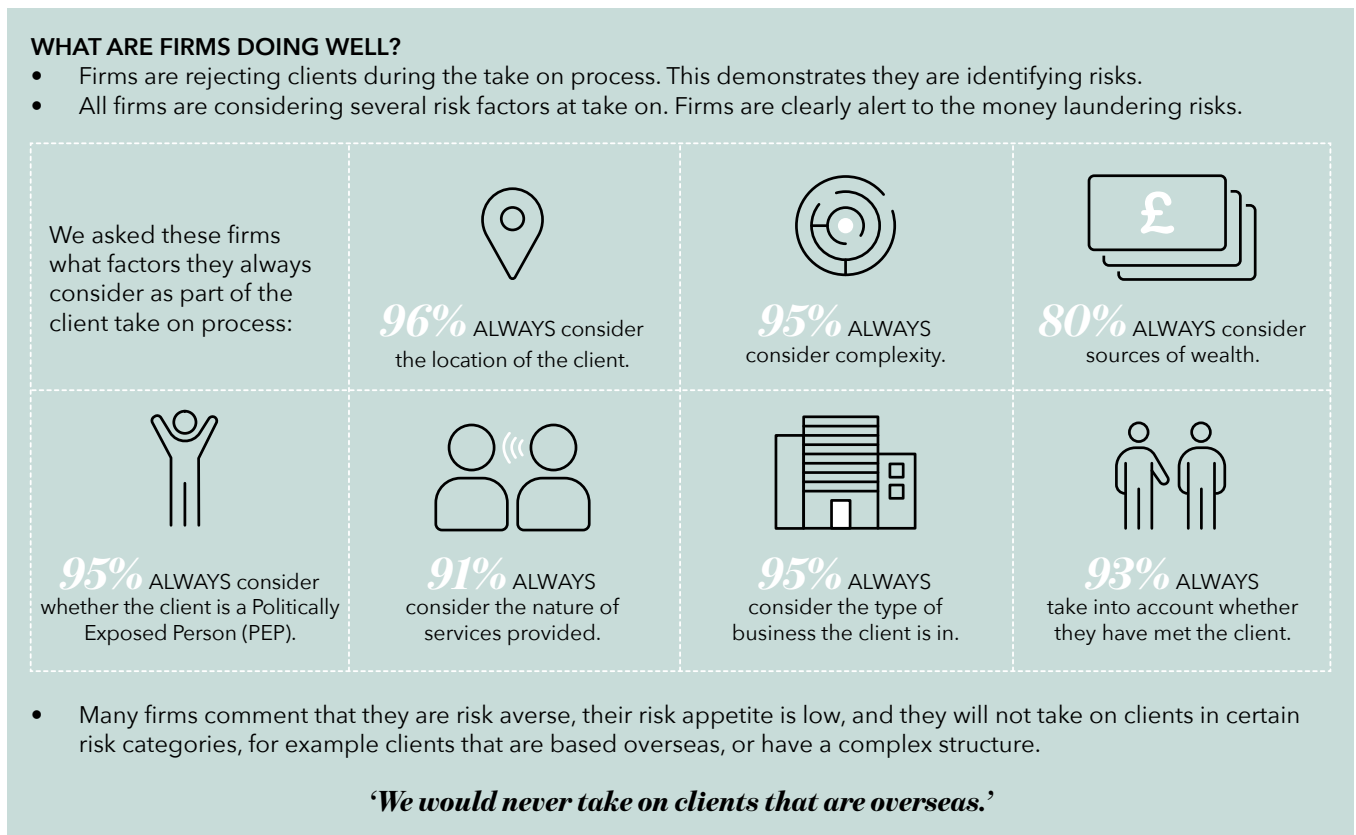
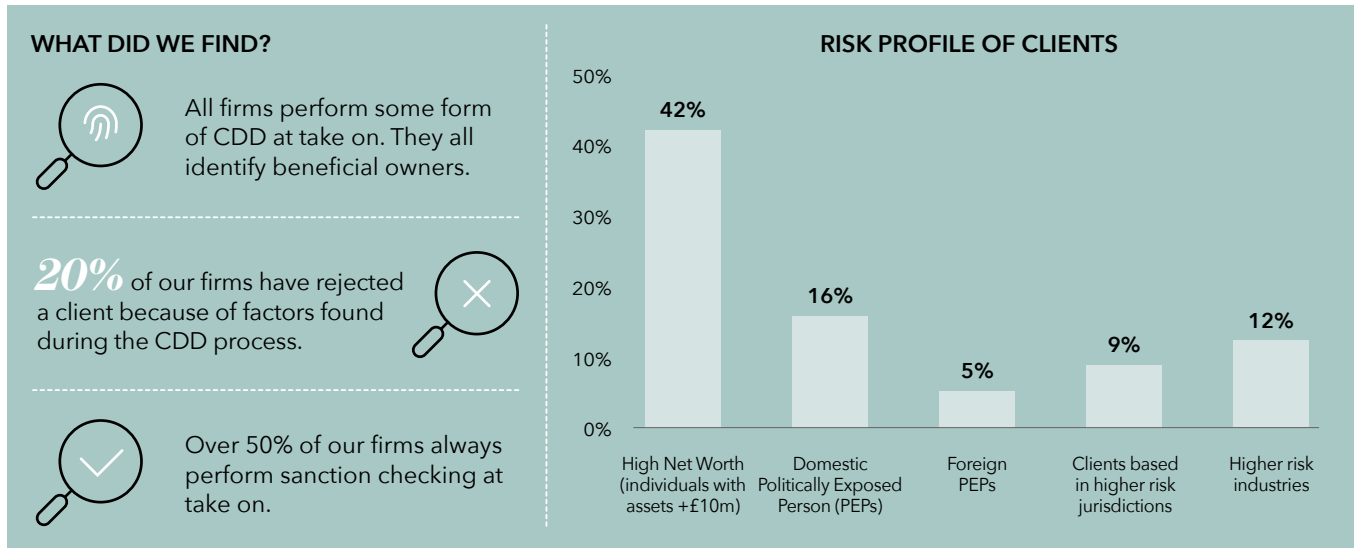


Think about principals holding multiple directorships or nominee shareholdings. Why are they offering these services and does this expose the firm to additional risks?



CUSTOMER DUE DILIGENCE AND RISK FACTORS

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



WHAT CAN FIRMS DO BETTER?

- Ensure your firm’s CDD procedures are communicated to staff and all staff are trained to recognise red flags and risks.
- Ensure your firm’s take on procedures recognise the potential risks of providing TCSP services. If you are providing these services think about the business rationale for this, ancillary services you provide and whether there are other higher risk factors, such as a client in a higher risk jurisdiction or sources of wealth you are not clear on.

ENHANCED DUE DILIGENCE (EDD)

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)	87%	7%	4%	1%
If it is a new service provision for your firm	57%	28%	13%	1%
Client is a Politically Exposed Person (PEP)	89%	8%	1%	1%
Sources of wealth - client and owners	83%	10%	6%	1%
TCSP services provided	61%	26%	11%	1%
You have not met the client/beneficial owners	80%	8%	8%	3%
You are handling the client's money	62%	30%	6%	3%
Owner's/client's reputation/history	87%	7%	4%	1%
The client structure appears unduly complex	89%	9%	1%	1%
Other	54%	33%	8%	4%

WHAT DID WE FIND?

- A few of the firms surveyed have clients that require Enhanced Due Diligence (EDD) by law. Where there are potential risks, these are concentrated in a few firms.



- 67% of the firms do perform EDD, however 21% state it's not applicable. These firms are among those that consider their client base to be low/normal risk. The remaining 11% state they do not perform EDD in specific circumstances.
- 61% state consideration of TCSP services is a factor when deciding when to perform EDD.

WHAT ARE FIRMS DOING WELL?

- Most firms (91%) recognise the need to perform EDD when the client is in a higher risk jurisdiction.
- Similarly, the majority (88%) recognise the need to perform EDD when the client is a PEP.

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.

FURTHER RESOURCES

- View the ICAEW AMLbites on EDD at [icaew.com/AMLbites](https://www.icaew.com/AMLbites)
- View the [CCAB guidance Anti-Money Laundering and Counter-Terrorist Financing Guidance for the Accountancy Sector 2020](#).

SUSPICIOUS ACTIVITY REPORTS (SARs)

We asked our firms how many SARs they submitted in 2019 and 2020.

WHAT DID WE FIND?



The firms we surveyed had not submitted many SARs. Of the 11 replies from what we consider to be our higher risk firms, only two had submitted SARs in 2020 and three in 2019.



74% of the entire sample submitted no SARs in 2020 and 74% submitted no SARs in 2019.



68% submitted no SARs in 2019 and 2020.

WHAT ARE FIRMS DOING WELL?

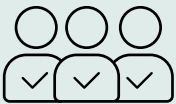


32% of firms have informed law enforcement of suspicious activity in the past two years.

WHAT CAN FIRMS DO BETTER?



Put in place a system to ensure suspicious activity is reported to the National Crime Agency (NCA). We are concerned about the number of firms with potentially higher-risk client bases that have not submitted SARs in a two-year period.



Ensure all staff understand what constitutes suspicious activity and how to make a SAR to the NCA.



Make sure you understand what a Defence Against Money Laundering (DAML) is and when to request one.

FURTHER RESOURCES

There is a wide range of SARs and DAMLs guidance and support available including last year's SARs thematic review and webinars. View them at [icaew.com/SARsReview](https://www.icaew.com/SARsReview) and [icaew.com/AMLresources](https://www.icaew.com/AMLresources).

TRAINING

We asked firms about the training provided to staff.

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.



67% of firms providing TCSP services include in their training to staff that there are potential risks with these services.



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

WHAT ARE FIRMS DOING WELL?



All firms provide some form of AML training for staff.



The majority of firms are providing formal training to staff to explain how to report an internal suspicion and money laundering red flags.



Many are telling staff that TCSP services can be higher risk.

WHAT COULD FIRMS DO BETTER?

- Ensure staff have training on when 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 who has been trained, and when.
- Ensure all new staff are aware of the firm's AML procedures and who to report suspicion to.

Glossary

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

Our role as a world-leading improvement regulator

We protect the public interest by making sure ICAEW's firms, members, students and affiliates maintain the highest standards of professional competency and conduct.

ICAEW's regulatory and disciplinary roles are separated from ICAEW's other activities so that we can monitor, support or take steps to ensure change if standards are not met. These roles are carried out by the Professional Standards Department and overseen by the independent ICAEW Regulatory Board (IRB).

Our role is to:

- authorise ICAEW firms, members and affiliates to undertake work regulated by law: audit, local audit, investment business, insolvency and probate;
- support the highest professional standards in general accountancy practice through our Practice Assurance scheme;
- provide robust anti-money laundering supervision and monitoring;
- monitor ICAEW firms and insolvency practitioners to ensure they operate correctly and to the highest standards;
- investigate complaints and hold ICAEW firms and members to account where they fall short of standards;
- respond and comment on proposed changes to the law and regulation; and
- educate through guidance and advice to help stakeholders comply with laws, regulations and professional standards.

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Chartered accountants are talented, ethical and committed professionals. There are more than 1.8m chartered accountants and students in the world, and more than 187,800 of them are members and students of ICAEW. All of the top 100 global brands employ chartered accountants.*

Founded in 1880, ICAEW has a long history of serving the public interest and we continue to work with governments, regulators and business leaders globally. And, as a world-leading improvement regulator, we supervise and monitor over 12,000 firms, holding them, and all ICAEW members and students, to the highest standards of professional competency and conduct.

We promote inclusivity, diversity and fairness and we give talented professionals the skills and values they need to build resilient businesses, economies and societies, while ensuring our planet's resources are managed sustainably.

ICAEW is the first major professional body to be carbon neutral, demonstrating our commitment to tackle climate change and supporting UN Sustainable Development Goal 13.

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* Source: CAW, 2020 - Interbrand, Best Global Brands 2019



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