

19: Name-passing brokers in inter-professional markets

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

- 19.1 In the inter-professional markets, wholesale market brokers pass the names of customers from one principal to another, either by the traditional voice broking method or via an electronic platform owned by the broker. The broker passing the names takes no part in any transaction or trade between the two counterparties.
- 19.2 The activity enables the broker to use his wide range of contacts across the wholesale markets to provide liquidity to the market, by putting in touch principals with a wish to transact, but who may not have the broker's depth of information about willing counterparties. The use of a broker also allows pre-trade anonymity for those counterparties who do not wish their position to be made known to the wider market.
- 19.3 Wholesale market brokers can arrange transactions in any product permitted under the Regulated Activities Order, or which is covered by the Non Investment Products code, published by the Bank of England.

Different types of relationship

- 19.4 The names which may be passed by the broker are generally limited to entities subject to financial regulation, to corporates and to Local Authorities. Regulated entities may be subject to regulation by the FSA or by an overseas regulator; corporates may likewise be UK domiciled or based abroad; Local Authorities are generally UK-based.
- 19.5 In principle, transactions of all types may take place between any of these parties. There is no difference in how the name-passing takes place, although there is an awareness that standards of regulation and corporate governance will vary across jurisdictions.

What are the money laundering risks in name passing?

- 19.6 Across all wholesale markets, the vast majority of participants are known to the other market counterparties. Many participants are subject to financial regulation, and most corporates who are dealt with are listed, and subject to public accountability. In principle, therefore, the money laundering risk in name-passing is very low. The risk associated with name-passing relates to the resultant transactions and business relationships, which are covered by other parts of the sectoral guidance.

Who is the customer for AML purposes?

- 19.7 Wholesale market brokers are arrangers in the sense of a financial intermediary. The principals introduced by name-passing brokers, who subsequently enter into trades or transactions with one another, are each other's customer if the principal is subject to the ML Regulations.

19.8 The name-passing brokers themselves play no part in any transaction.

Customer due diligence

- 19.9 Wholesale market brokers must identify, and verify the identity of, the principals they pass to other market participants.
- 19.10 Principals that are required to comply with the requirements of Part I, Chapter 5, due to their being subject to the ML Regulations, cannot look to name-passing brokers to undertake identity verification procedures on their behalf.
- 19.11 The principals must therefore take steps to obtain, appropriately verify, and record the identity of counterparties (and any underlying beneficiaries) “introduced” to them by name-passing brokers.
- 19.12 Where a counterparty “introduced” by a name-passing broker fails to satisfy a principal’s AML identity verification checks, the principal is responsible for informing the name-passing broker that the prospective counterparty cannot be accepted.