

RISK FACTOR GUIDELINES

Enhanced due diligence

Unusual transactions

Firms should put in place adequate policies and procedures to detect unusual transactions or patterns of transactions. Where a firm detects transactions that are unusual because:

- they are larger than what the firm would normally expect based on its knowledge of the customer, the business relationship or the category to which the customer belongs; or
- they have an unusual or unexpected pattern compared to the customer's normal activity or the pattern of transactions associated with similar customers, products or services; or
- they are very complex compared to other, similar transactions by similar customer types, products or services,

and the firm is not aware of an economic rationale or lawful purpose or doubts the veracity of the information it has been given, it must apply EDD measures.

These EDD measures should be sufficient to help the firm determine whether these transactions give rise to suspicion and must at least include:

- taking reasonable measures to understand the background and purpose of these transactions, for example by establishing the source and destination of the funds or finding out more about the customer's business to ascertain the likelihood of the customer making such transactions; and
- monitoring the business relationship and subsequent transactions more frequently and with greater attention to detail. A firm may decide to monitor individual transactions where this is commensurate with the risk it has identified.

High-risk third countries

When dealing with individuals or entities established or residing in a high risk third country as set out in the UK's list of high-risk countries in Schedule 3ZA of the ML Regulations (as amended by The Money Laundering and Terrorist Financing (Amendment) (High-Risk Countries) Regulations 2022), EDD measures must be applied (see 5.5.11).

When adjusting the extent of EDD measures to be applied (including the timing of existing customer reviews), the following may inform the firm's risk-based approach:

- The constitution, industry sector, and overall money laundering and terrorist financing risk of the firm's customer-base, for example, considering different risk-based approaches to EDD measures applied to:
 - local or expatriate private individuals
 - corporate customers
 - regulated financial institutions
 - other customer types outlined in 5.3.177-5.3.293

- The presence of other AML/CTF regulated entities in a relationship or relationship structure that undertakes due diligence or provides management oversight of the customer, and are established in jurisdictions posing a lower risk;
- Whether the firm has a branch or subsidiary established in the high-risk third country where the branch or subsidiary is subject to equivalent group wide policies and procedures;
- The specific strategic deficiencies in their AML/CTF regimes, jurisdictional typologies and respective compliance ratings assigned to each FATF recommendation, contributing to the FATF's designation of a particular country on either the 'High-risk subject to a call for action' or 'Jurisdictions under increased monitoring' lists;
- Existing customers that are already subjected to EDD measures as a result of the firm's customer risk assessment process, which considers the risk factors outlined in Annex 4-II. Firms may conclude that existing customers are already subjected to mandatory EDD measures and therefore no additional EDD is required.

When a country is removed from Schedule 3ZA, the obligation to apply EDD measures as set out in 5.5.11 for a customer established in that country ends. Firms must continue to determine the extent of their CDD measures on a risk sensitive basis depending on the type of customer, business relationship, product or transaction.

Other high-risk situations

In all other high-risk situations, firms should take an informed decision which EDD measures are appropriate for each high-risk situation and the appropriate type of EDD (including the extent of additional information sought, and increased monitoring), will depend on the reason why a relationship was classified as high risk.

Firms will not need to apply all EDD measures listed below in all cases. For example, in certain high-risk situations it may be appropriate to focus on enhanced ongoing monitoring during the course of the business relationship.

EDD measures firms should apply may include:

- increasing the quantity of information obtained for CDD purposes:
 - (i) about the customer's or beneficial owner's identity, or the customer's ownership and control structure, to be satisfied that the risk associated with the relationship is well known. This may include obtaining and assessing information about the customer's or beneficial owner's reputation and assessing any negative allegations against the customer or beneficial owner. Examples include:
 - a. information about family members and close business partners;
 - b. information about the customer's or beneficial owner's past and present business activities; and
 - c. adverse media searches.
 - (ii) about the intended nature of the business relationship, to ascertain that the nature and purpose of the business relationship is legitimate and to help firms obtain a more complete customer risk profile. It includes obtaining information on:

- a. the number, size and frequency of transactions that are likely to pass through the account to be able to spot deviations that may give rise to suspicions. In some cases, requesting evidence may be appropriate;
 - b. why the customer looks for a specific product or service, in particular where it is unclear why the customer's needs cannot be met better in another way, or in a different jurisdiction;
 - c. the destination of funds; or
 - d. the nature of the customer's or beneficial owner's business to understand the likely nature of the business relationship better.
- increasing the quality of information obtained for CDD purposes to confirm the customer's or beneficial owner's identity including by:
 - (i) requiring the first payment to be carried out through an account verifiably in the customer's name with a bank subject to UK CDD standards; or
 - (ii) establishing that the customer's source of wealth and source of funds that are used in the business relationship are not the proceeds from criminal activity and that they are consistent with the firm's knowledge of the customer and the nature of the business relationship. In some cases, where the risk associated with the relationship is particularly increased, verifying the source of wealth and the source of funds may be the only adequate risk mitigation tool. The sources of funds or wealth can be verified, among others, by reference to VAT and income tax returns, copies of audited accounts, pay slips, public deeds or independent and credible media reports.
- increasing the frequency of reviews, to be satisfied that the firm continues to be able to manage the risk associated with the individual business relationship or conclude that it no longer corresponds to its risk appetite and to help identify any transactions that require further review, including by:
 - (i) increasing the frequency of reviews of the business relationship, to ascertain whether the customer's risk profile has changed and whether the risk remains manageable;
 - (ii) obtaining the approval of senior management to commence or continue the business relationship to ensure senior management are aware of the risk their firm is exposed to and can take an informed decision about the extent to which they are equipped to manage that risk;
 - (iii) reviewing the business relationship on a more regular basis to ensure any changes to the customer's risk profile are identified, assessed and, where necessary, acted upon; or
 - (iv) conducting more frequent or in-depth transaction monitoring to identify any unusual or unexpected transactions that may give rise to suspicion of money laundering or terrorist financing. This may include establishing the destination of funds or ascertaining the reason for certain transactions.