

Technical factsheet: identifying client risk

Introduction

This technical factsheet on identifying client risk 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 Guidance for the Accountancy Sector](#). You should also consider other relevant guidance, such as HM Treasury national risk assessment and *FATF Guidance on the Risk-Based Approach for Accountants*, to establish what risk factors need to be considered. Money laundering reporting officers (MLROs) of accountancy firms should also keep up to date with current risks and trends. This factsheet should be read in conjunction with the ACCA [Technical factsheet: client due diligence](#).

Overview

Client risk is 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 the 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 the risk rating. The firm's procedures for identifying client risk should be clearly articulated within the firm's AML policies and procedures document.

All clients must be risk categorised. Your firm should have different client risk categories such as: low, normal/medium and high. Typically, most clients would be classified as normal/medium. 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 your firm recognises the potential risk the client poses. However, the firm must have an appropriate risk-based approach, ie systems and

controls, in place to consistently identify and manage them. Despite high-risk factors being mitigated through the firm's systems and controls, these clients should still be classified as high risk.

When considering the client risk, you must also consider the services, geography, sector and delivery channel risks the client and its stakeholders are connected with.

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 of the customer is unusual or excessively complex
- high-net-worth individual (eg any individuals/entities with assets of over £x)
- politically exposed person (PEP)
- high-value businesses (eg jewellers, car dealerships)
- the type of industry/business of the firm is at high risk of MLTF eg money services business, import/export, charities etc.

Low-risk client:

- is a public administration, or a publicly owned enterprise
- is a company whose securities are listed on a regulated market, and 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 it is still relevant and up to date and 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 that 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 also 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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