



# ***ICAEW Webinar***

## ***Customer Due Diligence***

# *Today's presenters*



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Controls  
EY

# *Today's webinar*

- Introduction - Sandy Price
  - Customer due diligence (CDD) – A reminder of the basics (why, when and how).
  - Common issues found on ICAEW monitoring visits to firms.
- Q&A explaining CDD terms and approach
  - Panellists discuss CDD terms and approach.
- Simplified due diligence (SDD) – Angela Foyle
- Enhanced due diligence (EDD) and case studies – Jonathan Wright
- Q&A on key themes arising from the questions asked by the attendees – led by Michelle Giddings



# ***Poll***

**PLEASE TELL US ABOUT YOUR ROLE**



# ***Poll***

**PLEASE TELL US ABOUT YOUR FIRM**

# ***Customer due diligence - CDD***



- Why perform CDD?
- Stages of CDD
- Ongoing CDD
- Event driven
- What we find on visits

# ***Why perform customer due diligence?***

- Criminals often seek to mask their true identity by using complex and opaque ownership structures.
- The purpose of 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 ML 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

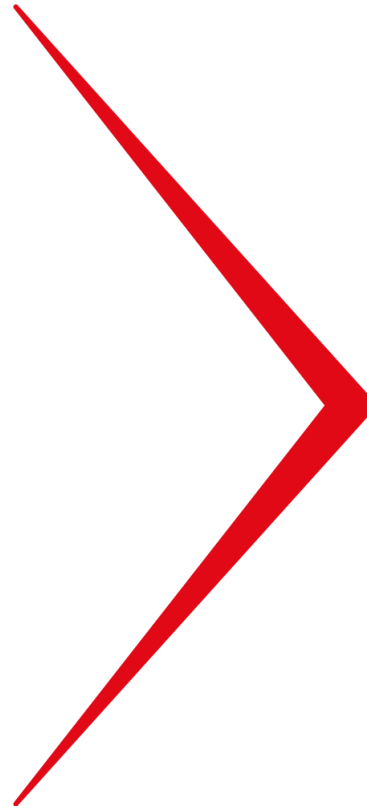


# ***When do I perform CDD?***

- At the start of a new business relationship (including a company formation).
- At appropriate points during the lifetime of the relationship.
- When an occasional transaction is to be undertaken.
- When there is either knowledge or a suspicion of MLTF.
- When there is any doubt about the reliability of the identity information, or documents obtained previously for verification purposes.



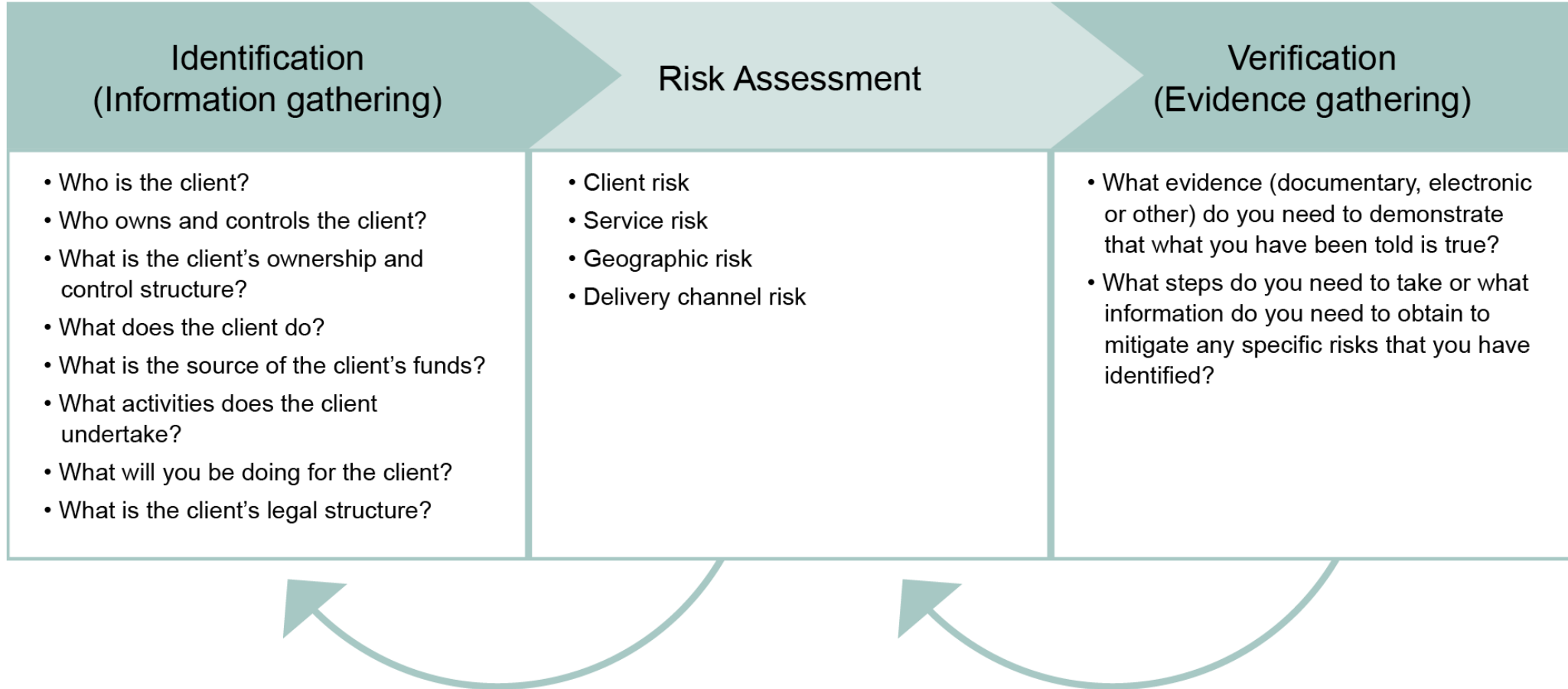
In the past year  
have you rejected a  
client at take on as a  
result of your  
customer due  
diligence?



**20%** said **YES**

# What are the stages of CDD?

## CCAB Guidance 5.1.7



# ***First stage of CDD - Identification***

- Who is the client?
- Appropriate identification information for an individual would include full name, date of birth and residential address.
- In the case of corporates and other organisations, identification also extends to establishing the identity of anyone who ultimately owns or controls the client. These people are the beneficial owners (BOs).

# ***Risk assessment and verification***

## **CCAB Guidance**

- Businesses should have different client risk categories such as: low, normal, and high.
- Once an initial risk assessment has been carried out, evidence is required to verify the identity information gathered during the first stage. This is called client verification.
- Degree of verification dependant on risk assessment.
- Higher risk clients, more verification work should be performed.
- For an individual, verification may require sight of a passport (note no requirement to refresh once passport expired)
- For corporates and others, in addition to the client itself, reasonable verification measures for any individual beneficial owners must also be considered on a risk sensitive basis.

## **Persons of significant control**

- A business must obtain proof of their client's registration on the Persons with Significant Control (PSC) register, or an excerpt of the register before establishing a relationship.
- **Report discrepancies**

# ***What do I consider as part of my risk assessment?***

## **Client**

- **Complex structure, cash based, high risk industry**

## **Services**

- **Payroll/probate/company formation**

## **Geographical**

- **UK based, local, overseas, high risk jurisdiction**

## **Transactions**

- **Will you handle client money for the client?**

## **Delivery**

- **Have you/will you meet the client?**

# ***What documentation will ICAEW/your supervisor expect to see?***

- That you have identified your client
  - Documentation that evidences you know who your client is.
    - For example - If it is a company that you know who controls it.
- A risk assessment
  - Documentation that tells us your conclusion on the risk that this client may be involved in money laundering.
- Verification
  - Based on the risk what have you done to ensure the client is who they say they are and operating in the way they tell you.
    - This might vary from client to client (risk based).

# ***Ongoing due diligence - CCAB 5.2.5***

Established business relationships should be subject to CDD procedures throughout their duration

## **How often?**

- Risk-based approach.
- Frequency will often depend on level of risk assigned to the client/engagement.
- Enhanced due diligence requires more frequent review and monitoring.
- Your AML policies and procedures should prescribe frequency.
  - Some firms annual for normal/low risk.
  - Some firms for low risk might have a review every three years..

# ***Event driven reviews – CCAB 5.2.6***

Change in identity

Change in beneficial owners

Change in service provided

Doubt about the reliability of identity information

When there is knowledge or suspicion of MLTF



# ***Common areas for improvement***

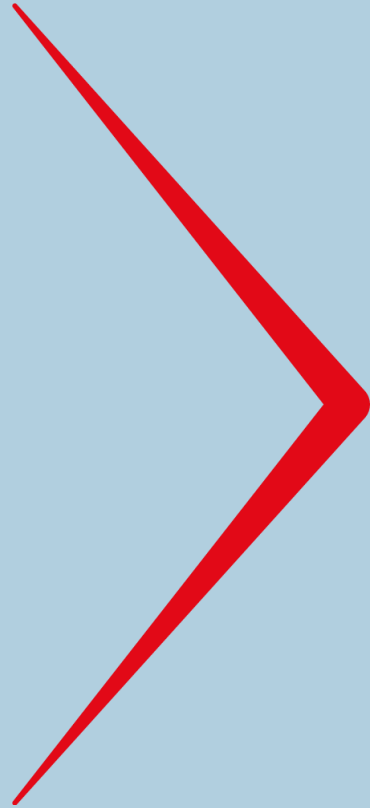
- Single service provision (For example payroll only clients, personal tax clients).
  - Do they apply the same due diligence procedures as the rest of the firm.
- No evidence of a risk assessment.
- No evidence of ongoing due diligence.
- Systems are not set up to recognise when EDD is required.

# ***Guidance***

- CCAB Guidance
  - [ccab.org.uk/anti-money-laundering-guidance-for-the-accountancy-sector](https://www.ccab.org.uk/anti-money-laundering-guidance-for-the-accountancy-sector)
- AMLbites
  - [icaew.com/amlbites](https://www.icaew.com/amlbites)
- ICAEW AML webpage
  - [icaew.com/aml-supervision](https://www.icaew.com/aml-supervision)
- Regulation & Conduct LinkedIn
  - <https://www.linkedin.com/company/icaew-regulation-and-conduct>



# ***Panel discussion***



# ***Simplified due diligence***

How does it work and when does it apply?

# ***What will this webinar cover?***

- What is simplified due diligence?
- What steps are needed to determine if simplified due diligence can be applied?
- What information is required for simplified due diligence?
- What are my ongoing monitoring obligations?



# ***What is simplified due diligence?***

**Simplified due diligence** is permitted in relation to a business relationship or project if the following conditions are met:

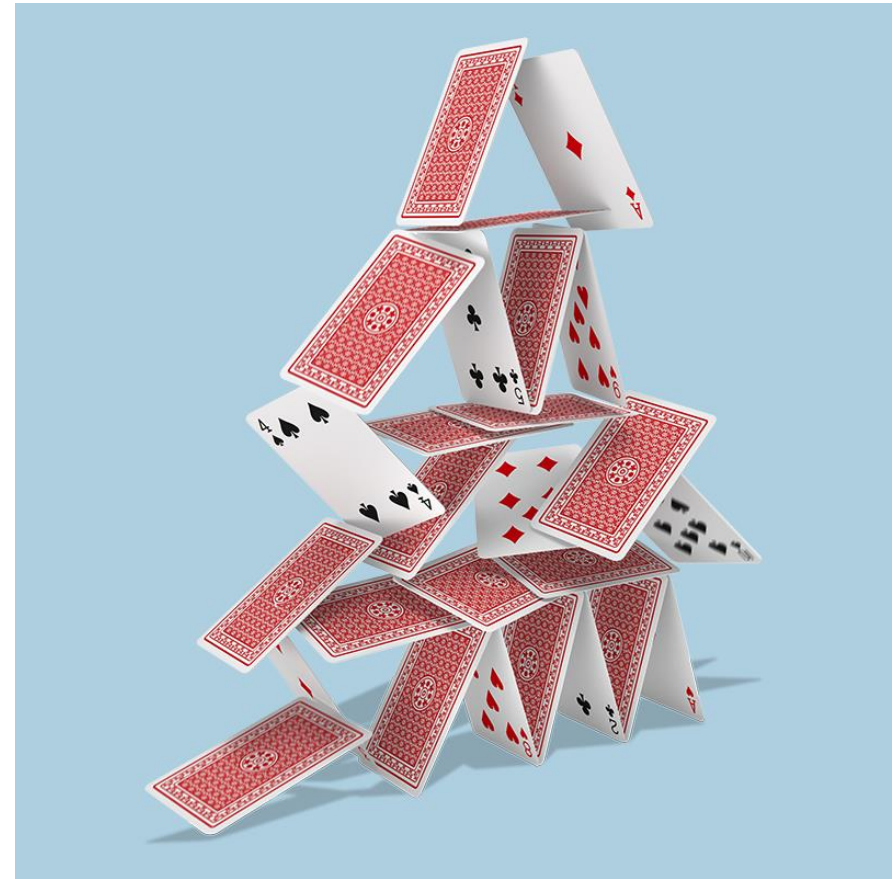
- The project or business has been assessed as low risk; and in reaching that view:
  - The business has carried out a business wide risk assessment which supports this risk rating.
  - The business has taken account of risks identified as a result of either the national risk assessment or a sectoral risk assessment prepared by accountancy or other relevant supervisors.
  - It has taken account of the low risk indicators in the money laundering regulations.

# ***Low risk indicators in money laundering regulations***

**Low risk indicators** include:

- Public authorities or state-owned businesses.
- Lower risk geographic location – both of the client and its activities. This would include the UK and other countries with low levels of corruption or other criminality.
- Regulated businesses – such as banks and other financial institutions; or
- those which are listed on the stock exchange (or a foreign exchange where the rules are equivalent to those in the UK).

Please note that these are indicative of lower risk. All the information available should be assessed before simplified due diligence is applied.



# ***Firm wide risk assessment***

## **How does risk assessment apply?**

In considering whether to apply simplified due diligence, you must consider the risks identified in your firm-wide risk assessment.

- If the service requested is assessed as higher risk in this assessment, then simplified due diligence is not appropriate.
- If there are characteristics of the clients which would cause this to fall within a higher risk category, simplified due diligence is not appropriate.
- If there are other factors which give rise to concern or questions, even if the client otherwise would qualify as low risk, these should be resolved in due diligence, which means that simplified due diligence is not appropriate.

**You should document the circumstances in which you consider that simplified due diligence will apply.**



# ***What do I have to do?***

The regulations are not specific about the steps to be taken.

- You must comply with the standard due diligence requirements, but may vary the extent, timing or type of measures taken to reflect the lower risk.
- You must ensure that you carry out on-going monitoring.

The *accountancy sector guidance* indicates by way of example that this would allow a firm to modify the verification measures undertaken.



# ***What simplified steps might be considered?***

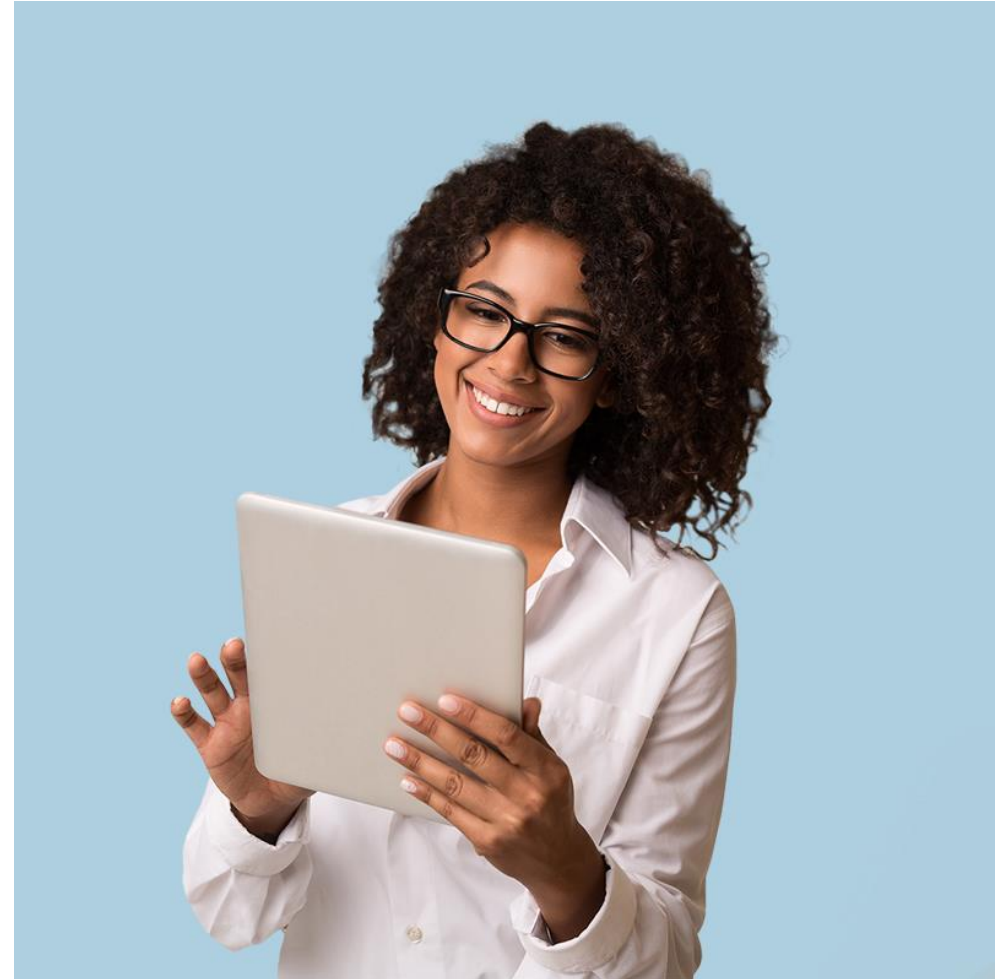
Examples of simplified due diligence may include:

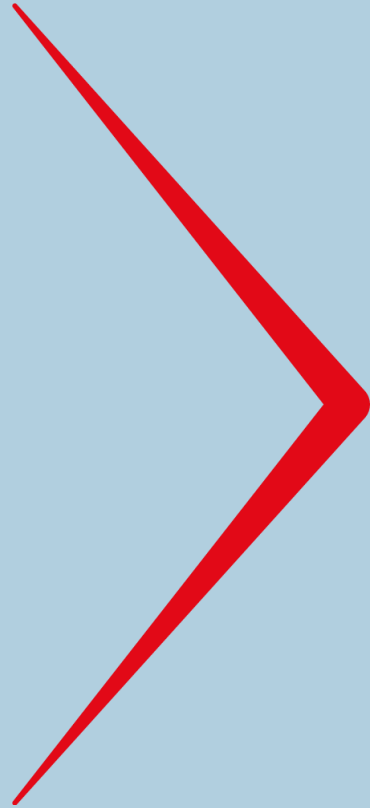
- In the case of a corporate client, perhaps only a single director's identity is verified.
- There may be reduced verification requirements for ultimate beneficial owners.
- For an individual, fewer identity documents may be required.
- Periodic monitoring (ie, refresh of the customer due diligence) may be carried out at longer intervals. You should still be alert to events which may trigger a requirement to update due diligence such as a change in ultimate beneficial owner).

The firm should document what its processes are (ie, what customer due diligence steps are required) when simplified due diligence is permitted.

# ***Conclusions***

1. To apply simplified due diligence, the firm risk assessment must support the decision that the relationships or project is low risk.
2. The criteria for assessing this should be documented.
3. If there are factors which may override this assessment, these should be resolved and simplified due diligence may not be appropriate.
4. You must continue to monitor the client and its activities for the duration of the relationship/project and reassess if information triggers any concerns.





# ***What is enhanced due diligence?***

(EDD)

- **Regulation 33** of the MLTF 2017 requires you to conduct EDD where the individual or entity you propose to do business with poses an increased risk of money laundering or terrorist financing.
- This is your opportunity to not only fulfil your legal and regulatory obligations but also equip yourself to make informed decisions regarding the client and who you do business with.

**Remember:** Enhanced due diligence protects you and your brand!!

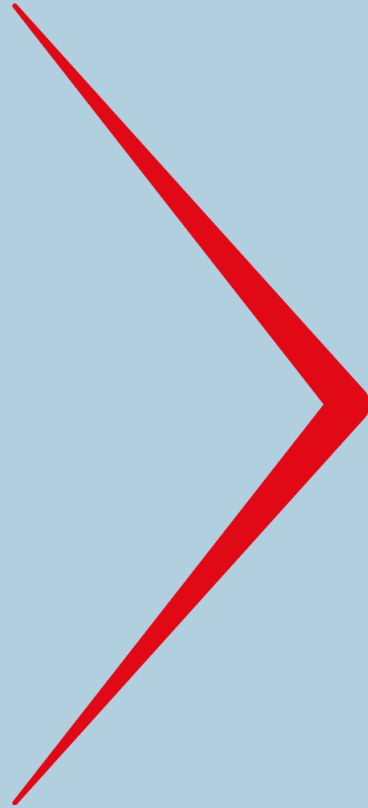
*“s.33: A relevant person must apply EDD measures and enhanced ongoing monitoring, in addition to the CDD measures [where].....”*



# ***High Risk Third Countries – A Closer Look***

- Since 1 January 2021, the UK has had its own list of high risk countries.
- Each country has significant deficiencies in its national AML and CTF regimes.

High Risk Third Countries - Schedule 3ZA of the 2021 Amendment Regulations		
Albania	Iran	Panama
Barbados	Jamaica	Philippines
Botswana	Malta	Senegal
Burkina Faso	Mauritius	South Sudan
Cambodia	Morocco	Syria
Cayman Islands	Myanmar	Uganda
Democratic People's Republic of Korea (DPRK)	Nicaragua	Yemen
Haiti	Pakistan	Zimbabwe



# ***Case Study***

ENHANCED DUE DILIGENCE

# ***Case study***

## **Engagement Details**

- You have been approached by a new client, ABC Property Ltd, to perform their annual tax return.
- The client found your details from your company website.
- Your review of the accounts shows the client received a government grant in April 2019 to build social housing.

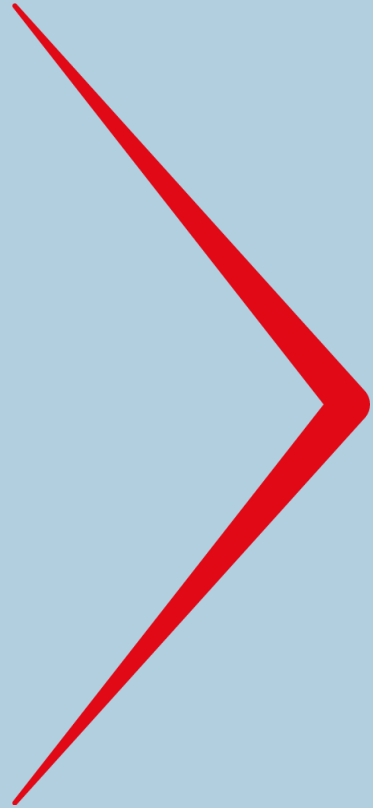
## **Your CDD identifies:**

- The client was incorporated in January 2019.
- Companies House records the clients nature of business as 'Construction'.
- The ultimate beneficial owner (UBO) of the client is Sandra East.
- The sole director is James Wilkins.
- Online searches identifies James Wilkins is the brother of Michael Wilkins, an MP.
- Michael Wilkins was elected to Parliament in late January 2019.



# ***Top tips when conducting EDD***

- ✓ Don't be afraid to ask questions where you cannot get comfortable or something doesn't seem right.
- ✓ Use publicly available open sources to help you conduct EDD.
  - Google string searches
  - Set Google alerts
  - Internet Archive (archive.org)
  - Three screening checks for ICAEW members per week (icaew.com/clientscreening)
  - Reputable news sources
  - Subscription services (eg, Factiva or Worldcheck)
- ✓ Ensure you have documented policies and procedures for the situations in which you will apply EDD.
- ✓ Record your decisions and rationale – both to accept and decline a client.
- ✓ **Use your professional scepticism at all times.**



**Q&A**



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