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Financial Services Authority

# Reviewing our Money Laundering regime:

Feedback on Chapter 2 of CP05/10  
and made text

January 2006





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**Annex 1:** List of non-confidential responses to CP05/10

**Appendix 1:** Made Handbook text for Money Laundering

This Policy Statement reports on the main issues arising from our proposals for the Money Laundering regime in the Consultation Paper 05/10 *Reviewing the FSA Handbook (July 2005)* and publishes made text for the Money Laundering regime.

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Copies of this Policy Statement are available to download from our website – [www.fsa.gov.uk](http://www.fsa.gov.uk). Alternatively, paper copies can be obtained by calling the FSA order line: 0845 608 2372.

# 1 Overview

## Introduction

- 1.1 In July 2005, we published Consultation Paper 05/10 ‘Reviewing the Handbook’ (CP05/10)<sup>1</sup>. In this, we consulted on proposals to change our Handbook requirements on Money Laundering, Approved Persons and Training and Competence, and our plans to restructure and simplify our *Conduct of Business* sourcebook (COB). This is part of our continuing plan to review the Handbook of Rules and Guidance (the Handbook) to make it as simple and accessible as possible, as well as to reduce the burden of regulation on all our stakeholders.
- 1.3 In CP05/10, we also asked for suggestions of further areas in our Handbook that should be reviewed. Four clear messages came through in the responses.
- There is concern at the volume of regulatory change resulting from our having to implement European Directives. This led to calls for us to be selective about making discretionary changes. Respondents asked that we use the implementation of European Directives as an opportunity to undertake a fuller review of the affected parts of the Handbook.
  - In their responses, many newly regulated mortgage and general insurance firms encouraged us to keep the rules applying to those sectors as they are. Some suggested specific areas for review, which will be passed to those reviewing the effectiveness of these new regimes.
  - Many respondents encouraged us to pursue our work on making it easier to access and understand our regulatory requirements.
  - There was support for a more principles-based approach, although firms highlighted how valuable they find guidance in some areas and said they would not want to lose this. A number of firms also pointed out the need for different areas of the FSA, such as Supervision and Enforcement, to adopt a consistent approach in the move towards principles-based regulation.

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1 [www.fsa.gov.uk/pubs/cp/cp05\\_10.pdf](http://www.fsa.gov.uk/pubs/cp/cp05_10.pdf)

- 1.4 Respondents supported our general approach of reviewing our Handbook in line with our Guiding Principles (as set out in CP05/10). We are aware of the cost of change for firms, so will focus future changes in areas where we can have real impact and where the benefits are clear. We will continue to take advantage of the opportunities to simplify our Handbook in light of necessary changes to reflect Directive implementation. For example, we will be consulting on simplifying the retail COB regime in addition to the changes required to implement the Markets in Financial Instruments Directive (MiFID) later this year. We believe we are able to streamline our rules by adopting high-level standards which will allow firms greater flexibility in some areas. This corresponds with our focus on senior management responsibility.
- 1.5 Our proposals in CP05/10 form part of our wider programme of better regulation. This includes our joint project with the Financial Services Practitioner Panel to better understand the costs of regulation, and a number of projects which will simplify our Handbook and reduce the burden of regulation on firms. These are detailed in our Better Regulation Action Plan published on 2 December 2005<sup>2</sup>.
- 1.6 We welcome suggestions from the industry on areas where we can reduce the burden of regulation. Please continue to send comments to: [betterregulation@fsa.gov.uk](mailto:betterregulation@fsa.gov.uk).

### **This Policy Statement**

- 1.7 The consultation period for CP05/10 closed on 31 October 2005. We received 150 responses from trade associations, professional bodies (including examination bodies) and regulated firms of various sizes. As CP05/10 covered a wide range of proposals relating to various parts of our Handbook, most firms responded to some, but not all, of the questions asked. We are grateful to the respondents for taking the time to provide their views. A full list of non-confidential respondents is in Annex 1 (this list includes respondents who commented on the proposals to our Approved Persons and Training and Competence regimes). In addition, we have had a number of meetings with trade associations and firms since we published CP05/10 and have considered the views and comments made.

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2 [www.fsa.gov.uk/pubs/other/better\\_regulation.pdf](http://www.fsa.gov.uk/pubs/other/better_regulation.pdf)

- 1.8 This Policy Statement deals only with the responses and our final policy approach to the Money Laundering regime. Here we set out the main points arising from the responses and our conclusions, together with the made Handbook text.

## **Responses and our final policy approach**

### *Money Laundering*

- 1.9 We received overwhelming support to abolish the *Money Laundering* sourcebook (ML) and replace it with high-level provisions in our *Senior Management Arrangements, Systems and Controls* sourcebook (SYSC). So we have decided to implement the rules largely as proposed. Further detail is provided in Chapter 2.
- 1.10 In terms of implementation, the new SYSC provisions will come into force on 1 March 2006 and we plan to revoke ML with effect from 31 August 2006. This transitional period means that firms who choose to comply with the old ML provisions are deemed to be compliant with the new SYSC provisions.

### *Approved Persons and Training & Competence*

- 1.11 At the time of writing, there is still a significant amount of uncertainty surrounding the impact that the MiFID Level 2 provisions (which are not yet finalised) could have on the Approved Persons and Training and Competence regimes. We are very aware of the industry's concern that unnecessary, or untimely, changes would be made at a time when the industry is already facing major and unavoidable change as a result of MiFID implementation. So, until the MiFID Level 2 measures are finalised – and we have had the opportunity to clearly assess the scope and impact of them on these two regimes and our proposed changes to them – we do not think it is prudent to publish our response to the feedback we have received on CP05/10 and our final policy approach. These will be dealt with separately.
- 1.12 We are encouraged by the number of responses we received on CP05/10. The consultation process was invaluable in gauging views on these two regimes, and our better regulation agenda in general. The responses we received raised some important issues, particularly relating to the impact of our changes, and some respondents also made suggestions for our wider Handbook review programme.

## *Retail Conduct of Business*

- 1.13 This Policy Statement also does not include responses to Chapter 5 of CP05/10 ‘Reviewing our retail Conduct of Business regime’. These will be discussed in our forthcoming consultations on material for the new COB sourcebook. At that time we will also publish a summary of the useful feedback gathered at ten COB Simplification consultative road shows held during September and October 2005, particularly on the issue of moving towards high-level rules.

### **Who should read this Policy Statement?**

- 1.14 This paper will be of particular interest to firms and other bodies involved in overseeing, developing and administering anti-money laundering systems and controls.

### **Structure of this Policy Statement**

- 1.15 This Policy Statement relates only to our proposals for the Money Laundering regime and is set out as follows:
- Chapter 1 sets out the background and introduction to this Policy Statement;
  - Chapter 2 includes detailed feedback – and our response – to the proposals in Chapter 2 of CP05/10 (‘Reviewing our Money Laundering regime’);
  - Annex 1 lists the non-confidential respondents to CP05/10 (including respondents who commented on the Approved Persons and Training and Competence regimes); and
  - Appendix 1 contains the made Handbook text for Money Laundering.

### **CONSUMERS**

This paper might be of interest to consumers as a more proportionate and effective approach to anti-money laundering systems and controls by firms should result in improvements in the prevention and detection of criminal activity.

# 2 Reviewing our Money Laundering regime

## Introduction

- 2.1 There was overwhelming support for the general principle of our proposed replacement of the *Money Laundering* sourcebook (ML) with high-level provisions on money laundering in our *Senior Management Arrangements, Systems and Controls* sourcebook (SYSC). There were two main issues which were raised in response to the consultation. The first related to the perception that some firms may see the changes as a message that the FSA has reduced its focus on anti-money laundering (AML). The second related to the role of the Money Laundering Reporting Officer (MLRO) in light of our proposal that firms must allocate to a director or senior manager overall responsibility for AML.
- 2.2 There was also considerable support, in principle, for the idea of extending some of the high-level changes concerning money laundering to fraud. Several respondents wanted more detail of the substance of the changes. We will consider further consultation on the detail of this idea.

## Responses to individual questions

Q1: Do you agree with our proposals for changing our Money Laundering regime?

- 2.3 There was overwhelming support to replace ML with high-level provisions in SYSC. However, there was general concern (reflected in parts of the media coverage at the time of publication) that our proposals might be seen as an indication that we are reducing the importance we attach to AML. While many responses acknowledged that in reality we are as committed as ever, it was felt that more should be done to re-state our strong line on fighting money laundering.

**Our response:** We are not reducing the importance we accord to AML. When we were given the statutory objective in 2001 to reduce financial crime, we undertook to play a significant role in seeking to prevent money laundering. The shift towards high-level rules and guidance is entirely consistent with this commitment, and is a necessary evolution of our policy to enable firms to develop a risk-based approach to AML.

This approach increases the responsibility on senior management in firms to take their AML responsibilities seriously, and enables firms to channel their resources where they would be most effective. Recent enforcement action has shown that we continue to attach a great deal of importance to firms' systems and controls on AML, and to individual responsibility at senior management level to ensure that those systems and controls are adequate.

A key element of our communications strategy on AML will be to continue publicising the importance of strong AML activity through work with the industry, speeches, our supervisory and enforcement work, and our staff training.

Q2: Do you agree that these changes may benefit firms and would not create additional material ongoing costs? Do you have any information on the likely costs and benefits involved?

- 2.4 Most respondents agreed with our view that the proposal would not create additional ongoing costs, although a handful did draw attention to the transitional costs. Some respondents felt that costs would fall (especially in the longer term). This is because the expected impact of our Handbook changes complemented other anticipated changes – notably 'defusing the identification issue'<sup>3</sup> and the 2006 Joint Money Laundering Steering Group (JMLSG) Guidance. A small number felt that costs would rise.

**Our response:** There will be some transitional costs to firms in adapting to the new regime. However, most respondents felt that ongoing compliance costs would fall in the long run.

Q3: Do you have any comments on the proposed changes to the Handbook to implement our new approach?

- 2.5 We cover below the issues raised by respondents, including our response to each issue.

### *Responsibility on director or senior manager*

- 2.6 We received many comments about the proposal for a specific director or senior manager to be responsible for systems and controls (as proposed in SYSC3.2.6HR). The concerns expressed by respondents were:

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3 See ID – defusing the issue: A progress report – Financial Crime Sector Report (October 2004) (available at [www.fsa.gov.uk/pubs/other/id\\_report.pdf](http://www.fsa.gov.uk/pubs/other/id_report.pdf)) and Defusing the ID issue: Progress report 2 (available at [www.fsa.gov.uk/pubs/other/id\\_report2.pdf](http://www.fsa.gov.uk/pubs/other/id_report2.pdf))

- that requiring one senior manager or director to be allocated responsibility for AML systems was unnecessarily prescriptive (and inconsistent with current practice – where more than one director might have responsibility, e.g. in different divisions of a large firm);
- that it could give rise to a possible conflict with the MLRO role (e.g. if views differed over whether to make a Suspicious Activity Report), or devalue that role;
- that it was unclear whether the director or senior manager and the MLRO could be the same person;
- that by placing responsibility with an individual this lessened responsibility on the firm’s Board or senior managers collectively;
- whether the relevant senior manager should be an approved person; and
- that the wording in SYSC did not make clear the respective roles of the two individuals.

**Our response:** The proposal to require apportionment of responsibility for AML to an individual director or senior manager was intended to reinforce the emphasis on senior management responsibility that flows from SYSC generally, ensuring that there is a senior individual in the firm who carries responsibility for seeing that our requirements in relation to AML are met. We still consider it important to emphasise that responsibility for AML controls will be a significant responsibility, and is consistent with our overall approach to senior management arrangements, systems and controls, which expects clear apportionment of roles and responsibilities to individuals (e.g. as set out in SYSC2.1.1R). So we have retained the requirement.

We have, however, listened to concerns about the lack of clarity in the distinctions between the roles, and have made amendments to our final Handbook text. We have removed the requirement for a director to report to the firm’s governing body (which duplicates an important MLRO function). And we have clarified in guidance that the MLRO and the director or senior manager can be one and the same. This is more appropriate, and distinguishes between the overall **responsibility** vested in the director or senior manager, and the role of the MLRO, and the important functions that relate to them. The role of the MLRO continues to be important, and remains a controlled function.

In relation to the questions about whether more than one director or senior manager can be responsible for AML controls, we do not consider that the current wording restricts firms unnecessarily. Responsibility can be apportioned among a number of individuals, provided the division of responsibilities is clear.

### *Status of industry guidance*

- 2.7 We received a variety of responses querying the status given to the JMLSG Guidance under the proposed changes (as set out in SYSC3.2.6EG). Some of these responses asked us to give greater emphasis to the status of the JMLSG Guidance, and some were concerned that compliance with it would be compulsory and failure to follow it to the letter would be evidence that the firm is in breach of SYSC. Others urged us not to be too prescriptive in our approach. In addition, we received responses asking whether the new SYSC rules would acknowledge that following guidance provided by other bodies (such as the legal and accountancy professional bodies) would be formally recognised. This is because the JMLSG Guidance does not cover all the industry sectors that we regulate.

**Our response:** We consider that the current drafting achieves a balance between recognising the JMLSG Guidance and not being unduly prescriptive. We do not seek to formally approve the JMLSG Guidance in the same way as the Treasury does, and it will not become compulsory. The JMLSG Guidance is developed by the financial services industry, and uncritical adherence to it has never been a ‘safe harbour’, because firms need to exercise judgement in applying it. However, the JMLSG Guidance has – and will continue to have – considerable authority. If a firm is operating within a sector to which the JMLSG Guidance applies, we will have regard to that guidance when considering whether a breach of our rules on the AML systems has occurred.

We recognise that the JMLSG Guidance will not be relevant to all firms that we regulate. We do not consider that the requirements of SYSC preclude a firm from following other relevant industry guidance which is specific to the sector in which it operates. In all circumstances we will continue to expect every firm to demonstrate that it has adequately assessed the risk of it being used for money laundering, and that its response is proportionate.

### *Clarification of terms used in new Handbook text*

- 2.8 Several respondents requested greater clarification of certain terms (such as ‘regularly’ reviewing systems and controls) in the draft Handbook text. And they raised the concern that the risk-based approach was open to widespread interpretation in the absence of guidance.

**Our response:** The new Handbook rules and guidance require a firm to have systems and controls that enable it to identify, assess, measure, monitor and manage its money laundering risk, in a way that is comprehensive and proportionate to the nature, scale and complexity of the firm’s activities. This approach is less prescriptive and leaves more room for interpretation – and we do not consider it appropriate to further elaborate the high-level requirements. This is entirely in line with our move towards emphasising the need for a firm’s senior management to take responsibility, rather than following prescriptive rules.

So in the case of how regularly a firm reviews its systems and controls, each firm will need to take a view on how regularly it needs to review. The frequency will differ between firms, depending on their analysis of the risks they face, and how those risks might change over time. Firms will be better placed to judge their risks in practice, rather than us giving more detailed guidance. Industry guidance will play an important part in helping senior management to identify and mitigate the risks of money laundering in their firms.

Consistent with our policy (as set out in CP05/10) that the scope of any new money laundering rules would not differ from those in ML, we have amended the wording of SYSC1.1.3AR. At least one firm queried the wording of SYSC1.1.3AR (as it appeared in CP05/10) risked, in certain circumstances, applying our SYSC rules on AML to activities not currently within the scope of ML. We have now modified the final rule to make clear the policy intention.

### *Training*

- 2.9 We received responses which queried the guidance that firms should provide ‘appropriate’ training for their employees in relation to money laundering as set out in the draft Handbook text of SYSC3.2.6GG(1). Some of these responses asked for more guidance as to the scope and content of such training.

**Our response:** As stated above, we do not feel that further detail is desirable. It is for senior management to assess the training requirements of their staff in a risk-based and proportionate way. The precise scope and content of training will be different for each firm, and firms will be expected to assess the needs of their staff and arrange for appropriate and timely training. Again, we anticipate that industry guidance will be a key tool in assisting senior management to make decisions about the appropriateness of their training arrangements.

### *Financial exclusion provisions*

- 2.10 A number of respondents queried the appropriateness of the measure included in SYSC3.2.6GG(5) to identify new customers in a way which does not unreasonably deny access to a firm’s services.

**Our response:** We consider it appropriate to retain this guidance, as it provides a clear encouragement to firms to accommodate those customers who may otherwise be unable to meet the identification requirements, and would run the risk of being financially excluded.

Q4: Do you have any comments on the idea of extending our main generic provisions in Annex 2 (of CP05/10) to cover fraud risk?

2.11 There was also considerable support, in principle, for the idea of extending some of the high-level changes relating to money laundering to fraud. Several respondents wanted more detail of the substance of the changes.

**Our response:** We will consider further consultation on the detail of this idea.

### **Implementation**

2.12 The new SYSC provisions will come into force on 1 March 2006. We are proposing to allow a transitional period until 31 August 2006 whereby firms that choose to comply with the ML provisions are deemed to be compliant with SYSC3.2.6AR to SYSC3.2.6JG and vice versa. To take advantage of this provision, firms will need to comply with all of the provisions in ML.

# List of non-confidential responses to CP05/10

Abbey  
ABN Amro  
Adam Samuel  
Advanced Insurance Centres Ltd  
Aegon Asset Management UK  
Alexander Forbes Risk Services  
Alliance & Leicester  
Amlin Underwriting Limited  
Andrew Sheppard  
Aon  
Apax Partners  
Association of Private Client Investment Managers and Stockbrokers  
Artemis  
Association of British Credit Unions Limited  
Association of Electricity Producers  
Association of Foreign Banks  
Association of Friendly Societies  
Association of Independent Financial Advisers  
Association of Solicitors and Investment Managers  
AVIVA  
AXA  
B & CE  
Baillie Gifford & Co  
Bank of Ireland Asset Management (UK) Ltd  
Bank of New York  
Banque AIG

Barclays  
Barclays Capital  
Charles Flint QC  
Bonnier Business Information  
BP Oil International Ltd  
BPP Professional Education  
Brewin Dolphin Securities Ltd  
Bridgepoint Capital Limited  
Brit Insurance Ltd  
Britannia  
British Bankers' Association  
British Nuclear Group  
Building Societies Association  
British Venture Capital Association  
Cambridge Fund Managers  
Cattellyst Consultancy, The  
Chartered Insurance Institute  
Children's Mutual, The  
CIFAS  
City of London Police  
City Personnel Group  
CJ Russell Insurance Services  
CMS Cameron McKenna  
Council of Mortgage Lenders  
David O'Sullivan  
Deloitte  
Duncan Lawrie Ltd  
Ernst & Young  
EROBONS Ltd  
ET Capital Limited  
Europa Capital  
F & C Asset Management  
Financial Services Consumer Panel  
Financial Services Skills Council  
Fraud Advisory Panel  
Friends Provident  
Friends Provident Life and Pensions Ltd

Global Home Loans  
Goy Harris Cartwright & Co Ltd  
Groves Financial Planning  
Hermes  
HSBC  
Huntswood Consulting  
Investment Management Association  
ING Wholesale Banking  
Institute of Chartered Accountants  
International Financial Data Services  
International Financial Services, London  
Investment and Life Assurance Group  
Investment Property Forum  
International Underwriting Association  
Killik & Co  
King & Shaxson Ltd  
KPMG  
Law Society, The  
LCF Rothschild Group  
Legal and General  
Lincoln Financial Group  
Liverpool Victoria  
Lloyd's Market Association  
London Financial Academy  
London Investment Banking Association  
London Stock Exchange  
M&G Investment Management Ltd  
Misys General Insurance  
Morecambe Bay Credit Union Ltd  
Munro Partnership Ltd, The  
National Australia Group  
Nationwide Building Society  
NFU Mutual  
Nomura  
Nord LB  
Openwork  
Paycare

PEP & ISA Managers Association  
Price Waterhouse Coopers  
Progressive Asset Management  
Provincial Hospital Services Association  
Prudential Assurance Co Ltd  
Regulatory Alliance of Mortgage Packagers  
Royal Bank of Scotland  
Royal London  
Royal Sun Alliance  
RWE Trading Services Ltd  
Schroders  
Scottish Investments Operations  
Scottish Widows  
Securities & Investment Institute Compliance Forum  
Securities & Investment Institute  
Seymour Pierce Ltd  
Skandia Group  
Skipton Building Society  
Small Business Practitioner Panel  
Society of Pension Consultants, The  
Standard Life Assurance Company  
Standard Life Investments  
Surrenda-link Ltd  
The Association of Investment Trust Companies  
The Futures and Options Association  
Thinking about Crime Ltd  
Thornhill Investment Management Ltd  
Tolson Messenger Ltd  
UBS  
UK Society of Investment Professionals  
UnumProvident  
Universities Superannuation Scheme Ltd  
Watson Wyatt  
Wesleyan Assurance Society  
WestLB  
Which?

# Made Handbook text for Money Laundering

## MONEY LAUNDERING PROVISIONS INSTRUMENT 2006

### Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):
- (1) section 64(1) and 64(2) (Conduct: statements and codes);
  - (2) section 138 (General rule-making power);
  - (3) section 146 (Money laundering rules);
  - (4) section 149 (Evidential provisions);
  - (5) section 150(2) (Actions for damages);
  - (6) section 156 (General supplementary powers); and
  - (7) section 157(1) (Guidance).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

### Commencement

- C. Annex A, Part 2 of Annex D and Annex K to this instrument come into force on 31 August 2006. Otherwise, this instrument comes into force on 1 March 2006.

### Revocation of the Money Laundering sourcebook

- D. The Money Laundering sourcebook (ML) is revoked in its entirety with effect from 31 August 2006.

### Amendments to the Handbook

- E. The modules of the FSA's Handbook of rules and guidance listed in column (1) below are amended or deleted in accordance with the Annexes listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Senior Management Arrangements, Systems and Controls (SYSC)	Annex B
Threshold Conditions (COND)	Annex C
Statements of Principle and Code of Practice for Approved Persons (APER)	Annex D
Amendments to the Interim Prudential sourcebook for Banks (IPRU(BANK))	Annex E
Interim Prudential sourcebook for Building Societies (IPRU(BSOC))	Annex F
Conduct of Business sourcebook (COB)	Annex G
Insurance: Conduct of Business sourcebook (ICOB)	Annex H
Mortgages: Conduct of Business sourcebook (MCOB)	Annex I
Market Conduct sourcebook (MAR)	Annex J

Money Laundering sourcebook (ML)	Annex K
Authorisation manual (AUTH)	Annex L
Supervision manual (SUP)	Annex M
Enforcement manual (ENF)	Annex N
Collective Investment Schemes sourcebook (CIS)	Annex O
Credit Unions sourcebook (CRED)	Annex P
Electronic Money sourcebook (ELM)	Annex Q
Professional Firms sourcebook (PROF)	Annex R

### **Citation**

- F. This instrument may be cited as the Money Laundering Provisions Instrument 2006.

By order of the Board  
26 January 2006

## Annex A

### Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text.

<i>client</i>	<p>(1) (except <del>in ML</del>; in <i>PROF</i>; in relation to a <i>regulated mortgage contract</i>) any <i>person</i> with or for whom a <i>firm</i> conducts or intends to conduct <i>designated investment business</i> or any other <i>regulated activity</i>); and</p> <p>(a) ...</p> <p>...</p> <p>(2) (<del>in ML</del>) (<del>in relation to a <i>relevant firm</i></del>) any <i>person</i> engaged <del>in, or who has had contact with the <i>relevant firm</i> with a view to engaging in, any <i>transaction</i> with that <i>relevant firm</i>:</del></p> <p>(a) <del>on his own behalf; or</del></p> <p>(b) <del>as agent for or on behalf of another. [deleted]</del></p> <p>(3) ...</p> <p>(4) (in relation to a <i>regulated mortgage contract</i>, except <del>in ML and PROF</del>) the individual or trustee who is the borrower or potential borrower under that contract.</p>	
<i>group</i>	<p>(1) ...</p> <p>(2) (in relation to an <i>ICVC</i>) a group as in (1) but (<del>in ML and SYSC</del>) including also the <i>ICVC's authorised corporate director</i> (if any).</p> <p>...</p> <p>(3) ...</p>	
<i>identification evidence</i>	Evidence of the type referred to in <i>ML</i> 3.1.3R(1).	
<i>insolvent</i>	( <del>in ML</del> ) insolvent under regulation 13 of the <i>Money Laundering Regulations</i> .	
<i>know your business information</i>	( <del>in ML</del> ) information which a <i>relevant firm</i> has about:	(a) <del>the financial circumstances of a <i>client</i> or any <i>person</i> on whose behalf the <i>client</i> has been acting or is acting; and</del>
	(b) <del>the features of the <i>transactions</i> which the <i>relevant firm</i> has entered into with or for the <i>client</i> (or that <i>person</i>).</del>	
<i>ML</i>	<del>the Money Laundering sourcebook.</del>	

<i>Money Laundering Regulations</i>	the Money Laundering Regulations 2003 (SI 2003/3075) ( <del>see ML</del> ).
<i>money laundering reporting officer</i>	the individual appointed by a <del>relevant firm</del> in accordance with <del>ML 7.1 SYSC 3.2.6IR</del> .
<i>relevant firm</i>	( <del>in ML</del> ) a <del>firm</del> of the kind described in <del>ML 1.1.2R</del> .
<i>relevant regulated activities</i>	( <del>in ML</del> ) activities of the kind described in <del>ML 1.1.4R</del> .
<i>transaction</i>	( <del>in ML</del> ) any transaction, including the giving of advice and any other business or service undertaken in the course of carrying on a <del>regulated activity</del> .

## Annex B

### Amendments to Senior Management Arrangements, Systems and Controls

In this Annex, underlining indicates new text and striking through indicates deleted text.

Who?

1.1.1 R SYSC 2 and SYSC 3 apply to every *firm* except that:

...

(2A) for an incoming Treaty firm which has permission only for cross border services and which does not carry on regulated activities in the United Kingdom, SYSC 3.2.6AR to SYSC 3.2.6JG do not apply;

(3) ~~SYSC 2 does not apply to a sole trader as long as he does not employ any person who is required to be approved under section 59 of the Act (Approval for particular arrangements); and~~

for a sole trader:

(a) SYSC 2 does not apply as long as he does not employ any person who is required to be approved under section 59 of the Act (Approval for particular arrangements);

(b) SYSC 3.2.6IR does not apply if he has no employees;

(4) for a UCITS qualifier:

(a) SYSC 2.1.1R and SYSC 2.1.2G do not apply;

(b) SYSC 2.1.3R to SYSC 2.2.3G apply, but only in relation to allocation of the function in SYSC 2.1.3R(2) and only with respect to the activities in SYSC 1.1.4R;

(c) SYSC 3 applies, but only with respect to the activities in SYSC 1.1.4R; and

(5) for an authorised professional firm when carrying on non-mainstream regulated activities, SYSC 3.2.6AR to SYSC 3.2.6JG do not apply.

...

What?

1.1.3 R SYSC 2 and SYSC 3 apply with respect to the carrying on of:

- (1) *regulated activities*;
- (2) activities that constitute *dealing in investments as principal*, disregarding the exclusion in article 15 of the *Regulated Activities Order* (Absence of holding out etc); and
- (3) *ancillary activities* in relation to *designated investment business, regulated mortgage activity and insurance mediation activity*;

except that SYSC 3.2.6AR to SYSC 3.2.6JG do not apply as described in SYSC 1.1.3AR.

1.1.3A R SYSC 3.2.6AR to SYSC 3.2.6JG do not apply:

- (1) with respect to the activities described in SYSC 1.1.3R(2) and (3); or
- (2) in relation to the following *regulated activities*:
  - (a) *general insurance business*;
  - (b) *insurance mediation activity* in relation to a *general insurance contract* or *pure protection contract*;
  - (c) *long-term insurance business* which is outside the *Consolidated Life Directive* (unless it is otherwise one of the *regulated activities* specified in this rule);
  - (d) business relating to contracts which are within the *Regulated Activities Order* only because they fall within paragraph (e) of the definition of “contract of insurance” in article 3 of that Order;
  - (e)
    - (i) arranging, by the *Society of Lloyd’s*, of deals in *general insurance contracts* written at *Lloyd’s*; and
    - (ii) managing the underwriting capacity of a *Lloyd’s syndicate* as a *managing agent* at *Lloyd’s*; and
  - (f) *mortgage mediation activity and administering a regulated mortgage contract*.

1.1.4 R SYSC 2 and SYSC 3, except SYSC 3.2.6AR to SYSC 3.2.6JG, also apply with respect to the *communication and approval of financial promotions* which:

...

1.1.5 R SYSC 2 and SYSC 3, except SYSC 3.2.6AR to SYSC 3.2.6JG, also:

- (1) apply with respect to the carrying on of *unregulated activities* in a *prudential context*; and

- (2) take into account any activity of other members of a *group* of which the *firm* is a member.

...

Where?

...

- 1.1.9 R *SYSC 2 and SYSC 3, except SYSC 3.2.6AR to SYSC 3.2.6JG, also apply in a prudential context to a UK domestic firm with respect to activities wherever they are carried on.*
- 1.1.10 R *SYSC 3, except SYSC 3.2.6AR to SYSC 3.2.6JG, also applies in a prudential context to an overseas firm (other than an incoming EEA firm, incoming Treaty firm or UCITS qualifier) with respect to activities wherever they are carried on.*

...

Systems and controls in relation to ~~C~~compliance, financial crime and money laundering

- 3.2.6 R *A firm must take reasonable care to establish and maintain effective systems and controls for compliance with applicable requirements and standards under the regulatory system and for countering the risk that the firm might be used to further financial crime.*
- 3.2.6A R *A firm must ensure that these systems and controls:*
- (1) *enable it to identify, assess, monitor and manage money laundering risk; and*
- (2) *are comprehensive and proportionate to the nature, scale and complexity of its activities.*
- 3.2.6B G *“Money laundering risk” is the risk that a firm may be used to further money laundering. Failure by a firm to manage this risk effectively will increase the risk to society of crime and terrorism.*
- 3.2.6C R *A firm must carry out regular assessments of the adequacy of these systems and controls to ensure that it continues to comply with SYSC 3.2.6AR.*
- 3.2.6D G *A firm may also have separate obligations to comply with relevant legal requirements, including the Terrorism Act 2000, the Proceeds of Crime Act 2002 and the Money Laundering Regulations. SYSC 3.2.6R to SYSC 3.2.6JG are not relevant for the purposes of regulation 3(3) of the Money Laundering Regulations, section 330(8) of the Proceeds of Crime Act 2002 or section 21A(6) of the*

Terrorism Act 2000.

- 3.2.6E G The FSA, when considering whether a breach of its rules on systems and controls against money laundering has occurred, will have regard to whether a firm has followed relevant provisions in the guidance for the UK financial sector issued by the Joint Money Laundering Steering Group.
- 3.2.6F G In identifying its money laundering risk and in establishing the nature of these systems and controls, a firm should consider a range of factors, including:
- (1) its customer, product and activity profiles;
  - (2) its distribution channels;
  - (3) the complexity and volume of its transactions;
  - (4) its processes and systems; and
  - (5) its operating environment.
- 3.2.6G G A firm should ensure that the systems and controls include:
- (1) appropriate training for its employees in relation to money laundering;
  - (2) appropriate provision of information to its governing body and senior management, including a report at least annually by that firm's money laundering reporting officer (MLRO) on the operation and effectiveness of those systems and controls;
  - (3) appropriate documentation of its risk management policies and risk profile in relation to money laundering, including documentation of its application of those policies (see SYSC 3.2.20R to SYSC 3.2.22G);
  - (4) appropriate measures to ensure that money laundering risk is taken into account in its day-to-day operation, including in relation to:
    - (a) the development of new products;
    - (b) the taking-on of new customers; and
    - (c) changes in its business profile; and
  - (5) appropriate measures to ensure that procedures for identification of new customers do not unreasonably deny access to its services to potential customers who cannot reasonably be expected to produce detailed evidence of identity.

3.2.6H R A firm must allocate to a director or senior manager (who may also be the money laundering reporting officer) overall responsibility within the firm for the establishment and maintenance of effective anti-money laundering systems and controls.

The money laundering reporting officer

3.2.6I R A firm must:

- (1) appoint an individual as MLRO, with responsibility for oversight of its compliance with the FSA's rules on systems and controls against money laundering; and
- (2) ensure that its MLRO has a level of authority and independence within the firm and access to resources and information sufficient to enable him to carry out that responsibility.

3.2.6J G The job of the MLRO within a firm is to act as the focal point for all activity within the firm relating to anti-money laundering. The FSA expects that a firm's MLRO will be based in the United Kingdom.

The compliance function

- 3.2.7 G (1) Depending on the nature, scale and complexity of its business, it may be appropriate for a firm to have a separate compliance function. The organisation and responsibilities of a compliance function should be documented. A compliance function should be staffed by an appropriate number of competent staff who are sufficiently independent to perform their duties objectively. It should be adequately resourced and should have unrestricted access to the firm's relevant records as well as ultimate recourse to its governing body.
- (2) ~~The regulatory objectives are defined in section 2 of the Act and include the reduction of financial crime. This objective is more fully described in section 6 of the Act. This describes financial crime as including any offence involving (a) fraud or dishonesty, (b) misconduct in, or misuse of information relating to, a financial market, or (c) handling the proceeds of crime.[deleted]~~
- (3) ~~In applying SYSC 3.2.6R, where financial crime is concerned, firms must also comply with other Handbook requirements (in particular, ML) and their legal obligations under the Money Laundering Regulations and the Proceeds of Crime Act 2002.[deleted]~~

...

SYSC TP 1.1

There are no transitional provisions in SYSC. However, GEN contains some technical transitional provisions that apply throughout the Handbook and which are designed to ensure a smooth transition at commencement.

Money Laundering Transitional Provisions

Extra time provisions

Compliance with ML and SYSC 3.2.6AR to SYSC 3.2.6JG

<u>(1)</u>	<u>(2)</u> <u>Material to which the transitional provision applies</u>	<u>(3)</u>	<u>(4)</u> <u>Transitional provision</u>	<u>(5)</u> <u>Transitional provision: dates in force</u>	<u>(6)</u> <u>Handbook provision: coming into force</u>
<u>(1)</u>	<u>SYSC 3.2.6AR to SYSC 3.2.6JG</u>	<u>R</u>	<u>Compliance with ML also counts as compliance with SYSC 3.2.6AR to SYSC 3.2.6JG and vice versa.</u>	<u>From 1 March 2006 to 31 August 2006</u>	<u>(1) 1 March 2006</u>
<u>(2)</u>	<u>ML</u>				<u>(2) In force until 31 August 2006</u>

## Annex C

### Amendments to Threshold Conditions

In this Annex, underlining indicates new text and striking through indicates deleted text.

2.5.7 G ...

...

- (10) the *firm* has in place ~~the appropriate *money laundering* prevention systems and training, including identification, record-keeping and internal reporting procedures (see *ML*)~~ systems and controls against *money laundering* of the sort described in SYSC 3.2.6R to SYSC 3.2.6JG;

...

...

## Annex D

### Amendments to Statements of Principle and Code of Practice for Approved Persons

In this Annex, underlining indicates new text and striking through indicates deleted text. The changes detailed in Part 1 to this Annex take effect on 1 March 2006 and those detailed in Part 2 take effect on 31 August 2006.

#### Part 1

- 4.7.9 E In the case of the *money laundering reporting officer*, failing to discharge the responsibilities imposed on him by the *firm* in accordance with chapter 7 of the *Money Laundering* sourcebook (*ML*) or *SYSC 3.2.6IR* falls within *APER 4.7.2E*.

...

#### Part 2

- 4.7.9 E In the case of the *money laundering reporting officer*, failing to discharge the responsibilities imposed on him by the *firm* in accordance with ~~chapter 7 of the *Money Laundering* sourcebook (*ML*)~~ or *SYSC 3.2.6IR* falls within *APER 4.7.2E*.

...

## Annex E

### Amendments to the Interim Prudential sourcebook for Banks

In this Annex, underlining indicates new text and striking through indicates deleted text.

#### Volume 2

#### Adequate records, systems and controls

#### AR Section 3: Accounting and other records and internal – ~~control systems~~ systems and controls

- 3.3.7 22 It is a requirement of the Money Laundering Regulations 1993 that authorised banks have policies and procedures in place to guard against their business and the financial system being used for the purpose of money laundering. ~~The Joint Money Laundering Steering Group Guidance Notes ('Money Laundering Guidance Notes for the Financial Sector' revised and consolidated by the Joint Money Laundering Steering Group in June 1997) provide a practical interpretation of the Regulations. The FSA expects banks to adopt policies and procedures in line with those Guidance Notes. The FSA, when considering whether a breach of its *rules* on systems and controls against *money laundering* has occurred, will have regard to whether a *firm* has followed relevant provisions in the guidance for the UK financial sector issued by the Joint Money Laundering Steering Group.~~
- a) ~~See also the sourcebook on money laundering. See Money Laundering Sourcebook SYSC 3.2 for the FSA's *rules* on systems and controls against *money laundering*.~~

## Annex F

### Amendments to the Interim Prudential sourcebook for Building Societies

In this Annex, underlining indicates new text and striking through indicates deleted text.

Volume 1

Annex 9B: Internal ~~control systems~~ systems and controls

Section 3.3

- 3.3.7      22      It is a requirement of the Money Laundering Regulations 1993 that authorised banks have policies and procedures in place to guard against their business and the financial system being used for the purpose of money laundering. ~~The Joint Money Laundering Steering Group Guidance Notes ('Money Laundering Guidance Notes for the Financial Sector' revised and consolidated by the Joint Money Laundering Steering Group in June 1997) provide a practical interpretation of the Regulations. The FSA expects banks to adopt policies and procedures in line with those Guidance Notes. The FSA, when considering whether a breach of its rules on systems and controls against money laundering has occurred, will have regard to whether a firm has followed relevant provisions in the guidance for the UK financial sector issued by the Joint Money Laundering Steering Group.~~ The FSA, when considering whether a breach of its rules on systems and controls against money laundering has occurred, will have regard to whether a firm has followed relevant provisions in the guidance for the UK financial sector issued by the Joint Money Laundering Steering Group. (a) ~~See also the sourcebook on money laundering, SYSC 3.2 for the FSA's rules on systems and controls against money laundering.~~

## Annex G

### Amendments to the Conduct of Business sourcebook

In this Annex, underlining indicates new text and striking through indicates deleted text.

- 4.1.6 G *Firms* are reminded that *COB* 4.1.5 R:
- (1) ~~does not relieve them of any obligation under the *Money Laundering* sourcebook relating to C2 (there is a different definition of “*client*” in that sourcebook); [deleted]~~
- ...
- ...
- 5.2.2 G A *firm* that arranges an *execution-only transaction* for a *private customer* is not generally required to obtain any personal or financial information about that *customer*; ~~except when the *Money Laundering* sourcebook applies~~. However, the *Insurance Mediation Directive* requires that a statement of the demands and needs of a *client* is provided to the *client*, whether advice is given or not. ...
- ...
- 10.1.4 G ...
- (6) an *operator* of an *authorised unit trust scheme* is also required to comply with the *Collective Investment Schemes* sourcebook (*CIS*); and
- (7) an *operator* of an *ICVC* is also required to comply with the *Collective Investment Schemes* sourcebook (*CIS*); and .
- (8) ~~an *operator* is also required to comply with the *Money Laundering* sourcebook (*ML*). [deleted]~~
- ...
- 11.1.11 G All *depositories* and *trustee firms* are also required to comply in particular with the *Principles for Businesses* (*PRIN*); and *Senior Management Arrangements, Systems and Controls* (*SYSC*) and the *Money Laundering* sourcebook (*ML*).
- ...

## Annex H

### Amendments to the Insurance: Conduct of Business sourcebook

In this Annex, striking through indicates deleted text.

1 Annex G Summary of Handbook provisions for insurance intermediaries

2

...

	Module	Application
High Level Standards	...	...
	Senior Management Arrangements, Systems and Controls, <i>SYSC</i>	Applies in respect of (1) and (2), <del>except SYSC 3.2.6AR to SYSC 3.2.6JG.</del>
Business Standards	...	...
	<del>Money Laundering sourcebook, <i>ML</i></del>	<del>Does not apply when the <i>firm</i> is doing (1) or (2). However <i>ML</i> will apply to an <i>insurance intermediary</i> if it also carries on <i>relevant regulated activities</i> as defined in <i>ML</i> 1.1.4R.</del>
...		

...

## Annex I

### Amendments to the Mortgages: Conduct of Business sourcebook

In this Annex, striking through indicates deleted text.

- 1 Annex G Summary of the application of the Handbook to firms carrying on regulated  
4 mortgage activities and firms that communicate or approve qualifying credit promotions

...

	Module	Application
...	...	...
Business Standards	...	...
	Money Laundering sourcebook, <del>ML</del> [*]	<del>Applies to every mortgage administrator and mortgage lender. This includes in circumstances where the mortgage administrator is appointed by a person who is not an authorised person to administer regulated mortgage contract on its behalf.</del>
...	...	...

...

## Annex J

### Amendments to the Market Conduct sourcebook

In this Annex, striking through indicates deleted text.

3.3.2 G ...*Firms* should also consider the other provisions of the *Handbook*, especially but not exclusively ~~*ML*~~, *IPRU* and *PRU*.

...

3.5.2 G ... Under *Principle 1* (Integrity) and *Principle 5* (Market conduct), a *firm* acting as *arranger* (or *name-passing broker*) should not conclude the arrangement if there is information from which it ought reasonably to conclude that the transaction is improper, whether or not it is at a non-market price~~market price~~. ~~Notwithstanding their limited role, *firms* acting as *arrangers* (or *name-passing brokers*) as well as other *firms* should also comply with obligations upon them arising from *ML*.~~

...

5.5 Parts of the Handbook applicable to the operation of an ATS

5.5.3 G Handbook provisions applicable to ATSS

	Part of Handbook	Applicability to ATSS
High Level Standards	...	...
Business Standards	...	...
	<del>Money Laundering sourcebook (<i>ML</i>)</del>	<del>This applies.</del>
...	...	...

## **Annex K**

### **Deletion of the Money Laundering sourcebook**

In this Annex, the Money Laundering sourcebook (ML) is deleted in its entirety with effect from 31 August 2006, the deleted text is not shown struck through.

ML [deleted – material amended and moved to SYSC]

## Annex L

### Amendments to the Authorisation manual

In this Annex, underlining indicates new text and striking through indicates deleted text.

- 1.5.3 G ...
- (1) ...
- (2) Systems, controls and internal arrangements:
- (a) ...
- (b) the detailed requirements, many of which are *regulated activity* specific, in the sourcebooks in the Business Standards part of the *Handbook*; for example, in *IPRU*, *PRU*, the Training and Competence sourcebook (*TC*), ~~the Money Laundering sourcebook (*ML*)~~ and ...
- ...
- ...
- ...

## Annex M

### Amendments to the Supervision manual

In this Annex, underlining indicates new text and striking through indicates deleted text.

8.2.7 G Rules which can be waived (see SUP 8.2.6G)

Rules	Section of the Act or other provision under which rules are made	Chapters of the Handbook where such rules appear (Note 1)
...	...	...
Money laundering rules	Section 146	<del>ML</del> <u>SYSC 3.2</u>
...	...	...

...

#### Money laundering reporting function (CF11)

- 10.7.13 R The *money laundering reporting function* is the function of acting in the capacity of the *money laundering reporting officer* of a firm.
- 10.7.13A G A firm's obligations in respect of its *money laundering reporting officer* are set out in SYSC 3.2.6IR and the scope of application of that rule is set out in SYSC 1.1.
- 10.7.14 G ~~The rules in the Money Laundering sourcebook (ML) provide that a firm must have a money laundering reporting officer unless:~~
- ~~(1) it is a sole trader with no employees; or~~
  - ~~(2) its regulated activities are certain insurance business only; or~~
  - ~~(3) it is an incoming firm providing only services into the United Kingdom; or~~
  - ~~(4) its regulated activities are insurance mediation activity in relation to a general insurance contract or pure protection contract or mortgage mediation activity. [deleted]~~
- 10.7.15 G ~~The specific responsibilities of the money laundering reporting officer are set out in ML 7.1. [deleted]~~
- 10.7.16 G ~~ML 7.1.9R provides that a money laundering reporting officer must have a "sufficient level of seniority" within the firm, so that he can carry out his controlled function effectively. [deleted]~~

...

SUP 13A Annex 1 G Application of the Handbook to Incoming EEA Firms G

G 1. ...

2. ...

3. ...

(1) Module of Handbook	(2) Potential application to an incoming EEA firm with respect to activities carried on from an establishment of the firm (or its appointed representative) in the United Kingdom	(3) Potential application to an incoming EEA firm with respect to activities carried on other than from an establishment of the firm (or its appointed representative) in the United Kingdom
...		
<i>ML</i>	<del>Applies (<i>ML</i> 1.1.2R).</del>	<del>Does not apply (<i>ML</i> 1.1.2R).</del>
...		

...

## Annex N

### Amendments to the Enforcement manual

In this Annex, underlining indicates new text and striking through indicates deleted text.

- 11.9.1 G The *FSA's money laundering rules* are set out in ~~ML 1 to ML 8~~ SYSC 3.2. The *FSA*, when considering whether to take disciplinary action in respect of a breach of those *rules*, will have regard to whether a *firm* has followed relevant provisions in the Joint Money Laundering Steering Group's Guidance Notes for the Financial Sector.

...

## Annex O

### Amendments to the Collective Investment Schemes sourcebook

In this Annex, underlining indicates new text and striking through indicates deleted text.

1.2.21 G ~~*ML* is also relevant in particular when considering *CIS* 4.4.3R, *CIS* 7.10 and *CIS* 15.4.3R. [deleted]~~

...

## Annex P

### Amendments to the Credit Unions sourcebook

In this Annex, underlining indicates new text and striking through indicates deleted text. Where entire sections of text have been deleted, this is indicated in the text and the deleted text is not shown struck through.

#### Systems and controls in relation to ~~€~~compliance and financial crime

...

- 4.3.37A G SYSC 3.2.6AR requires a *credit union* to ensure that these systems and controls:
- (1) enable it to identify, assess, monitor and manage *money laundering* risk; and
  - (2) are comprehensive and proportionate to the nature, scale and complexity of that *credit union*'s activities.
- 4.3.37B G '*Money laundering* risk' is the risk that a *credit union* may be used to further *money laundering*. Failure by a *credit union* to manage this risk effectively will increase the risk to society of crime and terrorism.
- 4.3.37C G SYSC 3.2.6CR requires a *credit union* to carry out regular assessments of the adequacy of these systems and controls to ensure that they continue to meet this requirement.
- 4.3.37D G A *credit union* may also have separate obligations to comply with relevant legal requirements, including the Terrorism Act 2000, the Proceeds of Crime Act 2002 and the *Money Laundering Regulations*. SYSC 3.2.6R to 3.2.6JG are not relevant guidance for the purposes of regulation 3(3) of the *Money Laundering Regulations*, section 330(8) of the Proceeds of Crime Act 2002 or section 21A(6) of the Terrorism Act 2000.
- 4.3.37E G The *FSA*, when considering whether a breach of its *rules* on systems and controls against *money laundering* has occurred, will have regard to whether a *credit union* has followed relevant provisions in guidance for the *UK* financial sector issued by the Joint Money Laundering Steering Group.
- 4.3.37F G In identifying its *money laundering* risk and in establishing the nature of these systems and controls, a *credit union* should consider a range of factors, including:
- (1) its customer, product and activity profile;

- (2) its distribution channels;
- (3) the complexity and volume of its transactions;
- (4) its processes and systems; and
- (5) its operating environment.

4.3.37G G A credit union should ensure that these systems and controls include:

- (1) appropriate training for that credit union's employees in relation to money laundering;
- (2) appropriate provision of information to that credit union's governing body and senior management, including a report at least annually by that credit union's money laundering reporting officer on the operation and effectiveness of those systems and controls;
- (3) appropriate documentation of that credit union's risk management policies and risk profile in relation to money laundering, including documentation of that credit union's application of those policies (see SYSC 3.2.20R to SYSC 3.2.22G);
- (4) appropriate measures to ensure that money laundering risk is taken into account in the day-to-day operation of that credit union, including in relation to:
  - (a) the development of new products;
  - (b) the taking-on of new customers; and
  - (c) changes in its business profile; and
- (5) appropriate measures to ensure that procedures for identification of new customers do not unreasonably deny access to that credit union's services to potential customers who cannot reasonably be expected to produce detailed evidence of identity.

4.3.37H G SYSC 3.2.6HR requires a credit union to allocate to a director or senior manager (who may also be the money laundering reporting officer) overall responsibility within the credit union for the establishment and maintenance of effective anti-money laundering systems and controls.

The money laundering reporting officer

4.3.37I G SYSC 3.2.6IR requires a credit union to:

- (1) appoint a *money laundering reporting officer*, who shall be responsible for oversight of that *credit union's* compliance with the *FSA's* rules on systems and controls against *money laundering*; and
- (2) ensure that its *money laundering reporting officer* has a level of authority and independence within that *credit union* and access to resources and information sufficient to enable him to carry out that responsibility.

4.3.37J G The job of the *money laundering reporting officer* within a *credit union* is to act as the focal point for all activity within that *credit union* relating to anti-*money laundering*. The *FSA* expects that a *credit union's* *money laundering reporting officer* will be based in the *United Kingdom*.

The compliance function

4.3.37K G Depending on the nature, scale and complexity of its business, it may be appropriate for a *credit union* to have a separate compliance function. The organisation and responsibilities of a compliance function should be documented. A compliance function should be staffed by an appropriate number of competent staff who are sufficiently independent to perform their duties objectively. It should be adequately resourced and should have unrestricted access to the *credit union's* relevant records as well as ultimate recourse to its governing body.

4.3.38 G *Guidance* on compliance is located in SYSC 3.2.68R – SYSC 3.2.9G.

...

4.3.71 G ...

- (8) *money laundering* prevention (see ~~CRED 12~~ CRED 4.3.37G and SYSC 3.2);

...

...

*CRED* 12 is deleted in its entirety.

*CRED* 12 [deleted]

...

App 1.1 This is the table referred to in *CRED* 2.2.2G.

App  
1.1.1

	Sourcebook or manual	Reference code
...	...	...
Business Standards	...	...
	Money laundering	<i>ML</i>
...	...	...

App 2.1 Detailed contents of *CRED*

App  
2.1.1

...		
12	<del>Money Laundering [deleted]</del>	
	12.1	Introduction
		12.1.1 What is Money laundering?
	12.2	<del>Money laundering and the FSA</del>
	12.3	<del>Identification of the Client</del>
	12.4	<del>External Reporting</del>
	12.5	<del>Government and Financial Action Task Force findings</del>
	12.6	<del>Compliance Monitoring</del>
	12.7	<del>Record keeping</del>
...		

Sch 1.2 G

Handbook reference	Subject of reference	Contents of record	When record must be made	Retention period
...				
<i>CRED</i> 12.2.3 G	<i>Money Laundering</i>	Reference to <i>ML</i> 7 in relation to compliance and record	On-going in accordance with <i>ML</i> 7	5 years from dates specified in <i>ML</i> 7.3

		keeping-		
<i>CRED 12.7.1 G</i>	<i>Money Laundering</i>	Specifies retention periods in relation to evidence of identity etc.	On-going	As per <i>ML 7</i>
...				

Sch 2 G

...

Handbook reference	Subject of reference	Contents of record	When record must be made	Retention period
...				
<i>CRED 12.6.1G</i>	<i>Money Laundering</i>	Report from MLRO.	Upon request	As soon as reasonably practical
...				

...

**Annex Q**  
**Amendments to the Electronic Money sourcebook**

In this Annex, underlining indicates new text and striking through indicates deleted text.

1.5.2 G Application of other parts of the *Handbook* to *ELMIs*

Block	Module	Application
...	...	...
Business Standards	...	...
Money Laundering sourcebook ( <del><i>ML</i></del> )	<del>For the avoidance of doubt, it is the <i>FSA's</i> view that, where it has an establishment in the <i>United Kingdom</i>, an <i>ELMI</i> is subject to the <i>Money Laundering Regulations</i>. In addition, <i>ML</i> applies to every <i>ELMI</i>.</del>	
...	...	...

...

6.3.5 R ...

(1) ~~prohibited by any of the *rules* in *ML*; or [deleted]~~

...

...

## Annex R

### Amendments to the Professional Firms sourcebook

In this Annex, underlining indicates new text and striking through indicates deleted text.

#### ~~Money Laundering sourcebook~~ Senior Management Arrangements, Systems and Controls

- 5.3.4 G ~~ML 8.1.3R provides that the Money Laundering sourcebook does~~  
SYSC 3.2.6AR to SYSC 3.2.6JG, in relation to money laundering, do  
not apply to *authorised professional firms* when carrying on *non-*  
*mainstream regulated activities*.

...



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