

FATF



Anti-money laundering and
counter-terrorist financing
measures

United Kingdom

Follow-up Report &
Technical Compliance Re-Rating

May 2022

Follow-up report





The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CTF) standard.

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United Kingdom's 1st Regular Follow-up Report

1. Introduction

The FATF Plenary adopted the mutual evaluation report (MER) of the United Kingdom (UK) in October 2018¹. This FUR analyses UK's progress in addressing the technical compliance deficiencies identified in its MER, relating to Recommendations 13 and 29. Re-ratings are given where sufficient progress has been made. This report also analyses UK's progress in implementing new requirements relating to FATF Recommendations that have changed since the on-site visit of UK in March 2018 (R.2 and R.15).

Overall, the expectation is that countries will have addressed most, if not all, technical compliance deficiencies by the end of the third year from the adoption of their MER. This report does not address what progress the UK has made to improve its effectiveness.

2. Findings of the MER

The MER rated UK's technical compliance as follows:

Table 1. Technical compliance ratings, October 2018

R.1	R.2	R.3	R.4	R.5	R.6	R.7	R.8	R.9	R.10
LC	C	C	C	C	LC	LC	C	C	LC
R.11	R.12	R.13	R.14	R.15	R.16	R.17	R.18	R.19	R.20
C	C	PC	C	LC	C	LC	LC	LC	C
R.21	R.22	R.23	R.24	R.25	R.26	R.27	R.28	R.29	R.30
C	LC	LC	LC	C	C	C	C	PC	C
R.31	R.32	R.33	R.34	R.35	R.36	R.37	R.38	R.39	R.40
C	LC	LC	C	C	C	LC	C	C	LC

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

Source: [UK Mutual Evaluation Report, October 2018](https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-Kingdom-2018.pdf)

Mr. Scott Rembrandt - Deputy Assistant Secretary, US Department of Treasury, United States of America, conducted the analysis of the re-rating.

¹ <https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-Kingdom-2018.pdf>

Section 3 of this report summarises UK's progress made in improving technical compliance. Section 4 sets out the conclusion and a table showing which Recommendations have been re-rated.

3. Overview of progress to improve technical compliance

This section summarises UK's progress to improve its technical compliance by:

- a) addressing some of the technical compliance deficiencies identified in the MER; and
- b) implementing new requirements where the FATF Recommendations have changed since the on-site visit in March 2018 (R.2 and R.15).

Progress to address technical compliance deficiencies identified in the MER

The UK has made progress to address the technical compliance deficiencies identified in the MER in relation to R.13, which the MER rated as PC. As a result of this progress, the UK has been re-rated on this Recommendation.

The FATF welcomes the progress achieved by the UK in order to improve its technical compliance with R.29. However, this does not justify an upgrade of this Recommendation's rating at this stage.

Recommendation 13 (originally rated PC)

In its 4th round MER, the UK was rated PC on R.13, based on the lack of application of enhanced due diligence (EDD) measures for correspondent banking within the European Economic Area (EEA). The EDD measures for cross-border correspondent banking were applied only to respondent institutions outside of the EEA.

Since the adoption of its MER, the UK amended the Money Laundering Regulations (MLR) by changing the definition of third country to include any jurisdiction outside of the UK. Therefore, the mandatory EDD measures apply to correspondent banking and other similar relationships with all countries outside of the UK.

The UK has addressed the deficiencies identified in its MER. On this basis, R.13 is re-rated compliant.

Recommendation 29 (originally rated PC)

In its 4th round MER, UK was rated PC on R.29 due to some concerns about the operational independence of the UKFIU and its ability to perform its key functions due to the lack of resources. The MER noted that the UKFIU had a limited ability to conduct operational and strategic analysis and that it was not clear if it could seek all the additional information it requires from reporting entities to perform its analysis.

Since the adoption of the MER, the UK has made some progress in order to expand its ability to conduct operational analysis by initiating the SARs Reform Programme, a multi-year programme that includes an information technology transformation and expansion of the UKFIU. However, the expansion from 81 to 141 staff at the FIU is still insufficient given the size of the UK financial sector, a growth in SARs filed by over 270,000 in the last three years, and the fact that the third round UK MER recommended that the UKFIU expand its staff to 200 over a decade and a half ago. In

addition, the planned changes to the IT systems, which will likely significantly expand the ability of the UK to conduct operational analysis, are not yet operationalized to the degree necessary to bolster its operational analysis to a significant degree.

Concerning the strategic analysis, the UKFIU acquired an analytical tool which offers the potential for the UKFIU to undertake complex strategic analysis. The UKFIU is currently piloting the use of the tool to enhance the bulk searching capabilities of the UKFIU for instance. The UK's financial intelligence unit is also in the early stages of working with the National Data Exploitation Capability (NDEC) to determine how its analysts can further analyse SAR data and inform analytical products. However, these IT upgrades are either under construction or in the pilot stage. In addition, the UK has expanded its strategic analysis team from two to seven. It has also prepared strategic analytical reports.

These all are positive developments; the UK, however, still faces human and IT constraints to conduct operational and strategic analysis needed given the size of the UK economy and financial sector.

The UK's progress is noted. However, the rating for R.29 remains partially compliant.

Progress on Recommendations which have changed since adoption of the MER

Since the adoption of UK's, the FATF amended R.2 and R.15. This section considers UK's compliance with the new requirements.

Recommendation 2 (originally rated C)

In October 2018, R.2 was amended to require countries to have cooperation and coordination between relevant authorities to ensure compatibility of AML/CFT requirements with Data Protection and Privacy rules. The amended Recommendation further requires a domestic mechanism for exchange of information.

In its 4th round MER, the UK was rated as compliant for R2. The MER assessed that the UK had national AML/CFT policies, informed by the risks identified, which were regularly reviewed, and that the UK had designated relevant authorities' responsibility for these policies and had coordination and cooperation mechanisms in place for such policies.

The UK has made several changes to its regime since its MER report, although many practices remain the same. The UK's national AML/CFT priorities and actions continue to be driven by the government's understanding of risks. Since its MER, the UK has published updated money laundering and terrorist financing risk assessments, as well as its first-ever proliferation finance risk assessment. The UK Government's Integrated Review (IR) articulates the UK's government's national security and international policy objectives until 2025. This review includes combating illicit finance. In addition, sub-strategy groups have been formed to monitor IR progress, including on implementation of government commitments on illicit finance. These mechanisms are also used to exchange information for the development of policies and activities. The mechanisms apply to both policymaking and operational levels. In addition, the UK data protection and AML/CFT authorities also cooperate and coordinate in the development of policy to ensure the compatibility of AML/CFT requirements with data protection and privacy rules.

The revised and new requirements of R.2 are met. On this basis, the UK remains rated compliant with R.2.

Recommendation 15 (originally rated LC)

In June 2019, R.15 was revised to include obligations related to virtual assets (VA) and virtual asset service providers (VASPs). These new requirements include: requirements on identifying, assessing and understanding ML/TF risks associated with VA activities or operations of VASPs; requirements for VASPs to be licensed or registered; requirements for countries to apply adequate risk-based AML/CFT supervision (including sanctions) to VASPs and for such supervision to be conducted by a competent authority; as well as requirements to apply measures related to preventive measures and international co-operation to VASPs.

In its 4th Round MER, the UK was rated LC on R.15, as it lacked a legally binding requirement on FIs to assess the risks of new products and business products and delivery mechanisms, although this was covered by non-binding guidance. Since its MER, pursuant to the UK amended Regulation 19(4)(c) of the MLR on policies, controls and procedures, FIs are now explicitly required to assess the risks of new products and new business practices (including new delivery mechanisms).

In addition, the UK met many of the revised requirements of R.15. The UK identifies and assesses ML/TF risks related to cryptoasset exchange providers and cryptoasset custodian wallet providers and requires these firms to register with the FCA and to understand and mitigate their risks. The UK applies a suite of AML/CFT obligations to these firms, and has begun supervising them for compliance. The UK has taken active steps to identify natural or legal persons that carry out VASP activities without the requisite approvals. The UK has established guidelines and provided feedback to VASPs on how to apply AML/CFT measures. The UK also has a range of proportionate and dissuasive sanctions. The UK applies preventative measures to VASPs, though there are a few minor gaps with some of the preventive Recommendations. The UK VASPs have the same sanctions obligations as other regulated persons. The UK has demonstrated that it cooperates with other countries on VASPs for the purposes of supervision and has the legal ability to do so in criminal matters.

The UK has some minor gaps in its compliance with FATF Recommendation 15. There is some ambiguity as whether UK law covers transfers of virtual assets. Due to a lack of clarity on this front, the UK is exploring legislative changes. The UK does not apply the travel rule for virtual assets. Its assessment of risks related to the custodial wallet providers is incomplete as it has assessed the risks of their high-risk exchange activities, but not of all of their safeguarding of virtual asset activities, which are on a risk-basis less material. It is premature to determine whether the UK's supervision is risk-based. The UK also has minor gaps in its compliance related to the equivalence of EU-based firms for the purposes of reliance (R.17) and internal controls (R.18), as well as in R.19 for the imposition of countermeasures. Overall, these constitute minor gaps.

The UK has met many of the new requirements introduced for VASPs, and minor deficiencies remain. On this basis, R.15 remains rated largely compliant.

Conclusion

Overall, the UK has made progress in addressing most of the technical compliance deficiencies identified in its MER and has been upgraded on R.13. However, as it has not made sufficient progress, the UK remains rated as partially compliant on R.29. R.2 remains compliant given the mechanisms in place to ensure the compatibility of AML/CFT requirements with rules on data protection and confidentiality and to promote the exchange of information among competent authorities. The UK meets many of the new requirements of R.15 and the rating for this Recommendation will be maintained at LC.

Considering progress made by the UK since the adoption of its MER, its technical compliance with the FATF Recommendations has been re-evaluated in the following manner:

Table 2. Technical compliance ratings

R.1	R.2	R.3	R.4	R.5	R.6	R.7	R.8	R.9	R.10
LC	C	C	C	C	LC	LC	C	C	LC
R.11	R.12	R.13	R.14	R.15	R.16	R.17	R.18	R.19	R.20
C	C	C	C	LC	C	LC	LC	LC	C
R.21	R.22	R.23	R.24	R.25	R.26	R.27	R.28	R.29	R.30
C	LC	LC	LC	C	C	C	C	PC	C
R.31	R.32	R.33	R.34	R.35	R.36	R.37	R.38	R.39	R.40
C	LC	LC	C	C	C	LC	C	C	LC

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

The UK will remain in regular follow up and will continue to inform the FATF of progress achieved on improving the implementation of its AML/CFT measures.

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Anti-money laundering and counter-terrorist financing measures in the United Kingdom

Follow-up Report & Technical Compliance Re-Rating

As a result of the United Kingdom's progress in strengthening its measures to fight money laundering and terrorist financing since the assessment of the country's framework, the FATF has re-rated the country on Recommendation 13.

Follow-up report