



Customer due diligence webinar: Q&A

TOPICS

Know your client checks and electronic verification.....	1
Outsourcing	3
Beneficial owners and politically exposed persons.....	4
Source of wealth	4
Trust and company services	5
High risk / enhanced due diligence	5
Ongoing due diligence	7
Low risk clients and simplified due diligence	7
Customer due diligence resources & other questions	8

KNOW YOUR CLIENT CHECKS AND ELECTRONIC VERIFICATION

Does meeting the client include 'e-meeting' via a system such as Zoom?

Yes. An online meeting is considered as 'meeting the client'.

If you want to design enhanced procedures for higher risk clients, you could also consider:

- techniques such as 'selfie certification' (asking the client to submit a photograph of themselves holding their open passport next to their face).
- verifying addresses by posting a letter to the address and including a request for it to be posted back to you.

In a company with four directors or more, how many of them should we ask for a proof of ID and address?

The starting point is one - you should verify the key client contact for a normal risk client. As the risk profile of the client increases, you would want to increase the number of directors you are requesting identity checks for in line with the increased risk. For example, your procedures might describe that for a high-risk client, you will verify the identity of the key decision makers on the board of directors.

You should also consider other roles that the directors are playing - if they are listed as PSC because they are also beneficial owners then you would verify the identity based on their status as

BO. Otherwise find out from the client why they have been listed as PSC and consider if that raises their risk individually, or for the client as a whole.

Who would you verify in a charity?

Verification is still driven by the risk assessment of the client. If the client is normal risk you would consider who the key trustees and contacts are. Normally you would expect these to include a Chair of Trustees and/or those in charge of finance.

For higher risk clients, you would expand this to include a wider range of decision makers and those with authority and control.

Remember that you need to verify the ID when the trustees change - and you may need to increase the amount of evidence you obtain where the changes result in increased risk.

Can driving licence replace passport?

Yes, this is a government issued document with a photograph so would be fine in place of a passport.

Is it enough to obtain an identity document (sent electronically) and assess if it is sufficient or do we have to use verifying companies online?

You should design your procedures so that you obtain sufficient verification according to the level of risk you assign to each client.

If you have met the client and have assigned a lower risk score you might consider evidence of identity, sent electronically sufficient.

If you have not met or seen the client then we would usually expect that identity document to be certified by someone of standing. You might also consider client screening (ICAEW Services) and electronic verification of the client if your risk assessment suggests the individual is higher risk.

It is feasible for false documents to be presented so consider this risk.

For a normal risk client, you don't need to view the original document and electronically verify. But consider whether your risk assessment suggests there are other factors that might lead you to collect more evidence.

What are your thoughts on using electronic verification services for individuals? Eg, customers, directors, ultimate beneficial owners (UBOs) etc?

They can be a good source of evidence and there are some good systems available. However you need to understand the checks that are happening in the background and the sources that the system draws from. You need to ask the question - what level of assurance is that verification service giving?

If you're using something more enhanced with an element of risk assessment, you need to understand the parameters around that risk assessment and what's happening in the background. Verification systems tend to only really work for individuals in the UK, because of the databases we

have available here. If the electronic ID fails, you will have to go back and obtain further documentation.

Can an electronic verification service take the place of driving licences and passports?

Yes, it can. But you do need to know what sources the service checks against and make sure that they are actually designed to verify identity and it isn't designed to, say, simply screen for sanctions and politically exposed persons (PEPs).

Is it necessary to take a copy of the client's ID or can we just document that we have checked it?

Most firms will keep a copy but it is sufficient to clearly record what documents you have seen to verify the client.

When you're placing reliance on due diligence from a third party or vice versa, is there any issue with GDPR?

The Money Laundering Regulations provide the gateway for you to share the information under legitimate interest. You may wish to include GDPR provisions in your contractual arrangements with the firm on who you are placing reliance to ensure that each firm's responsibilities are clear.

Can the ICAEW client screening service be used for client verification and is it enough or do we need to do some extra work?

The ICAEW client screening service is not a client verification service. You still need to do risk assessment and client verification.

The client screening service scans for sanctions, risk or exclusion lists, covering 80 jurisdictions. This includes watchlists issued by law enforcement agencies, warning lists published by regulatory authorities and trade restriction lists.

The database also includes the details of PEPs and their relatives or close associates.

Why is ICAEW client screening limited to 3 people per week - this doesn't give anywhere near enough for my firm

This is a service ICAEW pay for and offer to our firms for free. It is aimed at smaller firms looking for additional resources. For most of our firms, three a week will suffice.

OURSOURCING

If client work is outsourced to you, can you rely on the outsourcing firm's due diligence?

You need to consider both the requirements around reliance as well as your obligations and responsibilities as a subcontractor.

Legislation requires you to obtain all the basic information about the client from the person you rely on and to be able to obtain all the other documents and supporting information on request. It can be quite challenging as each firm needs to take its own view on risk assessment and your assessment may not be the same as the firm that has outsourced the work. The risk always remains with you so you must take responsibility for the due diligence even if you haven't carried it

out. There are some situations where it may be a very straight forward matter where you don't need to go back and ask for copies of the documents again or you may decide to request permission for the client to share the documents with you as well to satisfy your own procedures.

Whatever decision you make, you need to document why you have made that decision and that CDD has been satisfied.

BENEFICIAL OWNERS AND POLITICALLY EXPOSED PERSONS

I thought beneficial ownership was over 25%, not 25% or more. Please clarify?

Beneficial ownership in the regulations is defined as more than 25% but if you have lots of clients with shareholdings of 25% you may want to consider monitoring the boundary a bit more carefully.

In my experience the UBO requirement is reduced to 10% for high-risk clients and PEPs. Is this your understanding?

Many banks have a tiered approach starting at 25% for low risk and going down to 10% for high risk clients. As we have mentioned, you can determine your own risk assessment and tailor your procedures to mitigate the risks as you see them.

Practically, how do you determine if a client or their close family is a PEP? Do you have to formally ask them the question? It isn't necessarily something that will come up in an initial meeting particularly if historic or relates to the family member and not them specifically.

You should ask the client if they or their close family (including adult children) is a PEP - although you would refer to the named positions rather than the phrase 'PEP'. Simple media searches can also help you identify roles. You can also use the ICAEW client screening service.

Can the panel point us to the part of the law or CCAB guidance that asked us to identify PEPs that are directors and not beneficial owners?

Regulation 35 states that a relevant person must have in place appropriate risk-management systems and procedures to determine whether a customer or the beneficial owner of a customer is a PEP. Because a body corporate can't be a PEP, you should consider whether those that manage the running of the business are PEPs and any AML risks associated with them fulfilling that function.

SOURCE OF WEALTH

Do you need to get evidence of source of funds? If so what would this entail?

Consider source of wealth on a risk sensitive basis. You will be asking the client about sources of income and assets owned as part of the know your client take on process. You can consider if the responses are in keeping with your expectations of that client. If there are unusual and larger sources then explore further.

A current client has recently deposited a large amount of cash into his company to repay previous drawings. I intend to ask him where this money has come from, but what sort of evidence do I need to back up his response? For example if he took a personal loan do I ask for the loan agreement, or if it's inheritance do I ask for probate details, etc?

Yes, you may want to ask for verification and the examples given in the question would be sensible items to request. Balance this request with how well you know the client and your assessment of how he might have come to receive that money.

TRUST AND COMPANY SERVICES

If a client only uses the firm for registered office purposes and is never met would that be considered a high-risk client?

Although, your risk assessment should be bespoke to your firm, this is a service that you should always consider as high risk. The lack of an ongoing relationship may pose a greater risk to you that your address is being used for something to do with money laundering. The risks associated with TCSP work are set out in the National Risk Assessment and the AASG Risk Outlook. We will also be summarising further areas of risk in our TCSP thematic review which will be published later in 2021.

We have recently received a notice to state that we need to check if any companies or individuals are using our office as the registered office that are unknown to us. How often should we check this?

A good question. We are seeing more and more instances of criminals 'hijacking' the registered office address of accountancy firms. Some firms do perform an annual review but being alert to the risk is a good start. If you get correspondence from Companies House about a company that is not a client let Companies House know. If you search on Companies House and insert #yourpostcode into the search engine it will give you all companies at that postcode. You can also pay for FAME searches. [Here is some useful guidance.](#)

HIGH RISK / ENHANCED DUE DILIGENCE

How often does enhanced due diligence (EDD) need to be done?

This is at a firm's discretion on a risk sensitive basis and may vary between clients depending on the reason for the risk status. It is common for EDD to be reformed annually or every 2 years, where there are no other trigger factors.

However, EDD for higher risk clients might also mean a closer scrutiny of transactions, or regular media searches, or additional verification on beneficial owners. You need to match the mitigating actions to the risk you have identified. It is important to document why you have designed your procedures in the way that you have, whatever you decide is appropriate for that client.

If false or stolen ID documents have been provided, surely you would run for the hills, so would EDD be necessary in that situation?

Agreed. It would be unlikely you would choose to pursue the business relationship in these circumstances. Nonetheless, The Money Laundering Regulations do set out the requirements for situations where you are concerned that ID documents are false.

What about R&D practices (R&D relief practitioners) - who aren't as close to the client's business models and transactions (no bookkeeping and no accounts prep works undertaken) and so aren't analysing/processing transactions, have less exposure to the business dynamics and therefore less able to judge whether the underlying transactions are symptomatic of ML risk? It is difficult to exercise professional scepticism when fairly remote from the company's underlying business model as there's less exposure and time spent dealing with the company's transactions.

Your firm wide risk assessment should consider this specific risk. In these circumstances you are flagging a potential higher risk and if your client makes fraudulent claims, you risk facilitating money laundering. If you receive tax refunds into your client account you risk handling the proceeds of crime. You could build in robust client verification and screening programs and train staff to be sceptical and aware of the risk of fraud. Also ensure that staff and principals know how to flag a concern and/or make an internal suspicious activity report.

Consider referring to these helpsheets:

[Guidance on R&D tax credit services](#)
[Professional Conduct in Relation to Taxation](#)

If a client has income from overseas for services provided what can one do to verify that the services are genuine?

Understand the services the client provides, consider if these services make business sense. Asking general questions is a good start. Media searches may provide additional comfort. Consider legitimacy of invoices, volumes of transactions, large round sum amounts may be a red flag.

How would you deal with a client where the beneficial owner is in the British Virgin Islands?

The location of the client might suggest that you would conclude this to be a high risk client and therefore you should consider enhanced due diligence. [This is a useful link for understanding overseas verification documents.](#)

In the webinar, we considered a range of options for client due diligence including: media searches, forms of electronic verification, speaking to the beneficial owner. Consider the business rationale behind the client using your services and if there are any obvious money laundering red flags, such as complex business structures.

Please can you explain why payroll service is high risk and if this is always the case?

The NRA considers payroll services a risk as this can provide criminals with legitimate looking record of money movement. If providing these services ensure you understand the client, its business operations and the employees are legitimate and consider the risks of modern slavery and human trafficking.

If you provide a finance function for a client eg, payment of supplier or payroll amounts - which the client then authorises (eg, Telleroo linked to their Xero book-keeping) - would this mean higher AML risk?

The service potentially causes higher risk because of the handling of funds and making payments. However, we would recommend starting your risk assessment with the risk profile of the client and factoring in the service to the risk of that client, rather than adding the client risk to the service risk.

ONGOING DUE DILIGENCE

In ongoing due diligence are you saying that it could be just saying 'no changes', does not mean you have to get up to date address even if you know that has changed?

Ongoing due diligence requires you to consider all changes to the client that may affect risk and a change of address may suggest a change in risk profile if that address was in the UK and is now overseas. If, as part of ongoing review you find the address has changed it would be advisable to note this as part of the review and state whether it affects your risk assessment of the client. If there is no change to the risks then note that.

If there are no changes to the client or the know your client information (and therefore no changes to the risk profile) signing and dating the original CDD is enough.

LOW RISK CLIENTS AND SIMPLIFIED DUE DILIGENCE

For low risk clients we obtain photo ID and proof of address, arguably both items are only needed for high risk. For high risk should we therefore obtain further documents, so more than we obtain for low risk?

Actually, we would advise that you could reduce the amount of evidence you obtain for a low/normal risk client and limit it to photo ID. Where the risk is higher, you can supplement that evidence with proof of address.

However, for high risk clients you should also be considering factors such as media searches, client screening as well as further verification checks. You need to design due diligence procedures that mitigate the risk you have identified, and additional verification checks might not always be the answer.

If simplified due diligence is considered appropriate, could it be okay not to obtain photo-ID. I am thinking particularly of situations where we might act for someone who we have known for many years (eg, in a personal relationship or worked for them through another firm or a well known person) and so we have no concerns that we know exactly who they are.

Yes, photo-ID is not mandatory if lower risk. A document issued by an official (eg, government) body is deemed to be independent and reliable source even if provided by the client.

However, knowing a client for many years doesn't necessarily make that client low risk. Be sure to utilise your professional scepticism to look for all red flag indicators that might be evident.

Is it not better to not use simplified diligence and always do normal or if appropriate?

Simplified due diligence is appropriate for, say, a listed client, where there is a very low risk that the business is not who it says it is and the directors are well known. However, some listed clients may present different risks to your firm.

What is low risk for individuals/self-employed?

There are no finite examples. We have said a few times risk appetite may vary from firm to firm. You should have a good feel for what constitutes a low risk client for your business. Consider all the usual factors, how well do you know them, is their business activity low risk, extent of cash transactions, location, client base, lifestyle compared with stated income, have you met them, is there a logical reason why they chose you and what services are you providing. Ensure that any conclusion on risk is justified and then verify on that basis.

CUSTOMER DUE DILIGENCE RESOURCES & OTHER QUESTIONS

Can you please confirm what is the most current version of the CCAB guidance (September 2020?)

Yes, this is the current version ([available here](#)). It is still draft as HM Treasury has not yet approved it but we hope that approval is imminent.

Is there a simple risk assessment template somewhere for self-employed people?

No but you can access our AMLbites video on firm-wide risk assessments for further information on this topic. We are considering whether we can design a simple template for small practitioners.

Is there a suggested AML policy downloadable from the ICAEW?

Yes. Here is the [policy template for small firms](#).

Does the guidance prescribe the maximum length of time for someone to be an MLRO?

No, there is no time limit.

Client picked up through social media - do same procedures apply, if a client is picked up from recommendations?

You risk assess all clients in the same way, by gathering information you have on the client and assessing the money laundering risks.

You may be more comfortable with a client referred to you by another client than a client who has approached you through social media as there is less corroboration that the client is legitimate.

You might explore why they chose you, rather than another firm. If you have not met them, this might again affect your assessment of risk.