

Chapter 10

The Small Firms Financial Crime Review (2010)

10.1 Introduction

- 10.1.1** **Who should read this chapter?** This chapter is relevant, and its statements of good and poor practice apply, to **small firms** in all sectors who are subject to the financial crime rules in ■ SYSC 3.2.6R or ■ SYSC 6.1.1R and small **e-money institutions** and **payment institutions** within our supervisory scope.
- 10.1.2** In May 2010 the *FSA* published the findings of its thematic review into the extent to which small firms across the financial services industry addressed financial crime risks in their business. The review conducted visits to 159 small retail and wholesale firms in a variety of financial sectors. It was the first systematic review of financial crime systems and controls in small firms conducted by the *FSA*.
- 10.1.3** The review covered three main areas: anti-money laundering and financial sanctions; data security; and fraud controls. The review sought to determine whether firms understood clearly the requirements placed on them by the wide range of legislation and regulations to which they were subject.
- 10.1.4** The *FSA* found that firms generally demonstrated a reasonable awareness of their obligations, particularly regarding AML systems and controls. But it found weaknesses across the sector regarding the implementation of systems and controls put in place to reduce firms' broader financial crime risk.
- 10.1.5** The review emphasised the key role that the small firms sector often plays in acting as the first point of entry for customers to the wider UK financial services industry; and the importance, therefore, of firms having adequate customer due diligence measures in place. The report flagged up concerns relating to weaknesses in firms' enhanced due diligence procedures when dealing with high-risk customers.
- 10.1.6** The *FSA* concluded that, despite an increased awareness of the risks posed by financial crime and information supplied by the *FSA*, small firms were generally weak in their assessment and mitigation of financial crime risks.
- 10.1.7** The contents of this report are reflected in ■ FCG 2 (Financial crime systems and controls), ■ FCG 3 (Money laundering and terrorist financing), ■ FCG 4 (Fraud), ■ FCG 5 (Data security) and ■ FCG 7 (sanctions and asset freezes).