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12 July 2005

Dear Ian

**Fighting money laundering and terrorist financing more effectively - proposals in our Consultation Paper, *Reviewing the FSA Handbook***

We will be publishing tomorrow a Consultation Paper (CP), *Reviewing the FSA Handbook*, which we have been discussing informally with the JMLSG, various trade associations and other interested parties for some time. The CP includes proposals to replace the Money Laundering Sourcebook with high-level provisions in the Senior Management Arrangements, Systems and Controls (SYCS) module of our Handbook. I see this as an important and natural next step in the development of a more effective regime in the UK over countering money laundering (ML) and terrorist finance (TF): part of our contribution to the strengthening of the UK financial system against the criminal and 'dirty money'. The purpose of this letter is to set out why we think these changes will help in the overall fight against ML/TF.

Over the last eighteen months or so, the FSA has been taking a number of initiatives aimed at encouraging firms to manage their ML/TF risk more effectively. In particular, we have given strong encouragement to the development of a more streamlined customer identification regime; have reaffirmed our commitment to a risk-based approach to our own regulation of financial crime systems and controls, including my letter to you of 25 October confirming our supervisory and enforcement policy in which I sought to address the 'fear factor'; and have supported the Treasury in their negotiations over the Third Money Laundering Directive, so that the risk-based principle can continue wherever possible to underpin UK law and practice. We have had strong support in these endeavours from the JMLSG and trade associations, for which we are grateful. We have also been keeping in close touch with your work on radical new Guidance for the industry and have sought to contribute to it constructively. In particular, we have publicly welcomed the emphasis in your consultation draft on the need for a more risk-based approach and a stronger role for senior management in mitigating these risks.

Our CP, *Reviewing the FSA Handbook*, sets out proposals for a radical change in our Handbook to the approach to fighting ML. Given the strong legal framework in the UK and the availability of authoritative good practice guidance from the JMLSG, we believe that the FSA should focus on ensuring that firms have effective risk management, systems and controls and senior management accountability. Although our rules will look very different if these proposals are implemented, the changes will not so much alter current good practice over ML/TF as put a much sharper focus on certain key elements:

- the need for firms to take a **risk-based approach**;
- the need for **senior management accountability** for the firm's risk-based approach;
- the need for firms to take an **holistic approach**, avoiding disproportionate focus on any one tool, such as customer identification, at the expense of others, such as Know Your Customer, monitoring and suspicious activity reporting;
- the need for **proportionality**, with effort relating to risk, across sectors and by firms.

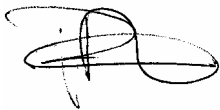
We believe that the new approach offers the prospect of a regime that allows firms to channel their resources to where they would make the most difference and should therefore be more effective in fighting crime.

I recognise that the CP has some implications for the timing of your work on the new Guidance. From our perspective, the sooner the new Guidance can be finalised and brought into effect, the better. We will do all we can to avoid delay to your exercise. We have set out in the CP our hope that the new approach would not mean your having to make extensive changes to the new Guidance, but clearly this is a matter for the JMLSG. We will keep you closely informed on the follow-up to the CP.

I hope that there will be a healthy debate in the industry and beyond on our proposals on the Money Laundering Sourcebook. So I would be grateful if you and copy recipients could publicise this letter to your members and widely across the industry. And if it would be helpful for me or one of my colleagues working on financial crime issues to speak to relevant groups within the industry we would welcome suitable opportunities to do so.

I am copying this letter to the CEOs of those trade associations involved in the pre-consultation exercise, and will also be arranging for it to be posted tomorrow on our website.

Yours sincerely



Philip Robinson  
**Financial Crime Sector Leader**

Cc: CEOs of ABI, AFB, AFS, AIFA, APCIMS, BSA, BVCA, EMA, FLA, IMA, LIBA and FOA