5: Wealth management

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

5.1 Wealth management is the provision of investment services including advice, discretionary fund management and brokerage to private investors, ranging from the mass affluent to high and ultra-high net worth individuals (HNWI and UHNWI). Some wealth managers are parts of banks or private banks and may also provide banking services to the same clients. The services are characterised by ~~their bespoke nature tailored to~~ an assessment of a client's particular needs and may comprise some or all of the following:

- Execution only brokerage (see Sector 10)
- Personalised and detailed advice
- Discretionary portfolio management (see Sector 9)
- Financial planning (see Sector 6)
- Bespoke investment solutions
- Investments in markets in a wide range of jurisdictions, including emerging markets, small investment centres, and metropolitan countries
- high value transactions (for HNWI and UHNWI)
- Current account banking (where the wealth manager is part of a private bank).

What are the money laundering risks in wealth management?

Inherent risks

5.2 ~~Money launderers are attracted by the availability of specialised products and the provision of services that operate internationally, utilise detailed knowledge of clients, create a secure and reputable wealth management environment and are familiar with transactions for private investors. This generates a layer of respectability that 'covers' criminal activity and, it is felt, protects it from investigation.~~ The following are factors that contribute to the potential risk for ~~vulnerability of~~ wealth management:

- Wealthy and powerful clients: Such clients may be reluctant or unwilling to provide adequate documents, details and explanations. The situation with regard to them is exacerbated where the client enjoys a high public profile, and may fall into the category of Politically Exposed Person (PEP), indicating that they wield or have recently wielded political or economic power or influence.

- Multiple and complex accounts: wealthy clients often have many accounts in more than one jurisdiction, either within the same firm or group, or with different firms. In the latter situation it may be more difficult for wealth managers to accurately assess the true purpose and business rationale for individual transactions

- Cultures of confidentiality: better off Wealth management clients may seek extra reassurance that their need for confidential business to ~~will~~ be conducted discreetly will be met. However, requests for confidentiality should not lead to unwarranted levels of secrecy that suit those with criminal intentions.

- Concealment: The use of services such as offshore trusts and the availability of structures such as shell companies in some jurisdictions helps to maintain an element of secrecy about beneficial ownership of funds and may give rise to significant misuse. Care should be taken to ensure that use of banking and investment services in such countries does not facilitate the development of layers of obscurity that assist those who pose a higher risk of criminality. ~~with criminal intentions.~~

- Jurisdictions maintaining statutory banking secrecy: ~~there is a culture of secrecy in some jurisdictions, supported by local legislation, in which wealth management clients may hold accounts without being detected as doing so; it is very difficult if not impossible to investigate whether these accounts have been used for laundered money.~~ Secrecy in banking increases the risk a client might present to a firm – certain jurisdictions will have tighter rules and these need to be taken into consideration.

- Corrupt jurisdictions: there are jurisdictions where corruption is known, or perceived, to be a common method of acquiring personal wealth. As with any financial services firm, a~~A~~ttempts may be made to launder assets gained from corrupt practices in these jurisdictions through wealth management firms.

- Movement of funds: The transmission of funds and other assets by private clients may involve high value transactions, and rapid transfers of wealth across accounts in different countries and regions of the world; this could ~~can~~ facilitate the concealment of illicit funds before the authorities can catch up with them.

- The use of concentration accounts: i.e. multi-client pooled/omnibus type accounts these are used to collect together funds from a variety of sources for onward transmission and can hide laundered money in the pooling; they are seen as a potential major risk.

- Credit: the extension of credit to clients who use their assets as collateral also poses a money laundering risk unless the lender is satisfied that the origin and source of the underlying asset is legitimate.

- Commercial activity conducted through a personal account, or personal activity conducted through a business account, are methods that can be used to deceive the firm or its staff.

Secured loans

5.3 Secured loans, where collateral is held in one jurisdiction and the loan is made from another, are common in the private banking areas of wealth management. Such arrangements may serve a legitimate business function and make possible certain transactions which may otherwise be unacceptable due to credit risk. But they may also make it easier to conceal the sources of illicit funds. Collateralised loans raise different legal issues depending on the jurisdiction of the loan, but foremost among these issues are the propriety and implications of guarantees from third parties (whose identity may not always be revealed) and other undisclosed security arrangements that may hide the true nature of the collateral. Particular care should be taken where the lender is relying upon the guarantee of a third party not otherwise in a direct business relationship, and where the collateral is not in the same jurisdiction as the lending firm.

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Assessment of the risk

5.4 The role of the relationship manager is particularly important to the wealth management firm in managing and controlling and mitigating the money laundering or terrorist financing risks it faces. Wealth management relationship managers can develop strong personal relationships with their clients, depending on the business model, which facilitates the collection of the necessary information to know the client's business and financial affairs, including knowledge of the source(s) of the client's wealth. However, wealthy clients can have business affairs and lifestyle that may make it difficult to establish what is "normal" and therefore what may constitute unusual behaviour.

5.5 Relationship managers must, however, at all times be alert to the risk of becoming too close to the client and to guard against the risks from:

- a false sense of security
- conflicts of interest which may compromise the firm's ability to meet its AML obligations and its wider financial crime responsibilities under SYSC
- undue influence by others, especially by the clients themselves.

5.6 As in all firms, relationship managers and other client-facing staff in the wealth management sector should be alert to any developing risk to their personal safety. Criminals seeking to gain advantage from using a firm's credibility are known to compromise, and sometimes threaten, the firm or its staff. Firms should have:

- suitable internal procedures requiring staff to report when they believe that they have been menaced
- ~~a policy for reporting incidents to the police~~ a policy for handling incidents and reporting them to the appropriate authority.

Cash transactions

5.7 Relationship managers should neither accept cash nor deliver cash, nor other stores of value such as travellers' cheques, to anyone. ~~A client should be required to deposit or withdraw cash at the counter of a recognised bank that is at least subject to local supervision~~. ~~In extremely rare circumstances where this is not possible, there should be a documented policy and procedures in relation to the handling of cash and other stores of value by relationship managers. Such transactions should be reported upwards within the firm's UK structure and consideration given to informing the firm's nominated officer.~~

Customer due diligence

5.8 Within the firm, the relationship manager will often be aware of any special sensitivity that may genuinely relate to the client's legitimate commercial activities or need for personal security.

5.9 To control any risk of money laundering, the client's justification for using financial institutions, businesses or addresses in different jurisdictions should always be subject to scrutiny before undertaking a transaction. To be able to view and manage the risk of money laundering across the whole of the firm or group's business connections, the wealth manager should consider nominating a senior person to lead such client relationships. The lead relationship manager should have access to sufficient information to enable them to:

- know and understand the business structure
- determine whether or not there is cause to suspect the presence of money laundering

5.10 Ordinarily, the level of diligence carried out in wealth management will be higher than that needed for normal retail banking (see sector 1: *Retail banking*) or investment management (see sector 9: *Discretionary and advisory investment management*) purposes. A wealthy retail client's needs entailing the use of sophisticated products and fiduciary services, sometimes involving more than one jurisdiction, including trusts, private investment vehicles and other company structures, require careful scrutiny. Where such legal vehicles and structures are used, it is important to establish that their use is genuine and to be able to check the sources of wealth and funds and follow any chain of title to know who the beneficial owner and controllers are~~is~~.

5.11 In addition to the standard identification requirement in Part I, paragraphs 5.3.71~~57~~ – 5.3.91~~67~~, any wealth management service should have particular regard to the following:

- As a minimum requirement to counter the perceived and actual risks, the firm, and those acting in support of the business, must exercise a greater degree of diligence throughout the relationship which will be beyond that needed for normal retail banking purposes. The firm must endeavour to understand the nature of the client's business and consider whether it is consistent and reasonable, including:

  - the origins of the client's wealth
  - Where possible and appropriate, documentary evidence relating to the economic activity that gave rise to the wealth
  - the nature and type of transactions
  - the client's business and legitimate business structures
  - for corporate and trust structures - the chain of title or authority ~~or control~~ leading to persons of significant control, the ultimate beneficial owner, settler and beneficiaries, if relevant and known
  - Where appropriate, the reasons a client is using complex structures
  - the use made by the client of products and services
  - the nature and level of business to be expected over the account

- The firm must be satisfied that a client's use of complex business structures and/or the use of trust and private investment vehicles, has a genuine and legitimate purpose.

5.12 For some clients, fame is generally recognised as having a long continuing existence, and their photographs are commonly published in the public domain. In such cases, so long as the relationship manager has met the client face-to-face, firms may wish to introduce a controlled procedure, as part of the verification process, whereby the relationship manager may certify a published photograph as having a true likeness of the client. The certified photograph should be retained as a formal record of personal identification.

Recording of ~~visits to the~~ client~~'s premises~~ meetings

5.13 As mentioned in Part I, paragraph 5.3.76~~65~~, in the context of a traditional business model for wealth management, visiting clients can be an important part of the overall customer due diligence process. ~~In wealth management, where possible relationship managers should visit their clients at their place of business in order to substantiate the type and volume of their business activity and income, or at their home if the business factor is not so relevant. The relationship manager who undertakes the visit should make a record by documenting:~~ Whether the meeting is virtual or physical (and dependent on the firm's business model), in order to substantiate the type and volume of a client's business activity and income, relationship managers should, where possible, seek to document:

- the date and time of the visit
- the address or addresses visited
- a summary of both the discussions and assessments
- any commitments or agreements
- any changes in client profile
- the expectations for product usage, volumes and turnover going forward

- any international dimension to the client's activities and the risk status of the jurisdictions involved

This is a useful way of confirming identity and verification (ID&V) for cases where it can't be otherwise obtained, e.g. vulnerable clients. The client profile should be updated where appropriate.

Approval of new relationship

5.14 All new wealth management clients should be subject to the firm's risk-based approach and new clients may be referred for appropriate management approval. ~~independent review, and appropriate management approval and sign off~~.

~~References~~ Reputational searches

5.15 Firms should check for negative information (e.g. in the media/online), on a risk-based approach.
~~Reputational searches should be undertaken as a normal part of customer due diligence, which will include checks for negative information. It will sometimes be appropriate to obtain a satisfactory written reference or references from a reputable source or sources before opening an account for a client. The relationship manager should document the nature and length of the relationship between the referee and the client. References should only be accepted when they are:~~

- ~~received direct – not from the client or third parties~~
- ~~specifically addressed only to the firm~~
- ~~verified as issued by the referee~~

Review of client information

5.16 The firm's policies and procedures should require that the information held relating to wealth management clients be reviewed and updated on a periodic basis, or when a material change occurs in the risk profile of a client. Periodic review of particular clients will be made on a risk-based basis. Wealth management firms should consider reviewing their business with higher risk clients on at least an annual basis.

Enhanced due diligence (EDD)

5.17 Greater diligence should be exercised when considering business with customers who live in higher risk countries, or in unstable regions of the world known for the presence of corrupt practices as assessed by the firm and in accordance with guidance in Part I. Firms must comply with the EDD requirements in the ML Regulations in respect of clients who are PEPs, see Part I, section 5.5 and paragraph 5.20 below.

5.18 Those types of client that pose a greater money laundering or terrorist financing risk should be subject to a more stringent approval process. Their acceptance as a client or the significant development of new business with an existing higher risk client should be subject to an appropriate approval process. That process might involve the highest level of business management for the wealth management operation in the jurisdiction. Firms should consider restricting any necessary delegation of that role to a recognised risk control function.

5.19 In the case of higher risk relationships, appropriate senior personnel should undertake an independent review of the conduct and development of the relationship, at least annually.

Politically exposed persons (PEPs)

5.20 Firms offering a wealth management service should have particular regard to the guidance in relation to PEPs set out in Part I, paragraphs 5.5.13 to 5.5.31. Relationship managers should endeavour to keep up-to-date with any reports in the public domain that may relate to their client, the risk profile or the business relationship.

Other clients

5.21 ~~Firms should consider conducting similar searches against the names of their prospects for business, including those that may only be known within the business development or marketing functions; and where practicable, third party beneficiaries to whom clients make payments.~~ The handling of third-party payments is an important feature of the typical risk profile of the wealth management sector. Where the firm receives payments from or pays redemption proceeds to a third party, appropriate due diligence measures should be performed on the third party, on a risk-based approach - including, for example, understanding the reasons behind the payment/transfer and relationship to the third party and considering the extent to which their identity may need to be verified. Where the beneficial owner remains the same, this may be treated as lower risk.

5.22 It is recommended that in addition to the categories of client regarded as PEPs, clients connected with sectors that are associated with higher corruption risk (see Part 1 Annex 4-II) ~~such businesses as gambling, armaments or money service businesses~~ should be considered for treatment as higher risk. In determining whether to do business with such higher risk interests, firms should carefully weigh their knowledge of the countries with which the client is associated as well as the nature of the business that has generated the wealth. Particular consideration should be given to the extent to which other countries' AML/CTF legislation has an equivalent effect to UK requirements.~~their AML/CTF legislation is comparable to the provisions of the relevant EU Directive.~~

Transaction Monitoring

5.23 General guidance on monitoring customer transactions and activity is given in Part I, section 5.7. In view of the risk associated with wealth management activities, it is appropriate that there should be a heightened ongoing review of account activity and the use made of the firm's other products. In the case of wealth management, the triggers for alerts may be set at ~~a~~ different levels depending on the risk the client presents to the business, to reflect the appropriate level of control that is to be exercised.

5.24 An illustrative (but not exhaustive) list of matters firms should carefully examine includes:

- disproportionate funding payments (in light of the client's circumstances)~~substantial initial deposits~~ proposed by prospects or made by clients~~for business~~;
- transactional activity - ~~frequent or substantial~~ activity that is inconsistent with the normal levels associated with the client, product or purpose - unusual patterns of activity may be evidence of money laundering or other financial crime;
- wire transfers - frequent or substantial transfers not in keeping with either normal usage for the product or the verified expectations of the client's business requirement;
- ~~cash or other~~ transactions - which are not in line with either the normal usage for the product or the verified expectations of the client's business requirement;
- significant increase or change in activity – increased values, volumes or new products required, which do not align with the firm's profile of the client;
- accounts of financial institutions not subject to supervision in an assessed low risk jurisdiction; and

- any activity not commensurate with the nature of the business.

Firms should remain mindful of the possibility of clients using their legitimate resources to finance terrorism.

5.25 Incoming and outgoing transfers, whether of cash, investments or other assets, should be reviewed by the relationship manager~~, or their~~ delegate or other function (depending on the firm's business model) as soon as is reasonably practicable after the transaction. To ensure the process is efficient, firms will wish to set a threshold figure that is in line with the business risk profile. Firms should aim to make this appropriate to the risk the client presents.

5.26 In view of the nature of wealth management services generally, it is appropriate that additional controls and procedures should be applied both to the acceptance and ongoing maintenance of wealth management relationships. These ~~additional~~ controls will also be appropriate when considering the further development of the business relationship with, say, the introduction of new funds or assets, or new technological processes.

6: Financial advisers (including financial planners)

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

6.1 Financial advisers give customers advice on their investment needs (typically for long-term savings and pension provision) and selecting the appropriate products, and on tax issues related to these investments.

Typical customers

6.2 The typical customers of financial advisers are personal clients (including high net worth individuals), trusts, companies and charities.

6.3 Financial advisers, whether they only give advice or whether they act on behalf of their customers in dealing with a product provider, are subject to the full provisions of UK law and regulation relating to the prevention of money laundering and terrorist financing. The guidance in Part I therefore applies to financial advisers.

6.4 Other sectoral guidance in Part II that is relevant to financial advisers includes:

- Sector 5: *Wealth Management*
- Sector 7: *Life assurance, and life-related pensions and investment products*
- Sector 8: *Non-life providers of investment fund products*
- Sector 9: *Discretionary and advisory investment management*

6.5 Generally, financial advisers do not hold permission from the FCA to handle client money, so in practice there is unlikely to be any involvement in the placement stage of money laundering. There is, however, considerable scope for financial advisers being drawn in to the layering and integration stages.

6.6 Whether or not financial advisers hold permission to handle client money, they should consider whether their relationship with their customers means that the guidance in sector 5: *Wealth management* or in sector 9: *Discretionary and advisory investment management* applies more directly to them.

What are the money laundering or terrorist financing risks for financial advisers?

6.7 The ~~vast~~ majority of financial advice business is conducted on a face-to-face basis, however other business models are increasingly common and investors generally have easy access to the funds involved.

6.8 Some criminals may seek to use financial advisers as part of the layering and integration stage of money laundering (i.e. disguising the origins of criminal funds and reintegrating them into the financial system).~~the first step in integrating their criminal property into the financial system.~~

6.9 The offences of money laundering or terrorist financing include aiding and abetting those trying to carry out these primary offences, which include tax evasion. This is the main risk generally faced by financial advisers. In carrying out its assessment of the risk the firm faces of becoming involved in money laundering or terrorist financing, or entering into an arrangement to launder criminal property, the advisory firm must consider the risk related to the product, as well as the risk related to the client.

6.10 Clearly, the risk of being involved in money laundering or terrorist financing will increase when dealing with certain types of client, such as offshore trusts/companies, politically exposed persons and customers from higher risk or non-FATF countries or jurisdictions, and may also be affected by other service features that a firm offers to its customers. Customer activity, too, such as purchases in secondary markets – for example, traded endowments – can carry a higher money laundering risk.

Customer due diligence

6.11 Having sufficient information about customers and beneficial owners, and using that information, underpins all other anti-money laundering procedures. A firm must not enter into a business relationship until all due diligence has been completed (including EDD where necessary)~~the identity of all the relevant parties to the relationship has been verified~~ in accordance with the guidance in Part I, Chapter 5. Depending on the nature of their business, firms should also have regard to the requirements of product providers (see Part II sectors, 7, 8 and 9).

6.12 ~~When a full advice service is offered, t~~
The process will involve information gathering, an understanding of the customer's needs and priorities and anticipated funds available for investment. The amount of information held about a client will build over time, as there will often be ongoing contact with the customer in order to review their circumstances. ~~However, the level of information held about a customer will be limited if business is transacted on an execution-only or direct offer basis and financial advisers should have an increased regard to the monitoring of business undertaken in this way.~~

Whose identity should be verified?

6.13 Guidance on who the customer is, whose identity has to be verified, is given in Part I, paragraphs 5.3.8~~2~~ to 5.3.16~~7~~. Guidance on who the beneficial owner is, whose identity also has to be verified, is given in Part I, paragraphs 5.3.8 – 5.3.13 generally, and in Part II sector 7, Annex 7-I, FAQs, increased risk (v), specifically for investment bonds.

Private individuals

6.14 Guidance on verifying the identity of private individuals is given in Part I, paragraph~~s~~ 5.3.59~~57 to 5.3.105~~. Guidance on circumstances where it may be possible to use the source of funds as evidence of identity is given in Part I, paragraphs 5.3.102~~82~~ to 5.3.107~~87.~~

6.15 The firm's risk assessment procedures will take account of the money laundering and terrorist financing risks identified in the sectors in which the relevant product provider operates (see paragraph 6.4). Customers may be assessed as presenting a higher risk of money laundering, whether because they are ~~he is~~ identified as being a PEP, or because of some other aspect of the nature of the customer, or their~~his~~ business, or its location, or because of the product features available. In such cases, the firm must conduct enhanced due diligence measures (see Part I, section 5.5). ~~and will need to decide whether it should require additional identity information, and/or whether to verify additional aspects of identity.~~ For such customers, the financial adviser will need to consider whether ~~to require additional customer information (see Part I, section 5.5) and/or whether~~ to institute enhanced monitoring (see Part I, section 5.7).

6.16 Some persons cannot reasonably be expected to produce the standard evidence of identity. This would include persons such as individuals in care homes, who may not have a passport or driving licence, and whose name does not appear on utility bills. Where customers cannot produce the standard identification evidence, reference should be made to the guidance set out in Sector 1: *Retail banking*, Annex 1-I.

Non-personal customers

6.17 Guidance on verifying the identity of non-personal customers is given in Part I, paragraphs 5.3.126~~06~~ to 5.3.293~~72~~. The following are examples~~Categories~~ of non-personal customers that are likely to be of ~~particular~~ relevance to financial advisers~~are~~:

- Private companies (paragraphs 5.3.163 to 5.3.176)
- Partnerships and unincorporated businesses (paragraphs 5.3.177 to 5.3.191)
- Pension schemes (paragraphs 5.3.228 to 5.3.237)
- Charities, church bodies and places of worship (paragraphs 5.3.238 to 5.3.257)
- Other trusts and foundations (paragraphs 5.3.258 to 5.3.282)
- Clubs and societies (paragraphs 5.3.283 to 5.3.293)

Non face-to-face

6.18 ~~Non face-to-face transactions can present a greater money laundering or terrorist financing risk than those conducted in person because it is inherently more difficult to be sure that the person with whom the firm is dealing is the person that they claim to be. Verification of identity undertaken on a non-face-to-face basis should be carried out in accordance with the guidance given in Part I, paragraphs 5.3.85 to 5.3.89~~.
Business conducted with clients on a non-face-to-face basis should not mean that such interactions be considered to represent a higher risk provided there are sufficient safeguards and controls in place (see Part I paragraph 5.3.76 - 5.3.94).

~~6.18~~

Using verification work carried out by another firm

6.19 The responsibility to be satisfied that a customer's identity has been verified rests with the firm entering into the transaction with the customer. However, where two or more financial services firms have an obligation to verify the identity of the same customer in respect of the same transaction, in certain circumstances one firm may use the verification carried out by another firm. Guidance on the circumstances in which such an approach is possible ~~and on the use of pro-forma confirmation documentation,~~ is given in Part I, section 5.6.

6.20 Financial advisers should bear in mind that they are often the party which is carrying out the initial customer identification and verification process. As such, it is they who will be asked to confirm to a product or service provider that such verification has been carried out, and such confirmation must not be given if appropriate CDD has in fact not been done. ~~Although not directly related to the sort of work that financial advisers typically carry out, the significance of issuing such confirmations is highlighted by the actions of the then FSA in 2005 in fining a bond broker who gave such conformation when he was aware that he had not, in fact, carried out appropriate customer due diligence.~~

6.21 Product providers often rely on customer verification procedures carried out by financial advisers, which underlines the importance of their systems and procedures for risk assessment being effective.

6.22 Where the financial adviser has carried out verification of identity ~~on behalf of a product provider~~, the adviser must be able to make available to the product provider, on request, copies of the identification and verification data and other relevant documents on the identity of the customer or beneficial owner obtained by the adviser (see paragraph 6.29). This obligation extends throughout the period for which the financial adviser has an obligation under the ML Regulations to retain these data, documents or other information.

Suspicious transactions

6.23 Financial advisers are ideally placed to identify activity which is abnormal, or which does not make economic sense, in relation to a person's circumstances. Obtaining details on the source of a customer's wealth, and identifying the purpose of an activity are all mandatory parts of the normal advice process. Financial advisers do not have to handle the transaction personally to have an obligation to report it.

6.24 Guidance on monitoring customer transactions and activity is set out in Part I, section 5.7. Guidance on internal reporting, reviewing internal reports and making appropriate external reports to the NCA, is given in Part I, Chapter 6. This includes guidance on when a firm needs to seek consent to proceed with a suspicious transaction, with which financial advisers need to be familiar.

Staff awareness and training

6.25 One of the most important controls over the prevention and detection of money laundering is to have staff who are alert to the risks of money laundering/terrorist financing and well trained in the identification of unusual activities or transactions, which may prove to be suspicious.

6.26 Guidance on staff awareness, training and alertness is given in Part I, Chapter 7. This guidance includes suggested questions that staff should be asking themselves, and circumstances that should cause them to ask further questions about particular transactions or customer activity.

Record-keeping

6.27 General guidance on record-keeping is given in Part I, Chapter 8. The position of financial advisers means that some of the guidance in Part I, Chapter 8 cannot easily be applied. Generally, financial advisers will verify customers' identities by means of documentation, as they will often not have access to electronic sources of data. Where documents are used, it is preferable to make and retain copies.

6.28 Financial advisers may, from time to time, be asked by product providers for copies of the identification evidence that they took in relation to a particular customer. Financial advisers' record-keeping arrangements must therefore be capable of enabling such material to be provided in a timely manner (see Part I, paragraph 5.6.18).

6.29 Documents relating to customer identity must be retained for five years from the date the business relationship with the customer has ended (see Part I, paragraph 8.12).