

# *Financial Services and Markets*

## *AML: Jurisdictions where due diligence may no longer be so simplified*

On 10 July 2014, the Financial Conduct Authority ("FCA") published a [list of jurisdictions](#) that it considers to pose a higher risk in the context of financial crime issues such as money laundering, financial sanctions, terrorist financing and bribery and corruption. The FCA explains that the list of higher risk jurisdictions will be one factor which is taken into account when the FCA is assessing firms' anti-money laundering ("AML") systems and controls during supervisory visits.

Significantly, the FCA list classifies as high risk two EU member states (Bulgaria and Latvia) and four jurisdictions which are identified in a [separate list published by the European Commission](#) as having regimes equivalent to EU standards (Brazil, India, Mexico and South Africa). The FCA has not made any reference to these inconsistencies in the explanatory statement which accompanies its list. In the absence of any further clarification, firms should proceed cautiously in this area and are advised to treat these jurisdictions as high risk if they are not already doing so.

AML and counter financing of terrorism ("CFT") compliance remains a key priority for the FCA. There have been a number of enforcement actions against firms in the last few years relating to deficiencies in their AML/CFT policies and procedures. In particular, the FCA has emphasised the importance of the requirement under the Money Laundering Regulations 2007 to apply enhanced client due diligence measures and enhanced ongoing monitoring of client relationships in any situations which, by their nature, may present a higher risk of money laundering or terrorist financing (for example, a connection with a politically exposed person or involvement in higher risk types of business). The FCA takes the view that, in such higher risk situations, the obligation to conduct enhanced due diligence overrides the opportunity which might otherwise have been available to conduct simplified due diligence (a lighter approach where the customer is, broadly, itself an authorised firm or a listed company). For example, if the customer were a company with shares admitted to trading on a regulated market and subject to transparency obligations (which might otherwise qualify for simplified due diligence) but the company's business activities posed higher money laundering risks, this may warrant enhanced due diligence despite the company being listed.

As part of their assessment of the level of risk posed by any particular client relationship, firms should have regard to the relevant jurisdiction(s) in which the client is established or operates. The FCA list referenced above is an important guide as to how firms should assess the risk associated with any particular jurisdiction when carrying out initial and ongoing assessments of customer relationships.

HM Treasury also recently published [an advisory notice](#) on 8 July 2014 which contains an updated list of jurisdictions which are considered to have deficiencies in their AML/CFT regimes. The notice follows the earlier publication by FATF on 27 June 2014 of an [updated list of jurisdictions](#) that FATF considers high-risk and non-cooperative jurisdictions for AML/CFT purposes, as well as a [list of other monitored jurisdictions](#) which may exhibit strategic AML/CFT deficiencies.

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18 July 2014