



**RISK ASSESSMENT OF TRUST AND COMPANY
SERVICE PROVIDER (TCSP) SERVICES**





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INTRODUCTION AND BACKGROUND

ACCA supervises 6,637 firms within the UK for Anti-Money Laundering (AML). Since 2019, ACCA has conducted independent AML compliance reviews. During the review, ACCA assesses and reviews the firm's AML controls – such as reviewing the firm's policies and procedures and client due diligence files.

You can find out more about ACCA AML compliance reviews [here](#). ACCA also provides [guidance and templates](#) to help firms strengthen their controls.

The purpose of this report is to assess the risks associated with ACCA accountancy firms that offer Trust or Company Service Providers (TCSP) services.

ACCA conducted a thematic review of a sample of AML supervised firms and also gathered data through our AML risk assessment questionnaire of all supervised firms to gather data specific to TCSP services in those we supervise. The aim of this report is to inform our firms of those risks, and to aid them in adopting a risk-based approach to mitigate them in light of the NRA's assessment of the risk.

WHAT ARE TCSP SERVICES?

TCSP services can be provided by anyone including accountants, company formation agents, professional trustees, large franchise operations providing mail holding and forwarding services, and solicitors.

Under the Money Laundering Regulations, a [trust or company service provider](#) is any company or sole practitioner whose business is to:

- form companies or other legal persons
- provide a registered office, business address, correspondence address, administrative address for a company, partnership, other legal person or arrangement
- act or arrange for another person to act as a:
 - director or secretary of a company
 - partner (or in a similar position) for other legal persons
 - trustee of an express trust or similar legal arrangement
 - nominee shareholder for another person, unless the other person is a company listed on a regulated market which is subject to acceptable disclosure requirements

Regulation 56 of the Money Laundering Regulations requires that all relevant persons acting as TCSPs must be registered with either HMRC or the Financial Conduct Authority. HMRC has asked professional body supervisors to provide a list of their supervised relevant persons that act as TCSPs. ACCA do this on behalf of supervised firms who have notified us through the AML Risk Assessment Questionnaire.

WHAT ARE THE RISKS ASSOCIATED WITH TCSP SERVICES?

[The National Risk Assessment of money laundering and Terrorist financing 2020](#) is a comprehensive assessment of money laundering and terrorist financing risk in the UK published by HM Treasury and the Home Office. The report states that, '...Trust and company service providers (TCSPs) Company formation and associated TCSP services continue to be the highest risk services provided by ASPs (Accountancy Service Providers) for money laundering. These can enable the laundering of millions of pounds, conceal the ownership of criminal assets and facilitate the movement of money to secrecy jurisdictions...'

According to the report, around 72% of TCSPs are supervised by an accountancy body. The report describes how the risk is heightened when an accountancy firm offers TCSP services due to the added services it provides. However, some ACCA firms believe the additional services it provides lessens the risks, as unlike company formation agents, accountancy firms tend to have an ongoing and long-standing business relationship with their clients – so are better placed to manage any financial crime risks.

The report also states that '...services can enable concealment of beneficial ownership or be used to facilitate the movement of money to offshore jurisdictions.... the possibilities to create complex structures and enhance anonymity makes a corporate structure an attractive tool for criminals, and their use is regularly identified within money laundering investigations...'

Whilst the risks with this is clear, critics of the UK economic crime framework point to the underlining cause being failures with current UK laws and regulations – for example, the concealment of beneficial ownership in offshore jurisdictions is not illegal. Another factor is Companies House records (also known as the Person of Significant Control register). The lack of resources and under their current powers, they do not have the capacity to investigate possible discrepancies. At the time of writing, the information uploaded to Companies House is not verified.

KEY FINDINGS

ACCA conducted a TCSP Thematic Review with a sample of firms in 2021. Alongside this, ACCA conducted its AML Risk Assessment Questionnaire for all its AML supervised firms where ACCA gathered data in respect of firms who provide TCSP services – with the key findings from the current responses being presented below.

SERVICES PROVIDED

72% (3,914 of 5,378) of ACCA AML supervised firms offer TCSP Services alongside their core accountancy services.

- Of those who offer TCSP Services (3,914):
 - 78% (3,038) provide a registered office address.
 - 7% (286) firms stated that at least 6% of their annual turnover is generated by offering this service.
 - 85% (3,319) firms offer company formation services.
 - 1% (55) firms stated that at least 6% of their annual turnover is generated by offering this service.
 - 12% (478) firms are either a Trustee, Nominee Shareholder, Director or Partner for their clients.
 - 1% (39) firms stated that at least 6% of their annual turnover is generated by offering this service.
- 6% (347) of firms provide all three of the above services.

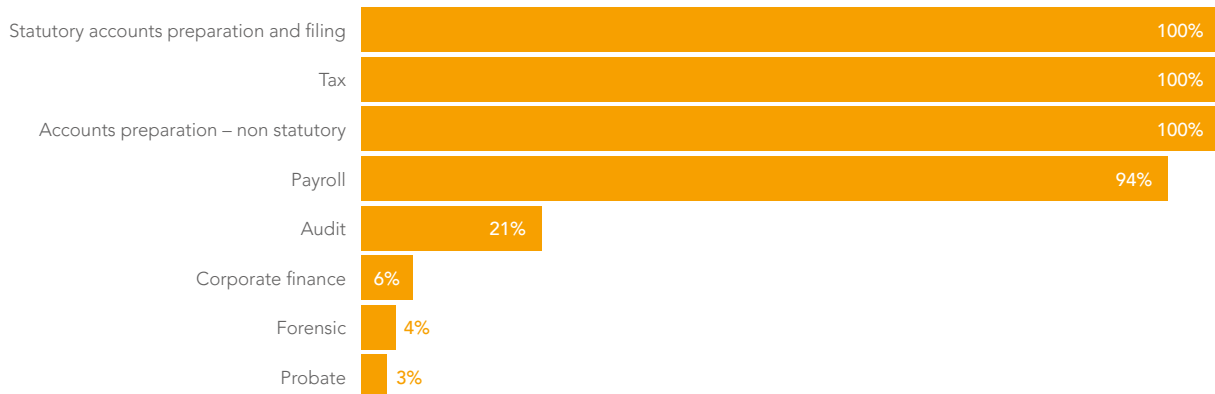
COMMENTARY

- Considerable number of ACCA AML supervised firms provide a registered office address for their clients. During ACCA AML compliance reviews, we have found that registered office addresses tend to be used for administrative purposes only. It ensures all information such as HMRC correspondence is sent to the accountant as quickly as possible for ease of service.
- During our AML compliance reviews, we also found that some firms were not aware that simply providing a registered office address, would be considered as offering TCSP services.
- 5,378 firms responded to the AML Risk Assessment by March 2022. 60% of respondents stated that they offer company formation services. Only 0.01% generate more than 5% of their annual turnover by offering this service. This suggests that the company formation services risks within ACCA regulated firms are minimal.

KEY FINDINGS

During our TCSP Thematic Review, we asked the selected firms what accountancy services were provided in addition to the TCSP service. All that we questioned provided at least three additional ancillary accountancy services:

ACCOUNTANCY SERVICES PROVIDED



CLIENT RISK

19% (729) of firms that offer TCSP services have at least one High Net Worth Individual (with assets over £10m).



18% (707) of firms that offer TCSP services have at least one client (eg, firms/companies) with annual revenue over £10m.



54% (2,132) firms that offer TCSP services have at least one client based outside of the UK.



8% (294) firms that offer TCSP services have at least one client with associations with the High-Risk Countries listed within 'The Money Laundering and Terrorist Financing (Amendment) (High-Risk Countries) Regulations 2021'.



70% (2,753) of firms have at least one client involved in higher-risk industries*.

4% (153) of firms that offer TCSP services have at least one Politically Exposed Person (including by association).

COMMENTARY

Whilst the data does not conclude that the offering of TCSP services should be considered high-risk – it does show that accountancy firms who offer TCSP services tend to have higher-risk clients. For example:

- 19% of TCSP's firms have a High Net Worth Individual. For those who do not provide TCSP services (1,934) only 46 firms have a least one HNWI which equates to around 2%.
- 18% (707) of TCSP firms have at least one client (eg, firms/companies) with annual revenue over £10m. Non-TCSP firms have 89 which equates to 5%.
- Less than 1% of non-TCSPs have a Politically Exposed Person (PEP) as a client.

The most logical reason is that non-TCSP accountancy providers tend to be smaller firms and therefore attract smaller entities or self-employed individuals. Our data supports this theory. We asked our AML supervised firms to select from a range of options and give an indication of what their total revenue was for the last financial year. The average revenue for TCSP firms was around £302,949. For non-TCSP firms this was £83,423. Non-TCSP firms have an average of 55 clients, whilst TCSP firms have an average of 222 clients.

* Cash-intensive businesses (eg, takeaways, retail shops, scrap metal dealers, car wash, nail bars, massage parlours, etc), high value goods (eg, jewellers, car dealership, art, antiques and luxury items), properties (including estate agents, property developers and private landlords; this should include buying/selling and renting of properties), import and export (including haulage, freights and shipping), money service bureaus, cryptocurrency, visa and immigration services, investment services, charities, precious metals (eg, gold or diamond trading).

KEY FINDINGS

FIRM-WIDE RISK ASSESSMENT AND AML POLICIES AND PROCEDURES

95% (3,713) firms have a documented firm-wide risk assessment.

95% (3,700) firms have documented AML Policies and Procedures.

COMMENTARY

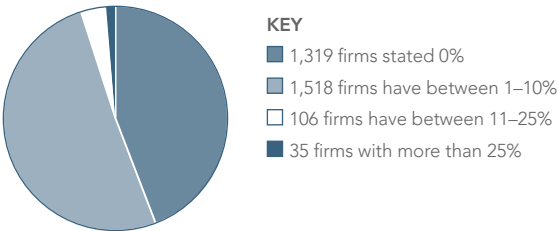
The majority of our AML supervised firms have a documented firm-wide risk assessment and AML policies and procedures in place. The controls outlined in the documentation should mitigate some of the risks associated with TCSP services.

However, as this has been a legal requirement since June 2017, we expect all ACCA firms to have this (including those with no relevant employees). This documentation is essential, as it documents the firm’s risk-based approach to combatting money laundering risks such as those associated with TCSP services.

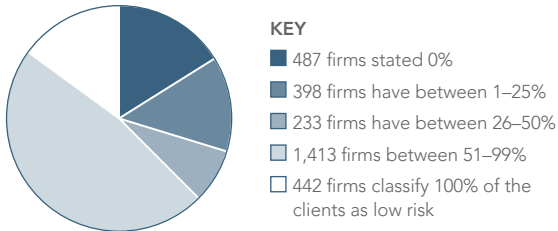
CUSTOMER DUE DILIGENCE (including identifying client risk and ongoing monitoring)

76% (2,973) of our firms categorise their clients in order of risk.

We asked what percentage of the firm’s clients are categorised as high-risk:



63% (2,486) of firms classify at least one of their clients as low risk:



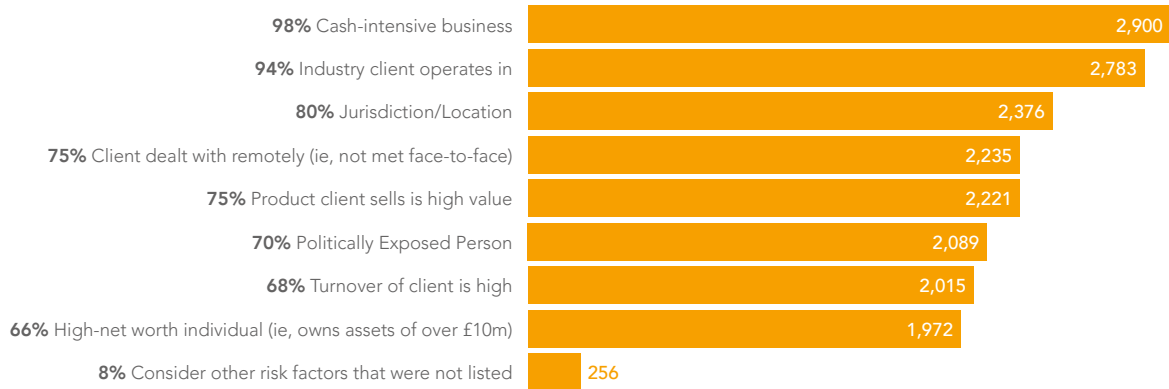
COMMENTARY

Our experience conducting AML compliance reviews suggests that most firms conduct an appropriate level of due diligence at onboarding regardless of whether a risk rating has been applied at that point or whether the rationale for the risk rating follows industry guidance.

However, all firms should have a risk categorisation process in place. We would expect the majority of our firms to have a small percentage of high-risk clients. We would not expect any of our firms to have 100% of its clients classified as low risk. Typically, low risk ratings would apply to clients such as publicly owned enterprise, financial institutions or companies listed on a regulated market as they are already regulated.

RISK FACTORS

Of the firms who categorise their clients in order of risk (2,973) we asked which factors do you consider when defining risk?

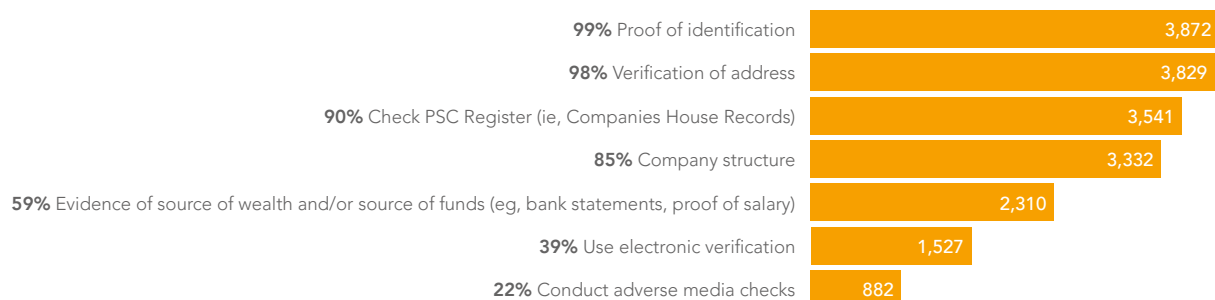


COMMENTARY

We are encouraged that most of our firms recognise the risks associated with cash-intensive businesses. Although we recognise that businesses are moving towards electronic payments, particular since the pandemic, cash is still considered high-risk as it leaves no trail. We are also encouraged that the industry the client operates in is a significant risk factor – as money laundering typologies are essential in determining that a suitable risk-based approach is adopted. It is essential that firms keep up to date with current risks and trends. For example, recent events such as bounce-back loan frauds and Russian sanctions will affect accountancy firms' risk based approach to its clients. We would encourage firms to consider the other risk factors listed – as they would typically be considered high-risk.

CUSTOMER VERIFICATION

We asked all firms (3,914) who provide TCSP services, what information, evidence and documentation do you typically check and obtain when onboarding a new client?



KEY FINDINGS

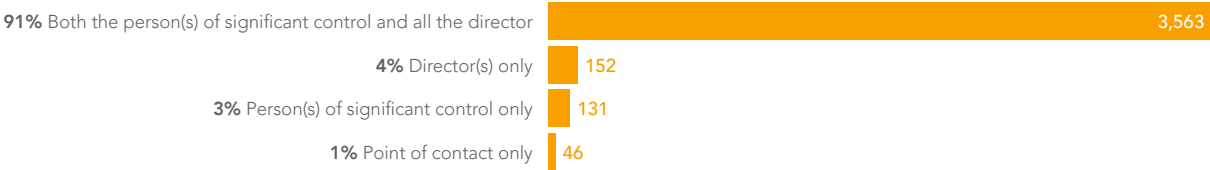
COMMENTARY

We are encouraged that most firms do take proof of identification and address. We expect that the 1-2% that do not, use electronic verification methods instead. Currently, ACCA's stance is that firms should still take a copy of the documentation, or at a minimum record what identification and proof of address was seen.

We would encourage all firms to check the People with Significant Control (PSC) register. Since January 2020, it is a legal obligation to report a discrepancy with the PSC register. More information can be found [here](#).

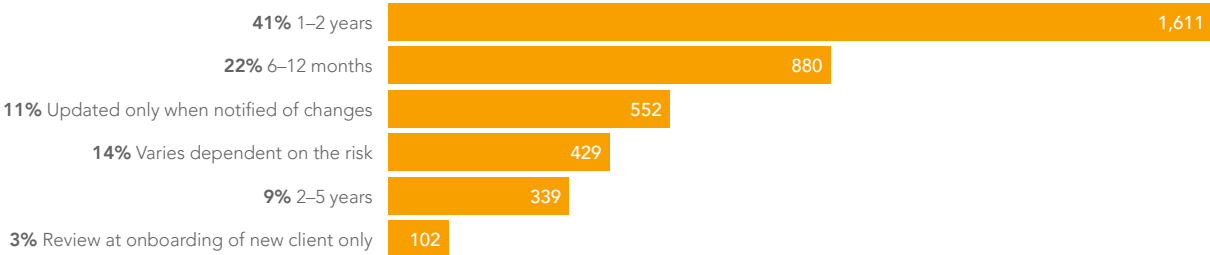
IDENTIFICATION OF KEY PERSONNEL

We asked all firms (3,914) who provided TCSP services, do you formally identify the person(s) of significant control and all the directors? (Eg, obtain identification documentation):



ONGOING MONITORING

We asked, 'How frequently do you update and review your existing client's records?':

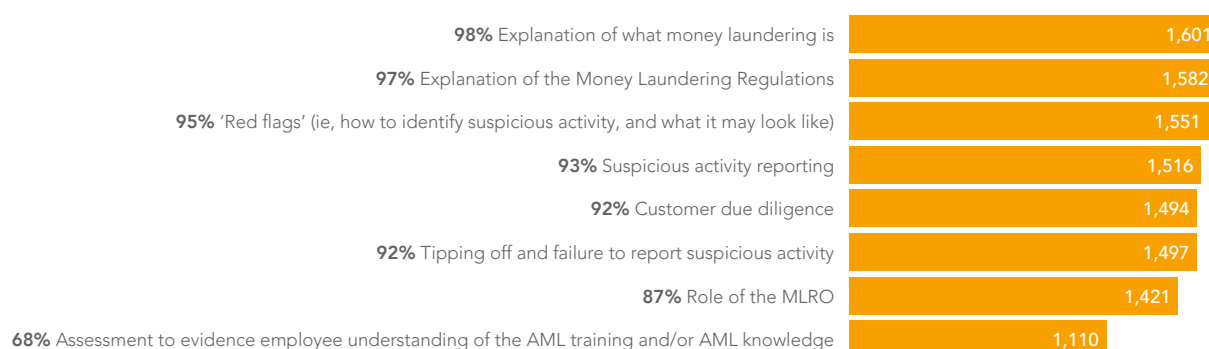


COMMENTARY

91% of firms identify the person of significant control and all the directors. This is a further example of how the risks associated with offering TCSP services are mitigated within regulated accountancy firms. The data also illustrates how ACCA firms review and update existing client records on an ongoing basis – which may not happen with Company Formation agents and the unregulated accountancy sector.

TRAINING

- 64% (2,512) of firms, stated that the Money Laundering Reporting Officer (MLRO) has undertaken formal AML training in the past two years.
- 42% (1,626) have supplied formal AML training to all relevant employees*. 20% (766) stated they do not have any relevant employees – therefore do not provide formal training.
- Of the (1,626) firms that do provide formal training – 56% (915) do so periodically.
- Of the (1,626) firms that provide formal training, they stated training covers the following topics:



COMMENTARY

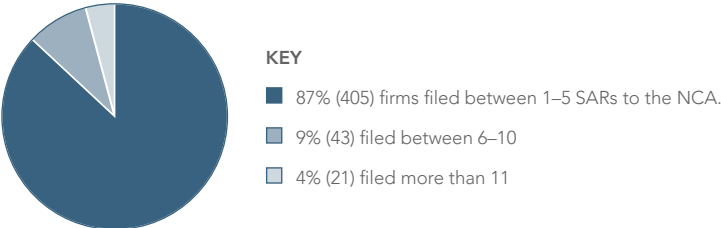
From experience conducting AML compliance reviews, we find that many firms provide 'on the job' training. It is essential that firms provide formalised training, and it proves that the employees have been made aware of their legal obligations and is a good opportunity to provide guidance on how to identify red flags – especially those associated with TCSP services. We would recommend reviewing [ACCA Training Factsheets](#) for more advice and guidance. Training is the most valuable tool in combating money laundering within the accountancy sector. Although we are encouraged by the topics covered, we would expect formal training to be provided periodically – so MLRO and employees can keep up to date with their legal requirements and current trends and risks.

* A relevant employee is someone who has a contract of employment with the employer (including those employees working part-time, job-sharing and employees on leave), or are self-employed (ie, contractors). Therefore, we only considered employees who are directly involved in the accountancy and AML processes. For example, we did not consider a secretary, personal assistant, or facilities staff to be considered a relevant employee. However, staff such as bookkeepers or trainee accountants are considered as relevant employees.

KEY FINDINGS

SUSPICIOUS ACTIVITY REPORTING (SARS)

- 45% (1769) have a formal process for employees to document and report suspicious activity. 18% (710) stated they had no relevant employees.
- 12% (469) of firms who provide TCSP services filed at least 1 SAR to the National Crime Agency (NCA) in the past 24 months. A further breakdown of the 12% shows that:



- For non-TCSP firms (1,934), only 2% (46) firms filed at least 1 SAR to the NCA in the past 24 months.

COMMENTARY

From our experience of AML compliance reviews, we have found that many MLROs would discuss with their employees any suspicions of money laundering. It is essential that these firms implement a formal process in place to protect both the employee and MLRO – as this would act as evidence that the employee and MLRO discharged their legal obligations. For more information regarding reporting obligations, please refer to ACCA'S Factsheets [here](#).

As stated earlier, there is evidence that firms that provide TCSP services do tend to have higher-risk clients, and this is shown in the differences in the number of SARs filed. However, this does not conclude that the risks are higher because they provide TCSP services. As it could be argued, by recognising and reporting the risks, TCSP firms are well aware of their legal obligations and recognise and report suspicious activity.

CONCLUSION

ACCA does concur that there is an element of risk related to the provision of TCSP services. However, the evidence suggests that it is not a high-risk area within ACCA's AML supervised population.

ACCA believes that its supervised firms are playing their part to ensure these services are safeguarded and their inherent risk is mitigated via firms' implementation of controls and ACCA's monitoring activities. Over 95% of firms have conducted a firm-wide risk assessment and have AML policies and procedures, meaning that they have assessed their risk exposure and have designed and implemented controls to mitigate it. Additionally, most firms provide AML training to their staff, and so are able to identify suspicious activity and red flags to be effectively vigilant against their misuse.

It is also worth noting that TCSPs are a range of services that are integral to the everyday conduct of business in the United Kingdom. It is therefore, reasonable to conclude that it is the UK's trust and company law framework that endows TCSPs with their potential degree of perceived risk, the current arrangement placing a high value on having a free and open economy. The cost benefit analysis undertaken by policymakers when constituting the current legal framework presumably considered the intrinsic risks associated with TCSP services – but concluded they could be sufficiently mitigated to not outweigh the net benefits given.

Many financial crime experts believe the underlying causes of the risks associated with TCSP services lie with failures of the Companies House register and current legislation. Whilst the Companies House system is better than having nothing in place, and improvements are in the offing, it has become too easy for criminals to appear legitimate as the information held is not verified or challenged. It costs £12 and takes 24 hours to register with Companies House – which is significantly cheaper and quicker than doing so overseas. It is also not a requirement to be physically based in the UK. A business simply requires an address which a mail forwarding service can provide. Furthermore, many have pointed out that recent changes do not go far enough. For example, a person of significant control is someone who holds more than 25%. Therefore, a corrupt individual could simply set up five separate entities or individuals with 20% shareholding of the fictitious company to get around the requirements set out in legislation. It would be difficult for the accountant to verify who the person of significant control is with the current system and legislation in place. In this scenario should the accountant try and establish who it is? ACCA would suggest they do, as this would be a red flag. But many would argue that if it is not a legal obligation then why should they? It appears inconsistent that it is not a legal requirement to disclose shareholders that do not meet the threshold of more than 25% – but there is an expectation for accountancy firms to identify them.

In January 2020, the Fifth Anti-Money Laundering Directive (5MLD) came into force in the UK through the Money Laundering and Terrorist Financing (Amendment) Regulations 2019. Obligated entities, such as accountants, must let Companies House know if there is a discrepancy between the information on the PSC register and the information the entities have. Whilst many welcome this facility, the system almost becomes self-managed as it relies on these entities to highlight the discrepancies. To date, it is not known what the impact of this has been. There is no publicly available information to confirm what, if any action, has been taken.

In addition to this, there is a long standard criticism of Scottish Limited and Northern Ireland Limited Partnerships that contribute to the risks of company formation services. Although new measures were implemented in 2018, it has received renewed calls to go even further in light of the recent Russian sanctions.

The Panama, Pandora and Paradise Papers exposed businesses and individuals who were able to hide assets in notorious tax havens – as the jurisdictions do not require full disclosure of the person of significant control. These entities can be listed as the person of significant control within Companies House records. Without the UK Government closing this loophole, it makes it extremely difficult for accountants who provide TCSP services to fully understand and verify company structures.

In conclusion, to tackle the risks associated with company formation services tighter laws and legislation must be imposed and ACCA would welcome this.


Risk ratings are subjective. However, the data ACCA has gathered and interpreted does not indicate that TCSP services are high-risk within ACCA's population. The data also shows that risks are managed appropriately where they arise.

Nevertheless, ACCA firms should not be complacent. There are risks that need to be mitigated. ACCA also acknowledges and hopes our members understand, that even though it may be a legal requirement to identify a person of significant control in certain situations (eg, when shareholdings are 25% or less) – we would encourage a healthy scepticism should this situation present itself and recommend that enhanced due diligence is applied.

TCSP services are a tool used by money launderers. Money laundering diverts resources away from economically and socially productive uses. It can negatively affect a country's financial system by undermining its stability. Money laundering fuels corruption and organised crime. Money Laundering impacts lives. Predicate crimes such as fraud, tax evasion, drug and human trafficking are all connected with money laundering. Money laundering will never be completely eradicated. However, our firms all play a significant role in reducing the devastating impact it has. Whether it is filing SARs to the NCA, or training its staff to identify suspicious activity, by working together with law enforcement and regulatory bodies, collectively we will make it difficult for criminals to exploit the existing vulnerabilities.

ABOUT ACCA

ACCA's strategy to 2025 sets out how it will secure a vibrant future for ACCA by fulfilling its purpose, remaining true to its values and realising its vision in the next five years.

 We're a force for public good.
We lead the global accountancy
profession by creating opportunity.

ACCA's purpose sets out the value it seeks to create for society. The idea of opening up the profession, doing things differently and better, and never losing sight of our public interest remit are concepts that lie at the very heart of ACCA's DNA.

Regulation is integral to ACCA's brand promise of quality. ACCA's reputation, in turn, enhances the value of membership. Public value is, therefore, embedded in ACCA's regulatory system.

ACCA's regulatory and disciplinary framework is subject to oversight by a robust and independent Regulatory Board ('the Board'). The Board also has responsibility for overseeing ACCA examinations and other matters in relation to the integrity of the qualifications process. The majority of the Board's members are non-accountants. Full details of the Board's regulatory policies and activities, including minutes of Board meetings, are available at www.accaglobal.com, including its public Report on Regulation.



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Think Ahead