

## 10: Execution-only stockbrokers

***Note: This sectoral guidance is incomplete on its own. It must be read in conjunction with the main guidance set out in Part I of the Guidance.***

### ***Overview of the sector***

- 10.1 *Execution-only (ExO) stockbrokers* carry out transactions in securities with regulated market counterparties, as agent for individual customers. ExO transactions are carried out only on the instructions of the customer.
- 10.2 The guidance contained in this section covers only the purchase and sale of securities, investments (including investment funds), [gilts, warrants and associated cash management services](#). Firms that arrange for customers to invest through third party products or services (e.g., ISAs, fund supermarkets) may be asked to provide confirmation of the customer due diligence they have undertaken to the provider of that product/service (sector 8: *Non-life providers of investment fund products*). See sector 9: *Discretionary and advisory investment management*.

### ***What are the money laundering risks relating to execution-only stockbroking?***

- 10.3 Some ExO stockbrokers deal with high volumes of low value customer transactions, whereas others direct their services towards higher net worth customers, and thus have fewer customers. Stockbroking customers may adopt a variety of trading patterns; the firm is offering no advice and may have little or no knowledge of a particular customer's motives.
- 10.4 ExO customers are also free to spread their activities across a variety of brokers for perfectly valid reasons, and often do. Each broker may therefore actually have little in terms of transaction history from which to identify unusual behaviour. Many firms provide ExO stockbroking services on a non-face-to-face basis, including via the internet.
- 10.5 In view of the above, whilst stockbroking might be regarded as being of *lower* risk compared to many financial products and services, the risk is not as low as in providing investment management services to the same types of customer from similar jurisdictions.

### ***Who is the customer for AML purposes?***

- 10.6 The typical customers for ExO retail stockbroking are individuals. However, customers also include solicitors, accountants and IFAs, as well as trusts, companies, charities, etc. Much ExO business can comprise occasional, or linked, transactions of a value less than €15,000, which therefore fall within the exemption in Part I, paragraph 5.3.6.

### ***Customer Due Diligence***

#### ***Verification of identity***

- 10.7 There is nothing about typical ExO business in particular that requires the firm to carry out enhanced identity checks as a result of the service offered. Verification of identity for particular types of customer should therefore be performed in accordance with the standard set out in Part I, section 5.3.

- 10.8 The risk level of execution only broking, however, depends on whether the services are offered and operated on a face-to-face or non face-to-face basis. The ML Regulations identify non-face-to-face business as a higher risk for money laundering than face-to-face business. In view of this, firms need to have in place additional measures to neutralise the higher risk when opening and operating accounts for non face-to-face business. This can take the form of additional due diligence at the point of account opening, appropriate ongoing monitoring of customer activity or both.

*Timing*

- 10.9 Verification of identity should be carried out as part of establishing the relationship, but before any services are provided. In the case of share transactions where this might interrupt the normal course of business, verification of identity should take place as soon as practicable after the transaction and in any event before final settlement with the customer. Further details on timing can be found in Part I, paragraphs 5.2.1 to 5.2.5.

*Additional customer information*

- 10.10 ExO business is driven by the customer and, as mentioned earlier, customer behaviour may vary widely, from the occasional transaction in a FTSE 100 share to day trading in a variety of instruments and markets. Given the reasonably narrow range of services provided by ExO stockbrokers, no additional information is likely to be required to establish the purpose and intended nature of the business relationship.

***Monitoring***

- 10.11 As mentioned above, customer behaviour may vary widely, therefore making it harder to pick up unusual or suspicious trading activity. Attention should, therefore, be focused on ensuring that payments to and from the customer as a result of trading activity are conducted through a bank or building society account in the UK, the EU or in an equivalent jurisdiction.
- 10.12 Where a firm is transacting business for a customer who has opened and operated an account on a non face-to-face basis, and the payment is proposed to be made into an overseas account, then the firm should mitigate the higher risk of the non face-to-face business by establishing that the overseas account is held in the customer's own name. If the firm is not able to establish that the account is held in the customer's own name, it should proceed with caution. The firm should consider review of the account and transaction history, and the reason for making the payment abroad, to determine whether the account, or any dealings on the account, are unusual, and therefore possibly suspicious. If the firm has doubts about the proposed transaction, then an external disclosure to SOCA should be made, and appropriate consent obtained, prior to making the overseas payment.
- 10.13 Where a firm's product range allows a customer to make third party deposits or payments, for example through linked banking services, the firm must assess the higher risk presented by these transaction types and enhance its monitoring and staff training accordingly to mitigate.