

National Risk Assessment

Investment business sector



Jersey Financial
Services Commission

JFSC Official

Agenda

Overview of investment business sector

Working group & Industry perspective

Sector threats & vulnerabilities,
including controls

Next steps

What is risk in a money laundering context?

$$\text{Risk} = \text{Threat} + \text{Vulnerability}$$

Threat

A person or group of people, object or activity with the potential to cause harm to, for example; the state, society, the economy etc.

- e.g. **the customers of an investment business**

Vulnerability

Weaknesses or gaps in the defence against ML that can be exploited by the threat or that may support or facilitate its activities

- Characteristics of products and services available in the sector (inherent) e.g. **liquidity of the investments**
- Strength of controls applied at national and sector level (control) e.g. **regulatory oversight, investment business systems and controls**

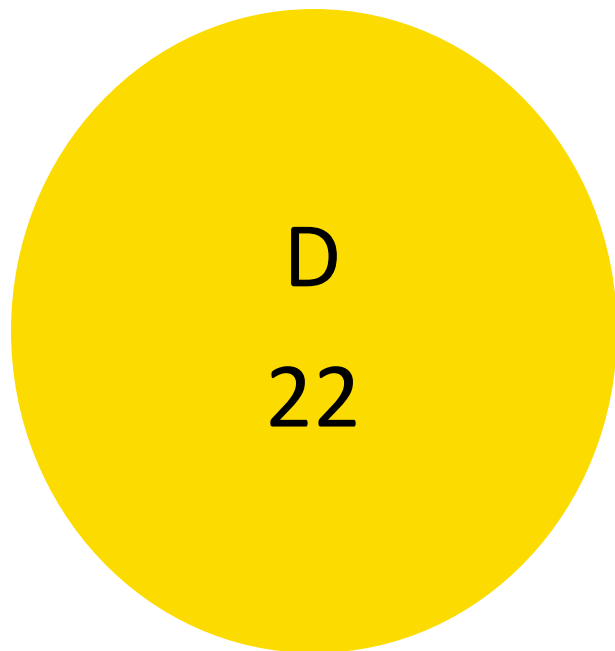


Classes of IB

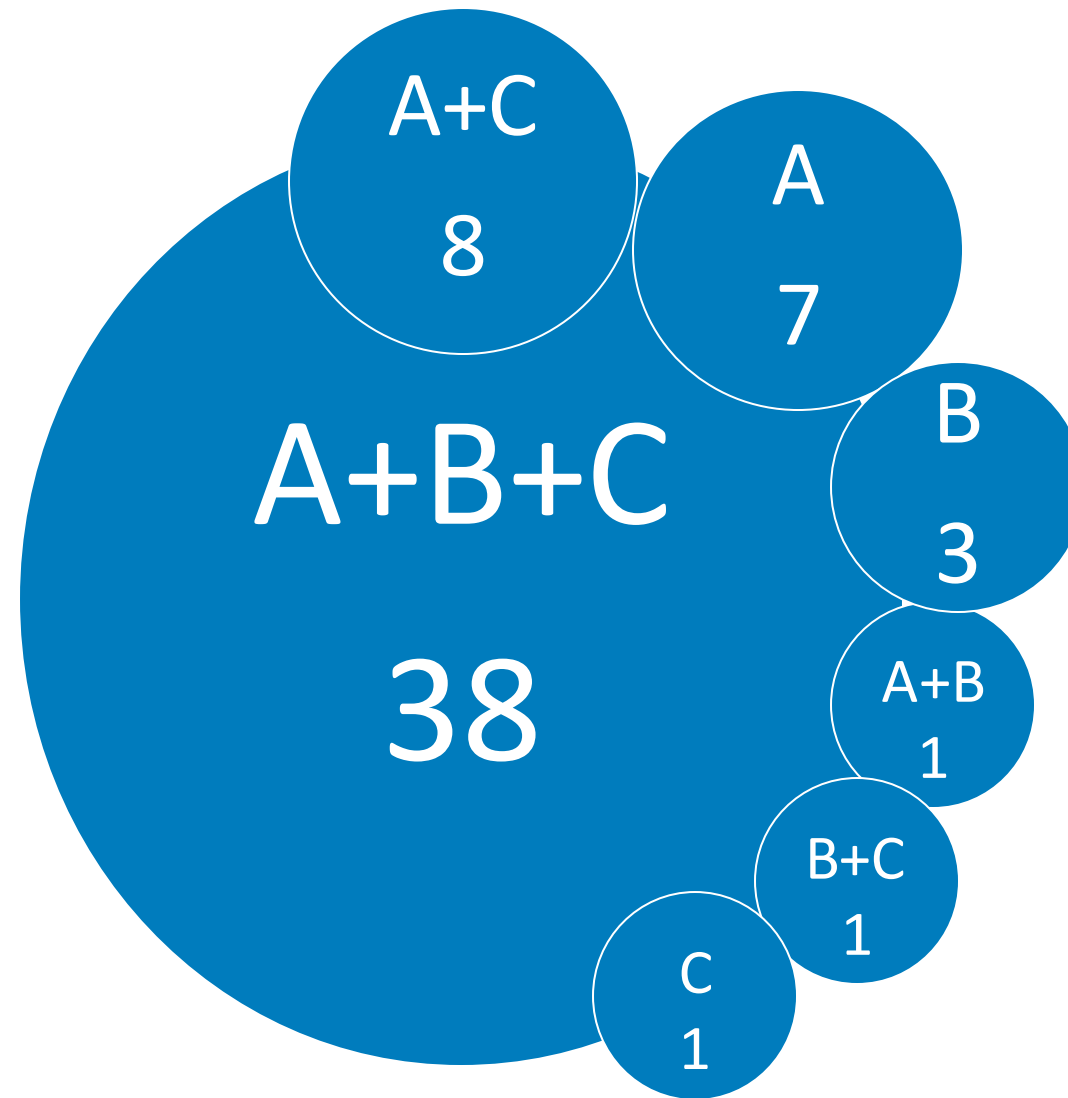
Class	Description	Hold client monies
A	Dealing in investments	Yes
B	Managing investments	Yes
C	Giving investment advice when not prevented from holding client assets by virtue of a condition of registration	Yes
D	Giving investment advice when prevented from holding client assets by virtue of a condition of registration.	No



IB Sector Split



IFAs



Wealth Managers

Investment business sector – 2018 data

- £ 240m estimated revenue (investment advice)
- £114 billion value of assets
- 80,000 estimated customers
- Data from 18 IFAs and 57 Wealth Managers [75]
- 82 registered IB businesses (including class E of which we have 1)



Types of investment businesses

	2018 Number of IBs				
Class of IB	Total number	with banking licence	with FSB licence	with TCB licence	with GIMB licence
A + B + C	59	16	35	6	5
D	22	0	1	1	5
Total	81	16	36	7	10



IB statistics 2018

2018	IFA	Wealth Managers/ Non IFA
Number of businesses (returning data in JFSC 2018 data collection exercise)	18 (24%)	57 (76%)
Number of customers (total 79,282 from risk rating figures)	14,989 (19%)	64,293 (81%)
Value of assets	£1.7 billion	£112.3 billion

Working group

- Chaired by JFSC, Policy
 - Representatives from
 - JFCU
 - Government
 - JFSC Supervision Team
 - Industry, comprising of individuals from:
 - 1 IFA
 - 3 Wealth Managers (including 1 bank)
- All who have senior roles specialising in discretionary investment management, investment advice, compliance, AML and regulatory affairs



Working group activity



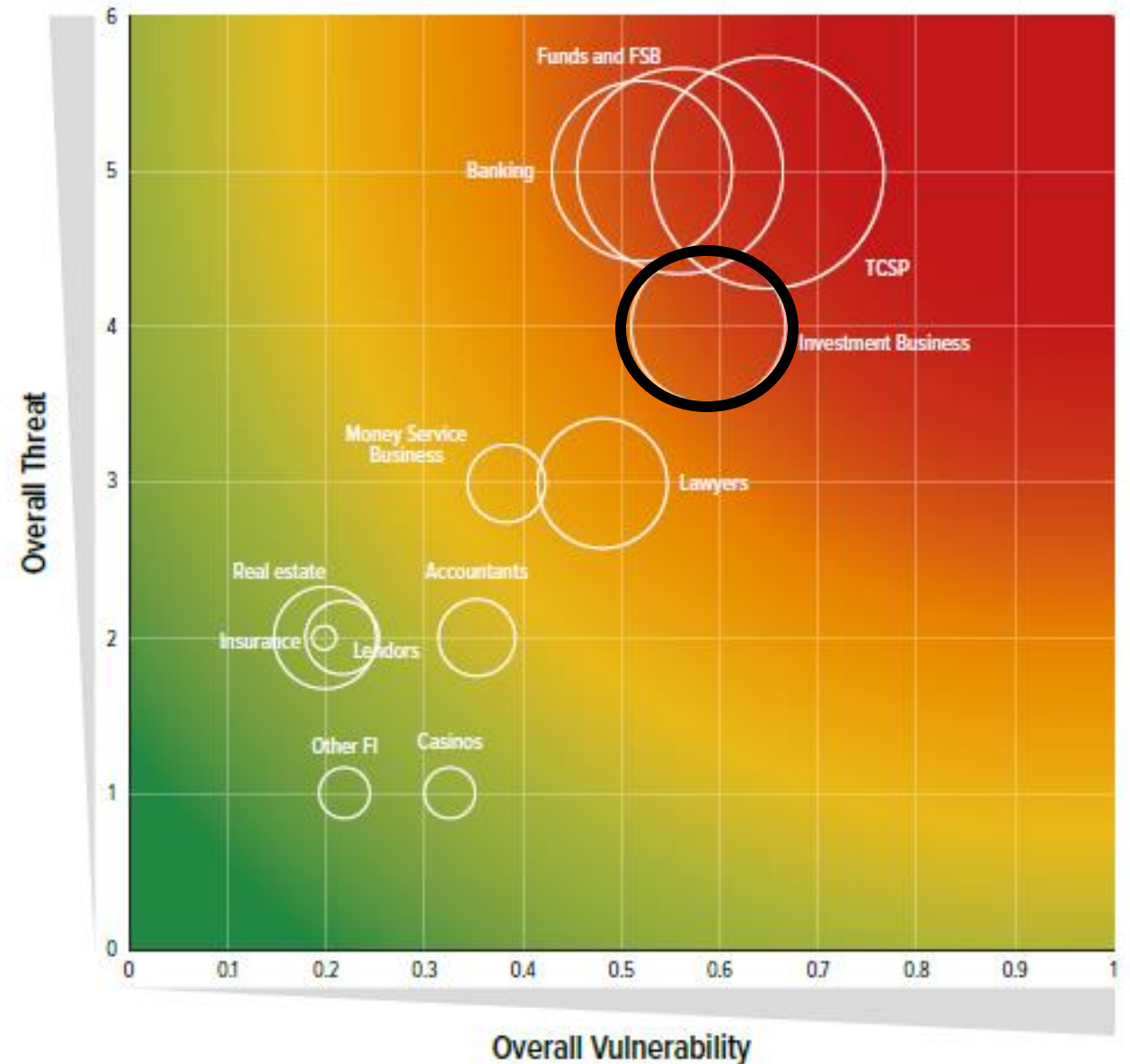
- First World Bank Workshop May 2018
- Lot of work undertaken as the report incorporated
 - Analysis of data collected through the Supervisory Risk Data Collection exercise
 - JFSC published IB statistics
 - Research tasks set for members of team
 - Regulatory consultancy firms survey
 - Industry survey
- 11 meetings: June 2018 to November 2019
- Reviewed & provided feedback on draft reports



Working group

- Second World Bank Workshop (November 2019)
- Investment business rating
- Future Industry/JFSC partnership

Residual Risk 'Heatmap' for Jersey





NRA report

- Working group produced 60+ pages of report - subject to reviews
 - First draft moderated by JFSC Deputy Director General – independent of the NRA work.
 - World Bank review - November 2019 workshop feedback and challenge
 - External financial crime consultant
- Resulted in 13 pages of highly summarised text



Threat

- Most likely – layering stage
- Rated as medium high risk
- Attractive to criminals
 - Mostly highly liquid products
 - Cross-border conduit
 - Bespoke service
- Mix of International and domestic
 - Possibility of proceeds from tax evasion, fraud, corruption





Threat

- Foreign customers
 - Nearly 165 countries represented
 - In excess of 70% of customers are resident outside Jersey
 - Approx. 33% of customers feature on the list of countries in the National Threat section – UK influence
- Significant percentage of customers reported as individuals
- PEPs, not evidenced as a large part of the customer base by number
- Further analysis needed



World Bank Tool – Vulnerability factors

- Size/value of sector slice
- Complexity of product type
- Client Base profile
- Existence of investment/deposit feature
- Liquidity
- Frequency of International transactions
- Anonymous use of services
- Existence of ML typologies
- Use in market manipulation, insider trading or securities fraud
- Tracing records of transactions
- Availability of non-face to face
- Availability of product specific AML controls
- Level of cash activity



Input variable	IFA	Wealth Managers/Non-IFA
Total value/size	Low	High
Complexity & diversity of product type	Low	Medium
Client base profile	Very Low Risk	High
Existence of investment/deposit feature for product type	Available	Available and Prominent
Liquidity of the portfolio of the product type	High	High
Frequency of International transactions	Low	Medium High
Anonymous use of product	Not Available	Available
Existence of ML typologies	Exist	
Use in market manipulation, insider trading or securities fraud	Exist but Limited	
Difficulty of tracing transaction records	Easy to Trace	
Non face to face use of product	Available but Limited	Available
Cash Transactions	Does not Exist	
Availability of product specific AML controls	Exist & Comprehensive	

Inherent vulnerabilities summary

- Most customers are high net worth individuals
- Majority of Wealth Managers customers non-Jersey compared to IFAs
- IBs being susceptible where source of funds and source of wealth is disguised / layered
- Risk of investment business employees committing money laundering or a predicate offence
- Products used for fraudulent purpose
- Conflicts of interest, dominant influence & corporate governance
- Dependence on third party / introducers.
- No Cash



World Bank Tool – control variables

- Comprehensiveness of framework
- Effectiveness of Supervision
- Administrative / criminal sanctions
- Entry controls
- Integrity of staff
- AML knowledge
- Effectiveness of compliance teams
- SAR reporting and monitoring
- *Level of market pressure to meet AML standards*
- UBO information
- ID & V measures / information sources



Control variables

	Score
Comprehensiveness of AML legal framework	Very High
Effectiveness of Supervision procedures and practices	Medium High
Availability and enforcement of administrative sanctions	Medium High
Availability and enforcement of criminal sanctions	Medium Low
Availability and effectiveness of entry controls	High
Integrity of staff in securities firms	High
AML knowledge of staff in securities firms	High
Effectiveness of compliance function (entity)	Medium High
Effectiveness of SAR monitoring & reporting	Medium High
Level of market pressure to meet AML standards	Very High



Control framework

- AML framework
 - 2015 MONEYVAL technical assessment
- Exemptions being reviewed
- Enhancements to IB regime
- IB regulatory framework – suitability test – know clients well
- 90% of IBs subject to enhanced/proactive supervision
- SAR reporting against correct sector registration
- Issues with MLO enforceability impact on criminal sanctions





JFSC expectations of Industry

- Read and consider relevant sections of NRA
- Refresh BRA
- Consider/use data you have provided to JFSC
- Tailored staff training
- Embed a compliance culture
- Continue open engagement with Supervisors



JFSC next steps

- More of the same on engagement
- Examinations –
 - SEU SDD/EDD
 - FCEU – entity visits
- Industry outreach
- Increased analysis and use of data – internal/external
- Other areas of focus
 - Risk model
 - Complex structures
 - Customer risk rating
 - Exemptions





Island next steps

- Section 6 – Recommended actions
- Develop and articulate updated Financial Crime Strategy
- Ongoing risk assessments - dynamic (not a big bang)
 - priority driven
 - reactive to emerging threats
- Examples
 - PEPs
 - Higher risk threat jurisdictions





Questions?



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Thank you



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