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## Financial Crime Guide in relation to sanctions, proliferation financing and transaction monitoring

*Of particular interest to: All UK Firms*

### **In brief**

On 25 April 2024, the Financial Conduct Authority (“FCA”) published a consultation paper regarding updates to the FCA’s Financial Crime Guide (“FCG”) in relation to sanctions, proliferation financing (“PF”), and transaction monitoring. The consultation paper also covers updates to cryptoassets, as the FCA became the anti-money laundering supervisor for certain registered cryptoasset businesses in January 2020, and changes to the Consumer Duty. The consultation will close on 27 June 2024.

### **Summary**

The FCA is consulting on proposed changes to the FCG, to enhance firms’ understanding of the FCA’s expectations in relation to financial crime systems, and better assist them in assessing the adequacy of their systems, controls, and remedy deficiencies. The FCA wishes to ensure the FCG remains clear and reflects their most relevant and recent findings, while supporting firms in identifying and assessing they have the correct financial crime controls in place.

The FCG should be read by all **FCA Financial Crime Supervised Firms** and firms that the FCA supervises under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (“MLRs”) and amendments.

### **Sanctions**

Following Russia’s invasion of Ukraine, the UK and international partners imposed extensive sanctions, prompting increased scrutiny of firms’ systems. The proposed updates to Chapter 7 in the FCG on Financial Sanctions aim to enhance systems and controls for regulated firms.

The FCA has introduced reporting requirements for sanctions breaches, financial sanctions, and the requirement for governance arrangements to oversee sanctions systems which include senior management accountability, oversight of outsourced functions and engagement in information sharing. The FCA has also detailed the requirement for firms to consider exposure to sanctions regimes and have provided updated guidance on the interplay between Customer Due Diligence/Know Your Customer procedures for AML purposes and managing sanctions risks, along with new expectations of how firms identify, assess, and report potential sanctions breaches.

### **Proliferation financing**

The 2022 amendments made to the MLRs mandate firms to assess PF risks, in addition to money laundering and terrorist financing risks, and the requirement of a firm to understand its financial crime risks and effective controls. The risk assessment for PF can be included within the wider risk assessment or as a separate document, and the FCA’s proposed changes to the FCG include adding references to PF risk assessment in Chapter 7.2, where links to relevant resources are also provided to further assist firms.

### **Transaction monitoring**

Transaction monitoring is crucial for most regulated firms, but the FCA has observed instances of poor software deployment, alongside a desire within the industry to innovate using new technologies. Moreover, the FCA proposes offering more guidance on adopting and maintaining automated monitoring

systems and inform that automated monitoring is necessary only where appropriate for the size and nature of the business and not required if manual processes suffice.

The proposed guidance also includes self-assessment questions and examples of good and poor practices regarding trigger settings in automated systems, controls for transitioning between systems, utilising transaction alerts for customer risk assessment and continuous monitoring. The guidance also emphasises evaluating the effectiveness of monitoring systems and the importance of oversight, resources, and expertise for effective screening.

### **Cryptoassets**

The FCA has proposed in its paper that cryptoasset businesses consider the FCG when designing financial crime systems to meet the MLRs and UK Financial Sanctions requirements. The proposed changes also include the addition of sections on risk assessments, handling higher risk situations, fraud, and integrating blockchain analytics practices into transaction monitoring. Links to guidance on compliance, the Travel Rule, and an example of screening practices for fraud-linked cryptoasset wallet addresses are also included within the proposed changes.

### **Consumer Duty**

The FCA's Consumer Duty became effective as of 31 July 2023 for open products/services, and will become effective on 31 July 2024 for closed ones, mandating firms to ensure positive outcomes for retail customers. The FCA's proposed changes included adding a reminder for firms to consider this Duty alongside financial crime obligations when relevant.

### **Consequential changes**

The final proposals by the FCA have been designed to keep the FCG current, including refreshing links and providing recent examples of financial crime outcomes, and will remove references to EU rules and supervisory authorities to align with post-Brexit changes. Additional links to helpful resources for firms, updated examples on data security, and minor drafting changes are also included in the changes.

### **Useful links**

[CP24/9: Financial Crime Guide updates \(fca.org.uk\)](#)

[Sanctions systems and controls: firms' response to increased sanctions due to Russia's invasion of Ukraine | FCA](#)

[FCA-sets-out-expectations-for-UK-cryptoasset-businesses-complying-with-the-Travel-Rule.pdf \(optima-partners.com\)](#)

[FG22/5: Final non-Handbook Guidance for firms on the Consumer Duty \(fca.org.uk\)](#)

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