

The FCA's 2022-2025 strategy - and what it means for financial crime risk management

To find out how FCR Compliance can help you with your financial crime risk assessments, strategy and frameworks, please contact Louis@FCRCompliance.com



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What is the strategy?

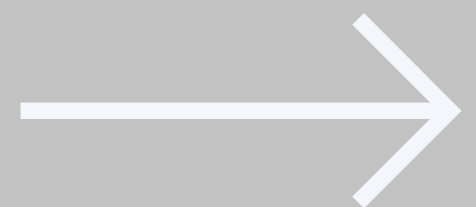
In 2022 the FCA published its 2022-2025 Strategy and articulated its intent to become a more innovative, assertive and adaptive regulator, with a proactive focus on live issues.

The 3 year strategy is based on three areas of focus:

- 1.Reducing and preventing serious harm
- 2.Setting and testing higher standards
- 3.Promoting competition and positive change

In addition, operationally, the FCA is undergoing a transformation program to underpin these areas of focus which include elements of data management, testing the limits of regulatory powers and adapting to warn and educate consumers.

Our summary looks at the first point of focus - **‘reducing and preventing serious harm’**, and what this means for financial crime management from a practical perspective.



Six commitments to 'reduce and prevent harm'

The reduction and prevention of serious harm is supported by six regulatory commitments including one specifically concerning **financial crime** (5):

1. Dealing with problem firms (those which don't meet minimum standards of compliance).
2. Improve the redress framework - to ensure that firms remedy harm with fair compensation and maintain the financial resilience to do so.
3. Reduce the harm from firm failure - to consumer assets and wider market participants.
4. Improving oversight of Appointed Representatives i.e. firms carrying out regulated activity under the responsibility of an authorised firm (the principal).
5. **Reduce and prevent financial crime - by improving the effectiveness of controls to prevent firms being used as conduits for illegal activity.**
6. Deliver assertive action on market abuse - to ensure clean, transparent and fair markets which build confidence and participation in the UK financial system.



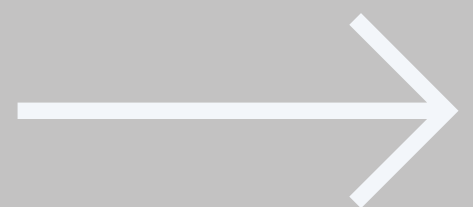
What's happening now?

2023-24 marks the second year of the strategy.

The most recent FCA Business Plan acknowledged the potential impact of economic and geopolitical uncertainty and prioritises four commitments for additional resource, including... **Reducing and preventing financial crime.**

Throughout 2023 the FCA continued to develop public private partnerships to drive the financial sector's contribution to reducing fraud and financial crime through involvement in strategic national issues such as the UK Government Economic Crime Plan 2 (2023-26).

Notably the FCA has also **increased oversight of firms communicating and approving financial promotions**, including cryptoasset firms.



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Authorisations

In 2022/23, **1 in 4 firms** applying to register under the Money Laundering Regulations (MLRs) did not meet threshold requirements. For UK cryptoasset businesses, 93% of applications were either rejected, withdrawn or refused. With the fee to register as a cryptoasset firm starting at £10,000 (cat 6), this can be a costly process.

We saw an increased level and granularity of evidence required during the authorisation process re financial crime systems and controls, with more detailed information requests and questioning than ever before.

How this may affect you

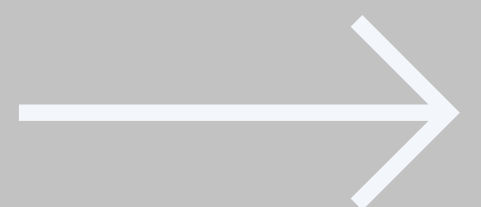
If you are seeking FCA authorisation then your application is likely to be rejected, withdrawn or refused unless you can demonstrate a robust framework to prevent your firm being used as a conduit for fraud and financial crime.



Modular Assessment Proactive Program (MAPP)

The increasingly proactive supervisory approach means:

- A rise in number of proactive assessment visits; typically including interviews and system walkthroughs as well as policy, process and risk framework reviews.
- A data led approach - we have seen an increased volume of targeted higher risk areas / firms selected for assessment, with a focus on specific risk areas such as sanctions or PEPs.

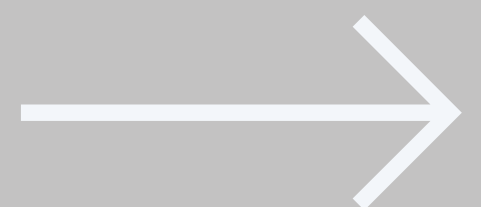


Modular Assessment Proactive Program (MAPP)

How this may affect you

Supervisory assessments will include deep dives into financial crime systems and controls - including governance, oversight, skills, resources and training - these require resource and time to manage and respond.

Newly authorised firms can expect a 'use it or lose it' approach with heightened supervision designed to spot early indicators of issues.



Impact on regulated firms

The FCA is committed to reducing and preventing financial crime by lowering the incidence of money laundering through the firms it supervises.

This is reflected in the increase in the volume of 'financial crime supervision cases' in recent times and in the increased use of supervisory tools such as:

- Remediation plans
- Voluntary Requirements to restrict business activities or take on new business
- Cancellation / withdrawal of permissions
- Attestations from senior managers
- Skilled persons reports (s166)



Impact on regulated firms

How this may affect you

These supervisory tools are targeted to improve controls and change conduct.

Failure to respond appropriately could well lead to enforcement action by the FCA.

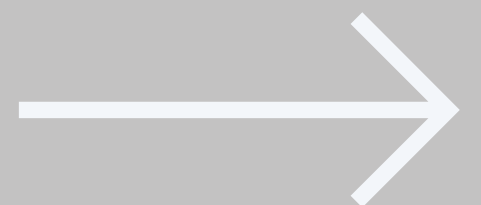


What can you do now?

In order to ensure that you are able to respond to the regulator appropriately you need to make sure you have the following in place:

- Business wide risk assessment (BWRA)
- Risk register
- Controls log
- Compliance monitoring plan
- Control testing / audit

These should form part of a governance and oversight framework including key MI, defined responsibility and training.

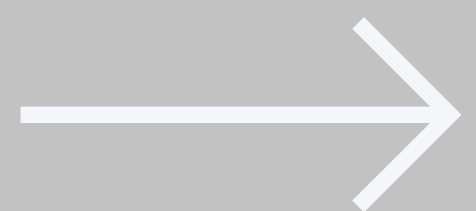


How we can help

We are a team of passionate financial crime prevention and management specialists, who can help you understand, face and respond to the challenges you encounter in your marketplace.

At FCR Compliance we have vast experience in designing and delivering bespoke Financial Crime Risk Assessments, and in implementing frameworks to manage and mitigate the risk.

We can help you to understand how the evolving financial crime regulatory environment impacts on your business and how to develop and maintain focussed, sustainable and cost-effective financial crime risk assessments and strategy and frameworks.





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Louis is one of FCR Compliance's founders. He has over 20 years experience in financial crime prevention, investigation and remediation.

Louis started his career in accountancy, where he specialised in forensic investigations and disputes, then moving to the UK FCA where he served as an investigator in both Wholesale and Retail Banking Enforcement, before moving to the Supervision Department where he led regulatory oversight and liaison with industry stakeholders in major UK retail banks.

Since 2018, Louis has worked as a consultant, helping clients with the design and delivery of their KYC file reviews, AML remediation programme assurances, sanctions training and responses to S166 regulatory reviews.