Think Ahead ACCA

Technical factsheet

Identifying client risk

Introduction

This technical factsheet is designed to raise awareness of accountancy firms' obligations and offer practical guidance. Prior to reviewing this, it is essential that you refer to the relevant sections of the Money Laundering Regulations 2017 (MLR 2017) and the CCAB's *Anti-Money Laundering, Counter-Terrorist and Counter-Proliferation Financing Guidance for the Accountancy Sector.* You should also consider other relevant guidance, such as HM Treasury's national risk assessment of money laundering and terrorist financing and The Financial Action Task Force's Guidance for a risk-based approach: accounting profession, to establish what risk factors need to be considered. The money laundering reporting officer (MLRO) should also keep up to date with current risks and trends.

This factsheet should be read in conjunction with ACCA's technical factsheet: client due diligence.

Overview

Client risk describes the money laundering and terrorist financing (MLTF) and other financial crime risks potentially posed by a client – to which your firm may be exposed to. It is vital that the firm understands the risk posed by its clients. By doing this, an appropriate risk-based process can be implemented. This is mandatory as it is a requirement under MLR 2017.

Firstly, a firm must have a consistent process in place to identify the risks of clients before establishing a client relationship or accepting an engagement. The firm must also review the client risk on an ongoing basis, eg review the client risk rating periodically or when a significant change has occurred that may impact this. The firm's procedures for identifying client risk should be clearly articulated within the firm's AML policy and procedures document.

A firm must implement an appropriate risk-based approach, ie systems and controls, to consistently identify and manage risks posed by its clients. All clients must be risk categorised, so that you know what level of due diligence is required to be completed. When considering the client risk, you must also consider the services, geography, sector and delivery channel risk factors that may be associated with the client and its stakeholders.

Your firm should have different risk categories such as: low, normal/medium and high. Typically, most clients would be classified as medium/normal. Low risk should be a rare exception. It is expected that an accounting firm will have some high-risk clients; from a regulatory standpoint, this is favourable as it shows that your firm recognises the potential risk the client poses. Please note that classifying clients as higher risk is not disreputable and also does not mean that a client is guilty of or under suspicion of money laundering; it simply demonstrates that a firm has identified high-risk factors present within a client and/or the client relationship, and takes appropriate steps to manage and mitigate these risks. A firm must complete enhanced due diligence (EDD) on higher risk clients to mitigate the identified risks.

Below are some examples of high-, medium- and low-risk clients;

High-risk client:

- the business relationship is conducted in unusual circumstances
- the client is a resident or transacts with a geographical area of high risk
- cash-intensive businesses (eg restaurants, retail outlets)
- the corporate structure is unusual or excessively complex
- high-net-worth individual
- foreign politically exposed person (PEP)
- high-value businesses (eg jewellers, car dealerships)
- non-face-to-face business relationships
- the type of industry/business of the firm is at high risk of MLTF eg money services, import/export, charities, gambling, precious metals, dual-use goods, oil and gas.

Low-risk client:

- public administration or a publicly owned enterprise
- company whose securities are listed on a regulated market, depending on the location of the regulated market.

Medium-risk client:

- any client who does not have any high- or low-risk factors.

The risk assessment of a client should be signed off by a partner, senior manager or MLRO within the firm. It is important that the rationale for a client's risk rating is clearly documented within the client file. This includes documenting on a periodic basis that the risk rating for the client has been reviewed but has not changed. It is also important to review the risk assessment process on a regular basis to ensure that it is still relevant and up to date, as well as factors in any emerging issues or changes to regulations.

In a separate document, we have provided a basic know your customer (KYC) form and client risk assessment template, which can be used as a starting point. The questions posed are indicative only and not all questions will be applicable to all clients. The questions are non-exhaustive and should be used as a guide only; there may be additional risk factors that will need to be considered and documented.

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