

SUSPICIOUS ACTIVITY REPORTS REGIME  
**ANNUAL REPORT 2009**










**SOCA**  
SERIOUS ORGANISED CRIME AGENCY





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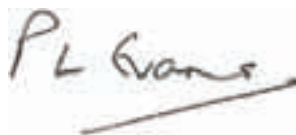
# Statement by the Chair of the Suspicious Activity Reports Regime Committee

I am pleased to publish the Suspicious Activity Reports (SARs) Regime Committee Annual Report 2009. This document is the Committee's assessment, for Home Office and Treasury Ministers, of the operation of the SARs regime over the year from October 2008 to the end of September 2009.

This year, the SARs regime has been operating in the context of a global financial recession. We are using the regime to help track any emerging crime types that may occur. Despite the added pressure on reporters because of the recession, the Committee is extremely pleased with the progress that has been achieved over the year.

This year has also seen Sir Stephen Lander step down from his post as Chair of the Serious Organised Crime Agency (SOCA) in August 2009. As the first Chairman of SOCA from its establishment in April 2006, Sir Stephen's review of the SARs regime in 2006 is recognised by the Committee as being instrumental in reforming and improving the regime. The Lander Review is credited with laying the foundations of a productive working partnership between the UK Financial Intelligence Unit (UKFIU), law enforcement, and the private sector. The SARs Committee is grateful to Sir Stephen for all the support he has given to transforming the SARs regime for the better. Sir Stephen's successor is Sir Ian Andrews.

Consistent over the year has been the Committee's independent oversight of the regime and its collaborative approach to working, its members continuing to represent all regime participants. I would like to take this opportunity to thank Committee members for their commitment and work over the year. However, there are still improvements to be made and to this end the Committee and the UKFIU have developed a longer-term strategy with the objective of increasing the value and impact of the SARs regime. Part 3 of this document sets this out. I have every confidence that this vision will increase the contribution of SARs to reducing the harm of crime and terrorism.



**Paul Evans**  
Executive Director, Intervention  
Serious Organised Crime Agency  
Chair of the SARs Regime Committee

# Summary

This report, the third Annual Report of the Suspicious Activity Reports (SARs) Regime Committee, is divided into the following sections:

- introduction;
- performance of the SARs regime; and
- next steps.

## Introduction

Over the year, the regime has operated in the context of the following developments:

- the SARs regime was the subject of external commentary over the year as part of wider scrutiny of the UK's anti-money laundering regime. This included a House of Lords Select Committee hearing into money laundering and terrorist financing, which heard details of the progress the SARs regime had achieved in recent years;
- the result of a Government review of serious organised crime was published in July 2009 outlining an updated strategy for tackling the issue. The strategy, "Extending Our Reach: A Comprehensive Approach to Tackling Serious Organised Crime", built on current ways of working and embraced wide-ranging tactics;
- in December 2008 the Home Office issued a circular containing guidance on the operation of the consent regime. It set out high-level principles by which decisions to grant or refuse consent under s.335 of the Proceeds of Crime Act 2002 should be taken by law enforcement agencies; and
- there were legislative changes in the form of the Counter-Terrorism Act 2008 which came into force in November 2008 and gave new powers to HM Treasury to issue directions to firms in the financial sector, and a European Union Council Regulation (Council Regulation (EC) 1110/2008) requiring firms to apply vigilance to business with Iranian financial sector firms.

### Performance of the SARs Regime

Work to improve the regime over the year has continued to focus on three main areas:

- improving the quality of reports;
- improving UKFIU performance; and
- increasing the value extracted by end users.

#### Improving the quality of reports

In feedback this year, end users acknowledged that the quality of SARs had improved and confirmed that the information reporters provided was of value for law enforcement purposes.

To help to continue to improve in these areas, the UKFIU focused on delivering the commitments made in last year’s SARs Annual Report to ensure a broadening of outreach, balanced with a more

targeted approach in respect of communication with industry. To this end, large-scale, cross-sector events were held over the year targeting small and medium sized businesses that may be at risk.

The UKFIU also continued to find new ways of widening the dialogue with the reporting sector in order to further improve the quality of reporting. The dedicated ‘Dialogue’ team in the UKFIU integrated the risk-based approach that last year’s report introduced in order to identify and target high risk areas. Additionally, a new outreach strategy for the UKFIU allowed for a more structured approach to private sector communications, delivering a range of tangible and useful outputs such as mass marketed communication products.



### Improving UKFIU performance

The SARs Regime Committee assesses that the UKFIU's performance continued to steadily improve in a number of key areas. Work focused on improving efficiency around the handling and processing of SARs.

Carefully constructed data-matching exercises continued to be important, resulting in more intelligence being generated from SARs and therefore the database being used more efficiently, adding value to the SARs regime.

The year also saw an increase in the UKFIU's work on the international stage and a strengthening in collaborative working with overseas partners. As a result of this work, the UKFIU's reputation as a global leader in best practice was further strengthened.

### Increasing the value extracted by end users

All end users continued to extract value from SARs data and efforts continued over the year to increase the efficiency and impact of this process. In order to continue to drive further improvement, work has taken place to build further understanding of the types of impact that SARs can have.

End users have shared their perspectives on the use of SARs via the mechanism of the Twice Yearly Feedback Questionnaire. Information from completed questionnaires has provided examples of the ways SARs have been used by law enforcement to prevent and detect crime and terrorism. Some of these examples are used in this report to illustrate ways that SARs are being exploited to reduce harm.

### Next Steps

The SARs Committee is of the view that, at this stage in the regime's development, it would benefit from a longer term approach than has previously been the case, in order to drive further large scale improvement. In Part 3 of this document, the Committee sets out a strategy for the regime for the next three years with the overall objective to increase the value and impact of the SARs regime.

This will mean:

- increasing the contribution of SARs to the prevention and detection of money laundering and terrorist financing, and increasing their contribution to asset recovery activity; and
- increasing the contribution of SARs to reducing the harm of crime and terrorism.

This will be achieved by focusing on four main aims:

- 1) appropriate SARs to be submitted by the full range of reporting sectors;
- 2) maximising the use of information provided by reporters to understand, prevent and detect crime and terrorism and recover criminal assets;
- 3) enhancing the technical capabilities and experience of reporters and end users; and
- 4) improving the governance and transparency of the regime.

These will be taken forward in adherence to three strategic principles that guide the Government's strategy on anti-money laundering and counter-terrorist financing – effectiveness, proportionality and engagement.

How the strategy will be delivered in the first year is set out in an action plan<sup>1</sup> which will be taken forward by the UKFIU, overseen by the SARs Committee.

<sup>1</sup> *The action plan can be found at Annex K.*



# PART 1: INTRODUCTION



[The SARs Annual Reports] ... provide a useful overview of the overall working of the regime, with valuable statistics.

House of Lords, European Union Committee, 19th Report of Session 2008–09



# Introduction

This is the third Annual Report of the SARs Regime Committee on the operation of the SARs regime. The SARs regime plays an important role in helping to fight crime and terrorism. The regime functions as a result of the resources and efforts all parties devote to making it work. The SARs Committee's responsibilities are to oversee the performance of the regime's participants and the discharge of their responsibilities. Membership of the Committee consists of representatives of the key regime participants and is set out at Annex A.

This report covers the year from 1 October 2008 to 30 September 2009, and as such deals with the third full year of SOCA's management of the regime. Part 1 explores the context to the SARs regime, Part 2 looks at the performance of the regime over the year and Part 3 sets out the next steps.

The year has seen a number of developments that have had an impact on the SARs regime. These developments are outlined below in order to provide wider context to the environment within which the regime operates.

## House of Lords Inquiry

In July 2009, the House of Lords Select Committee on the European Union<sup>2</sup> published the findings from its inquiry into money laundering and the financing of terrorism. The Committee's remit was to examine international cooperation to counter money laundering and the financing of terrorism. The Government, including the UKFIU, was scrutinised as part of the inquiry and a certain number of the Committee's recommendations were directed at the SARs regime. Some of these recommendations were supportive of the regime while others suggested areas for potential improvement, including the burden on the private sector and providing more feedback to industry.

The UKFIU welcomed the opportunity to contribute to the inquiry. The Government's response to the Committee's recommendations, which includes SOCA's response to the Committee's report, was published on 6 October 2009.<sup>3</sup> Part 3 of this report sets out how the UKFIU is taking forward the relevant proposals in the context of the SARs Committee's wider strategy for the regime.

<sup>2</sup> *Sub-Committee F (Home Affairs).*

<sup>3</sup> *The House of Lords Select Committee's recommendations and the Government's response can be found at [www.parliament.uk](http://www.parliament.uk)*

### Serious Organised Crime Review

An updated Government strategy for tackling serious organised crime, entitled *Extending Our Reach: A Comprehensive Approach to Tackling Serious Organised Crime*, was published in July 2009. The strategy set out the successes achieved by the Government and its agencies in recent years, but recognised that the threat from organised crime had evolved and so too must the response.

The strategy built on current ways of working and sought to cement a collaborative approach, embracing wide-ranging tactics. Its main principles were the following: take action against all organised criminals; use all tools available to have maximum impact on harm; all of Government playing its part; and engage all partners at home and overseas. SARs can be harnessed to assist in all these areas and the strategy helpfully puts the use and benefits of SARs into a wider context.

The partnership between business and Government, in particular the role the regulated sector plays in tackling money laundering and terrorist financing, was highlighted in the report. The report credits SOCA as having been at the forefront of working in partnership with business against organised crime through the management of the SARs regime and through its Alerts system.

SOCA will be working with the Home Office and various other organisations over the coming months to assist in implementing the review's recommendations. Further detail of how SARs can contribute is included in Part 3 of this report.



The SARs regime is a well established and successful vehicle for collaboration on money laundering. The regulated sector plays a key role in tackling crime and terrorism by identifying and reporting their suspicions of money laundering and terrorist financing, which law enforcement and other bodies can then act upon.



**Extending Our Reach: A Comprehensive Approach to Tackling Serious Organised Crime**

## Consent

The issue of consent provisions in the Proceeds of Crime Act 2002 (POCA) has continued to be a topic of discussion among participants in the regime and an issue of concern for some. Work has continued on taking a pragmatic approach to making the system work by all parties – reporters, law enforcement, prosecutors and the UKFIU. As part of its role, the UKFIU remains committed to try to resolve any issues regime participants may have around consent.

After discussions with law enforcement and industry stakeholders, in December 2008 the Home Office issued a Circular containing formal guidance on the operation of the consent regime. It was issued to ensure consistency of practice on the part of law enforcement in considering requests for consent under Part 7 of POCA. This was in response to concerns from the financial services industry and other sectors to ensure that decisions are taken in an effective and proportionate way, with due engagement with all participants.

The Home Office Circular sets out the high-level principles by which law enforcement agencies should make decisions on consent. In broad terms the Circular states that it is important that law enforcement agencies recognise the potential significant impact that each consent decision can have, for example, on honest individuals and businesses exposed to financial loss or litigation, the smooth running of commercial business, whether or not the proceeds of crime are recovered, and whether crime is prevented. The Circular is included at Annex H with an appendix to the document at Annex I.



The consent regime can be very difficult for reporters who have to work to commercial or client deadlines. Nevertheless, my experience of SOCA and the consent process is that they will try to accommodate such time pressures whilst recognising that in some cases seven working days may be required. We have had consent requests turned around in a little over 24 hours. Clearly though, it is always best to ensure you give them a clear and intelligible SAR as soon as practicable.



**Peter Burrell, Partner, Herbert Smith LLP**



### CONTEST Strategy

The Government's counter-terrorism strategy, CONTEST, was refreshed in March 2009 to take account of the changing threat, lessons learned and new challenges the country faces against terrorism. The revised strategy sets out a comprehensive plan for dealing with the threat and includes actions for Government at international, national and local level.

As part of this strategy, the UKFIU Terrorist Finance Team continues to work closely with the National Terrorist Financing Investigation Unit in the Metropolitan Police Service and regional Police Counter Terrorist Units to exploit SARs information in ongoing counter terrorism investigations, intelligence development, building understanding of the funding of radicalisation and disrupting the movement of funds into this country for that purpose.

### Counter Terrorism Act

The Counter-Terrorism Act 2008 came into force on 26 November 2008. Schedule 7 of the Act gave new powers to HM Treasury to issue directions to firms in the financial sector. Such directions can be issued in circumstances where there is a high risk of money laundering, terrorist financing or proliferation financing and can require firms to take action in respect of:

- customer due diligence;
- ongoing monitoring;
- systematic reporting; or
- limiting or ceasing business.

The requirements on UK firms can apply to their business with particular countries or entities within particular countries outside of the European Economic Area. The UKFIU continues to work with HM Treasury and other interested parties across Government to consider any implications for the SARs regime.

## EU Regulation on Counter Proliferation Finance

Council Regulation (EC) 1110/2008 was agreed and came into effect on 12 November 2008. The Regulation was developed in order to implement the vigilance requirements in United Nations Security Council Resolution (UNSCR) 1803 in the European Union. UNSCR 1803 was adopted on 3 March 2008 because of the international community's ongoing concerns about Iran's nuclear development programme.

The Regulation requires UK credit and financial sector firms to apply vigilance to business with Iranian financial sector firms. This includes the reporting of suspicions of proliferation finance.

Following cross-Government discussions, it was agreed that the UKFIU's systems and expertise would be used to facilitate the new reporting requirements. As a result firms are required to submit a counter proliferation finance report to the UKFIU using the SAR format and process if they suspect or have reasonable grounds to suspect that funds are related to proliferation financing. Guidance on the requirements was produced by HM Treasury in November 2008. In addition, a SOCA Alert<sup>4</sup> was produced in the same month to inform the reporting community about what information the UKFIU requires from firms submitting counter proliferation financing reports.

To date the number of reports has been low (22 reports to end September 2009) since the requirement was introduced. In line with priorities set out in last year's Annual Report, in the event of an increase in volume it will be important to manage this while safeguarding recent improvements made across the SARs regime.<sup>5</sup>

<sup>4</sup> SOCA Alert A8G822, *Guidelines for Counter Proliferation Financing Reporting*.

<sup>5</sup> *As Counter Proliferation Finance reports are distinct from SARs in regards to the extent and nature of the obligation and its legal basis, they are not dealt with in more detail in this Report.*

## PART 2: PERFORMANCE

# Performance of the SARs Regime

As outlined in last year's SARs Annual Report, work to improve the regime over the year has continued to focus on three main areas:

- improving the quality of reports;
- improving UKFIU performance; and
- increasing the value extracted by end users.

Last year's report made the commitment that greater effectiveness in these areas would be achieved through:

- using information more effectively;
- integrating recent improvements and securing benefits in new contexts; and
- preparing the way for SARs transformation.

These priorities were applied to all areas of the SARs regime and its overall performance is reviewed using the above criteria.

The data in Figure i shows that the number of SARs received by the UKFIU has increased compared to the previous reporting period. The UKFIU is neutral as to whether increases or decreases are positive or negative as reporting levels should reflect levels of suspicion within the reporting sector. A breakdown of SARs by sector can be found in Annex B. Figure ii shows the breakdown of reports made by the various methods available.

Staffing levels in the UKFIU have increased gradually over the last three years, in line with the Lander recommendations. There are 112 permanent employees in the UKFIU.

Key statistics	Oct 2007 to end Sept 2008	Oct 2008 to end Sept 2009
Total SARs received	210,524	228,834
Consent SARs	13,223	13,618
SARs disseminated to National Terrorist Finance Intelligence Unit	956	703
Percentage submitted electronically	94%	96%
Percentage submitted manually	6%	4%
Breaches of confidentiality	2	1

Figure i



## Methods of reporting

	SAR Online*	Moneyweb**	CSV File/ encrypted bulk data file***	Word/ encrypted email***	Paper	Total
Oct 2008	3,407	847	13,253	192	1,057	18,756
Nov 2008	3,546	825	10,554	165	900	15,990
Dec 2008	8,635	763	12,965	19	922	23,304
Jan 2009	6,499	926	12,713	19	644	20,801
Feb 2009	3,628	570	10,742	9	651	15,600
March 2009	4,889	121	14,853	19	813	20,695
April 2009	4,497	0	12,508	18	781	17,804
May 2009	4,426	0	13,697	15	631	18,769
June 2009	4,628	0	13,043	20	743	18,434
July 2009	4,801	0	13,557	15	698	19,071
August 2009	3,980	0	12,874	14	627	17,495
September 2009	4,319	0	17,135	14	647	22,115
<b>Total Oct 08 to September 09</b>	<b>57,255</b>	<b>4,052</b>	<b>157,894</b>	<b>519</b>	<b>9,114</b>	<b>228,834</b>
<b>Number of reporters</b>	<b>3,308</b>	<b>54</b>	<b>19</b>	<b>4</b>	<b>2,085</b>	<b>5,161<sup>6</sup></b>

Figure ii

\* SAR Online is a secure web-based reporting mechanism that can be used by anyone with access to the internet.

\*\* Moneyweb is a secure website available over the internet to vetted reporters and end users. However, from 9 March 2009, financial institutions could no longer disclose SARs to the UKFIU via Moneyweb. Those reporters that had historically used this method of submission were encouraged to submit using SAR Online.

\*\*\* The UKFIU can also provide 'Public Key Infrastructure' encryption certificates which allow vetted reporters to submit encrypted files directly onto the Elmer database. These files can be submitted in either a pre-defined 'Comma Separated Values' (CSV) format which allows a single or bulk delivery format and/or a word template format via email.

<sup>6</sup> The figure for the total number of reporters is smaller than the sum of the number of reporters under each method, because some reporters use more than one method.



Our experience of the SAR submission process has been very positive. The online reporting system has proved to be a considerable improvement over the previous mechanisms and has ensured the timely and effective delivery of information to SOCA. In terms of the Consent Desk, we have found the team to be highly supportive and responsive, particularly when dealing with time critical requests.



**Tony Stewart-Jones, Chief Compliance Officer and MLRO,  
PricewaterhouseCoopers LLP**

### Improving the quality of reports

Over the year, work has taken place to encourage reports to contain information that is useful and relevant, which are in compliance with legal obligations, and are submitted in a format that allows for more efficient processing.

The principle mechanism by which the UKFIU influences the quality of reporting is via a dedicated “Dialogue Team” which works exclusively with SARs regime participants. The Dialogue Team’s main aim is to improve communication and understanding between SARs regime participants.

In the previous year, reviews were conducted of the UKFIU in terms of dialogue and communications with regime participants. The key conclusions from these reviews were that the UKFIU should focus on targeting the most vulnerable areas of the reporting sector and to develop a more structured approach to the planning and delivery of messages by developing an outreach strategy. Over the year, the SARs Regime Committee ensured that these recommendations had been implemented, in line with the principle of integrating improvements and securing benefits.



### Improved communications

An outreach strategy<sup>7</sup> was devised and implemented to provide high level direction on how the UKFIU communication aims and objectives would be delivered. It details the approach to delivery of UKFIU communications products and provides procedures to ensure a coordinated approach to communication outreach.

The UKFIU's outreach strategy ensures:

- that messages are delivered in a strategic, structured manner;
- that outreach and communication is appropriately focused and channelled;
- that communication is coordinated and effective, adding value to the SARs regime and leading to greater detection and prevention of money laundering in the UK;

- continuous improvement in the quality and quantity of SARs usage/reporting;
- that the UKFIU prioritises its resources accordingly;
- that the UKFIU manages channels of communication more effectively; and
- improved visibility of the broad spectrum of UKFIU work.

In response to this, the UKFIU Dialogue Team has designed and produced a series of communication products. New material is added to the portfolio regularly. These products are used for reference and research, as well as for visits and presentations, seminars, workshops and conferences. While the initial focus was primarily on generic products, the UKFIU is now producing more bespoke products tailored for particular industry reporting sectors.



...private sector representatives across the board noted a welcome improvement in outreach and feedback from the UKFIU since it was transferred to SOCA in April 2006.

**Transparency International (UK), from "Combating money laundering and recovering looted gains: Raising the UK's game", p.24.**



<sup>7</sup> In line with our commitment to openness and transparency, we have published the outreach strategy. A copy of this is available on request from the UKFIU.

### Targeted conferences

In line with the risk-based approach and following on from the Bradford conference reported last year, the UKFIU has continued with a programme of conferences aimed at raising awareness of the SARs regime among small to medium sized businesses that might be vulnerable to abuse by those attempting to launder the proceeds of crime or finance terrorism.

Each conference hosted approximately 175 delegates primarily representing Money Service Businesses (MSBs), accountants, Independent Financial Advisors (IFAs) and solicitors' firms and included presentations on law and practice, smaller sessions providing sector-specific guidance from regulators, and case studies from the law enforcement community highlighting the value of SARs in reducing the harm caused by crime. During the year, conferences were held in Manchester, Birmingham and Belfast.

Delegate feedback from the conferences was overwhelmingly positive with 84% of respondents awarding the conferences a rating of 4/5 or 5/5 for increasing their understanding of the SARs regime. 52% of respondents said that as a result of the knowledge gained at the conferences they would be likely to submit more SARs in the future.

Examples of some of the delegate quotes from the UKFIU conferences this year:

- "A first class and informative seminar. Being a novice on the subject I found that the presentation was pitched perfectly for my needs. In addition the quality of the speakers was excellent."
- "Event was very well organised. Good range of speakers covering relevant subjects. Interesting range of varied topics covered."
- "First class event – pitched at right level. Good presenters and organisation. Volume of questions during plenary highlights how useful the day was for those attending."

### Reviewing relationships with Regulators

The support of the regulators remains vital to the UKFIU's outreach to the reporting sector. Work has been taken forward to develop joint working initiatives between the UKFIU and the regulators to provide a platform for further work. This has sought to identify areas where the UKFIU can assist regulators in fulfilling their statutory functions under regulation 24 of the Money Laundering Regulations 2007. Much of this work has been conducted under the auspices of the Regulators' Forum, chaired by the UKFIU.

In line with Lander Review recommendation 22, a review of the effectiveness of arrangements with regulators was conducted during the year.<sup>8</sup> In June 2009 the SARs Committee considered proposals on how relationships with the regulators could be further enhanced to progress work in identifying and remedying gaps in reporting and to take forward issues identified by the individual regulators.

<sup>8</sup> Sir Stephen Lander's Review of the SARs regime was published in March 2006 and contained 24 recommendations. Recommendation 22 of the Lander Review states: "the proposed SOCA service to be the subject of formal agreement with each regulator and that the efficacy of these arrangements was to be reviewed after two years".

As a result, the SARS Committee agreed that the Regulators' Forum should be replaced with regular bilateral meetings to identify and drive forward areas of joint working. This approach is in line with the UKFIU strategy of bilaterally targeting bodies with scope and influence over reporting entities.

In addition the UKFIU will continue to identify important generic issues, UKFIU products, services and communications common to all regulators. In consultation with HM Treasury it was agreed the UKFIU should attend the HM Treasury Supervisors' Forum<sup>9</sup> and use this forum to deliver generic messages.

Work is continuing to encourage regulators to enter into formal agreement with the UKFIU to further joint working in support of SOCA strategic imperatives and the regulators' statutory functions in effective supervision. Over the year, a Joint Working Agreement (JWA) has been secured with the Council for Licensed Conveyancers and agreements are being negotiated with the Chartered Institute of Management Accountants, Department of Trade Enterprise and Investment (Northern Ireland), Institute of Chartered Accountants in England and Wales, Institute of Financial Accountants, and the Office of Fair Trading. The full list of JWAs with regulators is listed in Annex F.

### More use of the Vetted Group

The Vetted Group comprises representatives of the reporting sectors and law enforcement. Its aim is to discuss sensitive casework and reporting issues. Last year's SARS Annual Report stated that more use would be made of Vetted Group members and other trusted partners to quality assure information products.

In October 2008, the UKFIU commissioned KPMG, through the Vetted Group, to carry out a survey to research effective means of communication with small and medium sized businesses (SMBs). Effective communication with these "hard to reach" businesses is essential in order to highlight the risks posed by money laundering and organised crime. The resultant research<sup>10</sup> has highlighted a number of issues which have been incorporated into the UKFIU's outreach strategy and is assisting in raising awareness of the Anti-Money Laundering (AML) Regime.



<sup>9</sup> The Supervisors' Forum is convened by HM Treasury and is a forum in which regulators discuss anti-money laundering and counter-terrorist financing issues.

<sup>10</sup> Details of the survey's findings can be found on SOCA's website: [www.soca.gov.uk](http://www.soca.gov.uk)

Through the course of the year the Vetted Group has been engaged in a number of SARs-related projects. This has included members carrying out a thematic review looking at the best practice of the accountancy sector in relation to the submission of consent SARs and identifying the quality of reporting in relation to Politically Exposed Persons (PEPs) and corruption.

#### **Feedback Initiative: New Reporters Project**

To assist in improving the quality of reports, the UKFIU has introduced a quality assurance process for all new reporters. Upon registering with SAR Online, all new reporters will receive an email thanking them for registering and providing them with pertinent information on how the UKFIU operates the SARs regime, how to submit good quality SARs, the use of the glossary codes, and direct contact details. In future the initial SARs submitted by a reporter will be scrutinised by the UKFIU and relevant feedback provided directly to the reporter regarding the quality of the SAR. In this way, the UKFIU intends to engender a positive relationship at the outset with all new participants in the SARs regime and bring about improvement in the quality of reporting.

### **Improving UKFIU Performance**

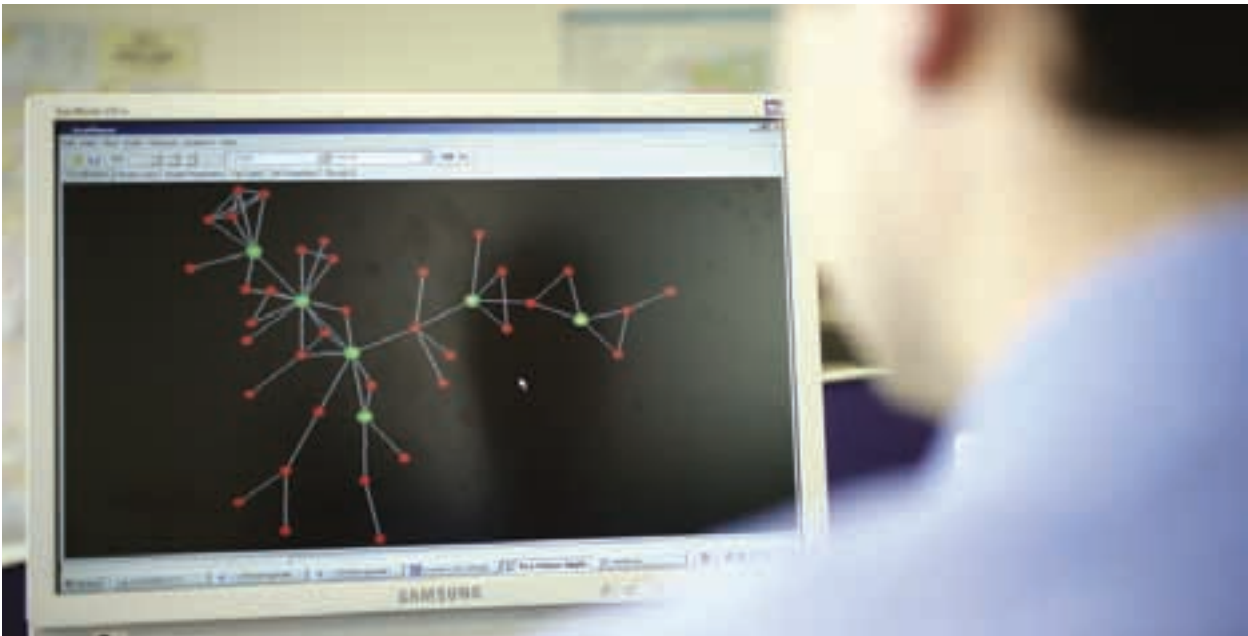
Work over the year has focused on enhancing the performance of the UKFIU in a number of areas. Particularly significant improvements were secured in the essential areas of intelligence and international performance.

#### **Intelligence**

Throughout the year work has continued to drive up the use of SAR-derived intelligence. This has involved identifying and disseminating SARs information in relation to a number of issues including drugs, persons wanted and fraud. Intelligence analysis of SARs material has supported the production of a number of intelligence products, including SOCA Alerts, which were shared with partners. A list of some of these products can be found in Annex G. Work by the UKFIU Intelligence team has also led directly to enforcement activity, including recovering criminal assets and restraint action.

Over the year, the UKFIU has focused on innovative ways of using information to drive improvement. Matching information contained in SARs against a variety of other databases has continued to be important in adding value to the SARs regime. While data-matching exercises have continued on behalf of a number of SOCA's internal teams, work this year has focused on assisting external partners as well. Examples of these exercises include:

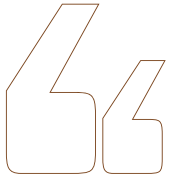
- Particular value has been added to SARs where external data has been run at regular intervals against the Elmer database. For example data matching was undertaken on a frequent basis against an external database to assist in identifying impersonation of deceased persons fraud and has resulted in a number of positive matches; these were subsequently disseminated to several police forces, enhancing the value of SARs for these end users.



■ Similarly a matching exercise on data on organised crime groups from the Association of Chief Police Officers in Scotland (ACPOS) successfully identified over nine hundred relevant reports and demonstrated the potential value of SARs for an ACPOS Organised Crime Mapping Project.

■ Working in conjunction with the Asset Recovery Working Group, the UKFIU matched the names of individuals with outstanding confiscations held on the Joint Asset Recovery Database (JARDB) against Elmer. This led to the identification of over 500 SARs which were received after the date of the confiscation order and therefore of potential value. These were passed to the appropriate UK Law Enforcement agencies for review and a number of positive responses were received. It is expected that continuing such joint working will identify new opportunities for asset recovery.

■ Nominal data extracted from Elmer was matched against the Impact Nominal Index, a national police intelligence system. This exercise revealed that around 10% of the SARs matched were of relevance to more than one police force. Such findings will assist the UKFIU with future improvements to its dissemination processes.



SOCA's work on improving the SARs regime should make a particular contribution to improving the way SARs are used when dealing with PEPs, in turn resulting in feedback through the existing reporting mechanisms to improve the reporting by institutions. TI-UK welcomes the fact that SOCA has established a unit to supervise PEP-related SARs.



Transparency International (UK), From "Combating money laundering and recovering looted gains: Raising the UK's game", p. 24.

### International and Politically Exposed Persons (PEPs)

Sharing knowledge between international partners remains important given the global nature of money laundering and terrorist financing. Consistent with this is the recognition in the Government's updated strategy for tackling serious organised crime that nearly all organised crime causing harm to the UK originates from abroad. This means that overseas law enforcement agencies will often hold financial intelligence, either in the form of SARs or their equivalent, or in other forms, that UK investigators need to access. In addition, UK-held financial intelligence needs to be made available for overseas investigations. The UKFIU's role in managing these flows to provide mutual benefit (which includes ensuring that the information being shared is risk assessed if appropriate) has continued to be an important aspect of its operations. In undertaking this role the UKFIU takes all necessary steps to safeguard the confidentiality of the source of any intelligence shared with overseas partners.

As part of this activity the UKFIU plays an active role in Egmont, the international coordinating body for FIUs. It has continued to handle requests from other Egmont members well within the Egmont standard timeframe of 30 days. In addition the UKFIU has taken steps to allow cooperation with non-Egmont countries.

#### International work: key statistics

Egmont requests received from overseas FIUs: 994  
Percentage responded to: 100%  
Egmont requests made by UKFIU: 601  
Percentage awaiting response: 34%  
Requests for financial intelligence support from international SOCA teams: 200  
UKFIU-identified financial intelligence development opportunities: 119





This cooperation means that information from SARs has been combined with other information to assist in international law enforcement activity. It is not possible to comprehensively assess the value or impact of this activity as subsequent action is taken by other law enforcement agencies, often outside of the UK. However, in the experience of the UKFIU and wider-SOCA, operational activity tasked following such data exchange has led to a wide variety of outcomes including in relation to money laundering, fraud, embezzlement and market abuse investigations across a number of countries with links to the UK.

The UKFIU has continued to work on money laundering by corrupt PEPs. This has included undertaking intelligence analysis on behalf of partners. A total of 268 PEPs intelligence packages on specific subjects were produced and disseminated to partners this year. 6342 SARs were reviewed to produce these. The UKFIU is currently responding to feedback from partners on these packages and refining its approach where possible to provide a more targeted service in the future.

### Information Technology

As outlined in last year's Annual Report, "SARs transformation" has progressed within a wider programme of information management work within SOCA. The project remains on track for delivery in 2010, and will enable improved value to be derived from the SARs regime by delivering improved capability for end users to search, retrieve, analyse and provide feedback against SARs information.

SOCA remains committed to delivering improvements to transform the SARs regime and using SARs-derived intelligence in the wider fight against organised crime. Part of this will be a contribution to the High Volume Operating Model (H-VOM). The H-VOM is SOCA's approach to the systematic management on a risk basis of all individuals and groups identified as involved in organised crime affecting the UK, through



During the reporting period the MPS conducted 4341 SARs searches against the Elmer database... These 4341 requests resulted in positive hits and subsequent disseminations of 1884 SARs, a 43% success rate of SARs positively contributing to, or assisting, MPS reactive and proactive investigations.

**Metropolitan Police Service,  
Twice Yearly Feedback Questionnaire**



effective information management and planned interventions. By using analytical tools currently under development, SOCA and its partners will be able to identify new vulnerabilities and opportunities to prevent or disrupt organised crime and deploy new interventions – frequently non-criminal justice – against large numbers of organised criminals.

SARs will be an important part of the H-VOM and of the analytical capabilities that will sit under its umbrella. The UKFIU has provided various data subsets to support the development process and is also providing technical expertise.

### Increasing the value extracted by End Users

The SARs Annual Report 2008 recognised that the use of SARs by law enforcement had improved and that all end users were now extracting value from the SARs database. Nevertheless, it set out a commitment to take forward work to build further understanding of the types of impact that SARs can have with a view to driving further improvement.

The UKFIU, on behalf of the SARs Regime Committee, carried out a study during the year to this end. This concluded that SARs are a valuable tool for police and other end users to use in investigations. SARs are not single strand, primary intelligence, but rather are more often developed in conjunction with existing intelligence and tools. SARs can help end users to save time and money



spent on a range of crime prevention and detection techniques where they contain relevant information.

The study identified a framework to consider the value and the benefits that SARs present. It also set out some examples of best practice which were extracted from end users. The framework and best practice will be communicated by being built into UKFIU outreach to end users and reporters. The framework can be found in Annex J.

#### Breaches of confidentiality

During the reporting period there were five reported breaches to the confidentiality breach hotline. One has been confirmed as a breach by HMRC and one is still under investigation. The remaining three have been confirmed as no breach and the cases have been closed. The investigation into a potential breach that was mentioned as ongoing in last year's Report was confirmed as not a breach. Therefore the total number of breaches for the year is one.

#### Twice Yearly Feedback Questionnaire (TYFQ)

The TYFQ is used to share perspectives on the use of SARs with regime participants, to share and encourage best practice amongst reporters and end users and to provide a feedback mechanism for the UKFIU on the operation of the regime. A full list of end users is contained in Annex E.

The questions in the TYFQ that are directed at end users were reviewed at the beginning of the year and amendments were made to ensure that the questions being asked remain relevant.

The data extracted shows that SARs have assisted and initiated a wide range of investigations which have led to outcomes including:

- arrests;
- the laying of charges;
- convictions; and
- the obtaining of restraint and confiscation orders under POCA 2002.

Data from the TYFQs submitted by end users suggests that:

- the value of restraint orders where SARs featured<sup>11</sup> in the investigation was at least £254 million;
- the value of confiscation orders obtained where SARs featured in the investigation was at least £61 million; and
- the value of cash forfeitures obtained where SARs featured was at least £7.2 million.<sup>12</sup>

It should be noted that figures extracted from the TYFQs do not constitute official performance data. The information is derived from the responses to the questionnaires which end users submit on a voluntary basis. This data is included in the Report as an indicator of SARs' contribution to asset recovery.

<sup>11</sup> TYFQs ask end users for details of results where SARs have 'featured' in the relevant six month period. No value judgement is suggested by the term 'featured', it merely means that that a SAR figured in or was connected to an activity. Details provided by law enforcement in respect of these questions may result from investigations started prior to the reporting period in question.

<sup>12</sup> Includes consent requests.

## Case Studies

Examples of SARs successes are illustrated by case studies that have been extracted from the TYFQ covering the period October 2008 to end September 2009.

### **SAR leads directly to Class A Drugs and Money Laundering Convictions**

A law enforcement operation was instigated by Northumbria Police as a direct result of a SAR received regarding money transfers to the Far East from an account which was supported by cash credits. The execution of a number of search warrants recovered Class A drugs together with several thousand pounds in cash from numerous locations. Four individuals were arrested, all of whom were subsequently convicted of being involved in the supply of Class A drugs. Three of the individuals were also convicted of money laundering and Confiscation Orders totalling over £50,000 were made.

### **419 Fraud**

A SAR was submitted in relation to a subject suspected of involvement in an advance fee fraud. The subject had received large credits from overseas and requested the remittance of a large amount to an offshore company in relation to an investment opportunity. This single SAR instigated a money laundering investigation, carried out by West Mercia Police, which later identified two further SARs of interest. As a result of intelligence built up from this information the subject was arrested and Restraint Orders were obtained in respect of UK and offshore bank accounts. A six figure sum has been repatriated to date, part of which has been repaid to two of the victims.

### **Theft from Employer**

A SAR from the banking sector detailed an account that was in receipt of third party cash deposits. The funds were then being quickly debited. The origins of the cash, and the relationship of the third parties to the customer, were unknown. Upon investigation by West Mercia Police, it was discovered that these out-of-character deposits related to the theft of funds by the subject from an employer. The information provided within the SAR was pivotal in identifying the true sums stolen and provided supporting evidence of the offence. The subject was convicted and a Compensation Order secured.

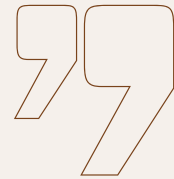
### **Asset Stripping**

SARs regarding a number of family members assisted in securing a confiscation order within this reporting period where the benefit of their criminal conduct was assessed at over £1.5 million. A confiscation order was made for around £900,000, the largest confiscation order in the history of Gloucestershire Police. The subject was deprived of the proceeds of their crimes and a large number of luxury goods were confiscated.





The use of suspicious activity reports is developing and useful material is found in many more SARs than previously. SOCA has been working hard with partners to accelerate this progress and that will continue.



**ACPO's submission of written evidence to the House of Lords' European Union Select Committee's inquiry into money laundering and terrorist financing**

### SARs from 1999 lead to Civil Action 10 Years Later

SARs from 1999 outlined suspicions surrounding a solicitor who received \$2.4 million from overseas into his firm's bank account on behalf of a client. The client was purportedly involved in the financing of a development scheme in the UK, but was actually a wanted individual using an alias.

The Asset Recovery Agency (ARA) took on the case in 2004 as the client had disappeared, but the money had been invested in a large plot of development land in the UK and was theoretically recoverable. The SARs helped to identify the client's link to a suspected heroin trafficker in the source country of the funds, and this evidence contributed to the argument that they were the proceeds of crime. In March 2009 the High Court ruled that the funds were the proceeds of drug trafficking, and granted SOCA a Civil Recovery order over the proceeds of sale of the land. The final value of the order is yet to be determined.

This case study illustrates that SARs may become relevant many years after the date they were originally submitted.

### Money Laundering Convictions

As a result of a SAR, a subject was identified as an advanced fee fraudster. The person was charged and subsequently found guilty of conspiracy to defraud and was given a substantial prison sentence. While examining the individual's accounts, investigators from the Metropolitan Police Service discovered that numerous payments were made to two firms of solicitors. Partners at both firms were subsequently found guilty of money laundering and were also given prison sentence.

Information from completed TYFQs also gives an indication of ways that SARs are being mainstreamed and exploited to reduce harm. One such example was described as follows:

"We are promoting crime prevention messages to the media and parish magazines particularly when disclosures from SARs indicate patterns of crime. An example being in August 2008 when disclosures from various MSBs indicated that elderly victims were sending money to Costa Rica and Canada as victims of fraud scams. The victims received personal visits by law enforcement and the Financial Intelligence Officer prepared a Fraud Awareness article for the local media, parish magazines and a copy was posted on the Help the Aged website." (Humberside Police)

This example illustrates that the benefits of the regime can be measured in broader terms than convictions for money laundering or assets recovered. Increasingly, contributions to the wider public good are being achieved by the SARs provided by the regulated sector.

Information from the TYFQ is used for a number of feedback purposes, including providing "Feedback Reviews" annually for the largest reporters of SARs. In 2008, these reporters, who between them submitted 65% of all SARs, received individual Feedback Reviews which contained feedback on the SARs the institution submitted over the year, including some case by case feedback. Reporters have said they find this form of feedback useful and the UKFIU is looking to expand this feedback mechanism to include other reporters.

## Consent

### Background and oversight

The consent provisions of POCA enable reporters to avoid liability in relation to the substantive money laundering offences by seeking consent (effectively from SOCA) to act in relation to suspected criminal property. This presents law enforcement with opportunities to intervene before transactions take place.

Last year's SARs Annual Report set out important background to the operation of the consent regime.<sup>13</sup> This included information on:

- the manner in which the principles of the Government's anti-money laundering and counter-terrorist financing principles are applied, including the basis on which consent can be refused;
- the pragmatic collaboration that takes place between all regime participants to ensure a workable framework for consent; and
- the challenges in defining meaningful performance measurements for consent, including the numerous factors that contribute to the time taken by partner agencies to deal with consent cases, and how this prohibits considering reduced turnaround time as an indicator of improved performance.

This information remains essential context for understanding the regime and the information set out below should be considered in light of it.

During the year the SARs Regime Committee were kept up to date with developments in the consent regime and were provided with a six-monthly assessment of the regime in March 2009.

While it remains difficult to define and measure clear outputs that indicate the performance of the consent regime, there are four areas of interest to regime participants that are possible to capture. Three of these were included in last year's report – the outcomes arising from consent refusals, granted consents, and turnaround times. This year it is also possible to capture details in a new area – the outcome of reviews of investigation. While none of these can be strictly a performance measure on its own, they do give some indication of the nature of the regime and its effects. Data showing the values recorded in the reporting year is set out in figures iii and iv.<sup>14</sup>

<sup>13</sup> SARs Annual Report 2008, page 23-26.

<sup>14</sup> The data listed is based on information supplied by end users to the UKFIU, and as such is likely to represent a minimum, as 100% reporting was not achieved. This data was sought and supplied in the period immediately following the receipt of the consent SAR. Further results may have been achieved following this that are not included here. Estimates of the value of assets restrained may change over time, and some sums within the sterling total are foreign currency.

*Interventions arising from refused consent requests:  
Oct 08 – end Sept 09*

Restraint sums	£18,642,981
Cash seizure sums	£676,178
Other interventions	£2,510,569
of which	
Tax credit sums returned to HMRC	£2,207,856
Freezing orders	£302,713
<b>Total</b>	<b>£21,829,728</b>
Cases with arrests recorded	30 (42 arrests)
Refusal rate for the period	13%

figure iii

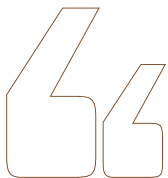
*Interventions arising from granted consent requests:  
Oct 08 – end Sept 09*

Restraint sum	£354,353
Cash seizure sum	£4,151,771
<b>Total</b>	<b>£4,506,124</b>
Cases with arrests recorded	28 (36 arrests)

figure iv

#### Turnaround times

On average 36% of all consent requests (both those dealt with only by SOCA and those referred to other law enforcement agencies) were turned around on the day of receipt or the day afterwards (day 0, or day 1). 59% were turned around on days 0, 1 or 2. 100% of all consent requests were turned round within the seven day notice period provided by the legislation.



During a very busy time recently we have found that we are relying much more heavily on the support and swift action of the Consent team in the UKFIU. When our team requires guidance on a specific Consent matter, we have no hesitation in calling the Consent desk. While we appreciate the decision to report or not is ultimately ours, the advice and experience given to us by the Consent team is much appreciated. The working relationship between us as a bank and SOCA has grown and developed significantly over the past few years. We feel we are treated with respect and courtesy, and in return we give the same.



**Carolyn Middleton, Consent Team, Barclays Bank Plc**

	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Total
Total refused (and percentage of overall consent requests)	131 (10%)	148 (13.8)	60 (5.7%)	56 (5.5%)	109 (11%)	138 (11%)	119 (10.6%)	140 (12.6%)	294 (21.8%)	294 (22%)	137 (14.6%)	182 (16.1%)	<b>1808</b> <b>(13.3%)</b>
Subsequently granted in moratorium period (and percentage of overall (refusals)	9 (6.8%)	9 (6.1%)	6 (10%)	2 (3.5%)	6 (5%)	16 (12%)	6 (5%)	16 (11%)	11 (3.7%)	17 (5.8%)	12 (8.8%)	10 (5.5%)	<b>120</b> <b>(6.6%)</b>

figure v

### Review of investigation

If a consent request has been refused by the UKFIU this is kept under review during the moratorium period. Such a review is conducted in collaboration with the interested law enforcement agencies and it takes place once a week during the moratorium period. In some cases, for example, where a refusal of consent has the potential to have a particularly serious impact on any party or where circumstances are changing rapidly, consideration is given to conducting reviews more frequently. Depending on the outcomes of these reviews, the decision can be reversed.

The table in figure v illustrates the number of occasions when SOCA has initially refused consent, but then subsequently granted it in the moratorium period. A consent SAR is never withheld merely because it was withheld during the previous review. The decision to maintain refusal must be justified and proportionate.

### Conclusion: the regime

Regime participants have shown a high standard of performance over the year. The regime is functioning with increasing efficiency, with more reporters submitting reports electronically than ever before and only one breach of confidentiality by end users occurring. Improvements have also been made in terms of the quality of reports and the value extracted by end users. Additionally, the year has seen further active cooperation and exchanges of information by the UKFIU with partners overseas.

While there is still work to be done, the regime is now operating effectively and the governance structures in place can assist in responding to participants' concerns. Plans for future enhancements are set out in Part 3.



## PART 3: NEXT STEPS

# Next Steps

The net effect of work since the Lander Review in 2006 is a significantly improved SARs regime as recognised by stakeholders across the regime. The UKFIU and the SARs Regime Committee has considered how best to make further progress in the context of this improvement.

The first two SARs Annual Reports outlined a set of priority next steps for the year ahead. Such a year-on-year approach was necessary in that early period because of the extensive work that was needed to bring the system up to a standard acceptable to regime participants. Such a programme of work necessitated a closely structured approach with regular reviews of progress and assessment of future direction in order to ensure that the original objectives remained appropriate and were being met.

At this stage in the regime's progress, in light of what has been achieved, the Committee is of the view that the time is right for a longer term approach. This is set out in this part of the Report.

The approach builds on previous strategies rather than putting forward a radical change of direction. This is because the fundamental objectives of the regime remain largely as they were, as does the legislation, the component players and the levers that exist to influence these. The approach also places the regime in a wider context, such as the Government's wider anti-money laundering and counter-terrorist financing strategy (in particular the three strategic principles of the strategy which guide activity – effectiveness, proportionality and engagement<sup>15</sup>), and the updated strategy on tackling organised crime that was produced this year.

## Money Laundering Regulations 2007

The Government's strategic principles of effectiveness, proportionality and engagement are also guiding HM Treasury's review of the Money Laundering Regulations 2007, which is taking place from autumn 2009 into 2010. Implementation of the new three-year approach to the SARs regime will need to accommodate to any changes arising from the review.

Recent commentary on the SARs regime by the House of Lords European Union Committee is also be taken account of in the strategy. The recommendations that were most relevant to the SARs regime included:

- to intensify the dialogue with the private sector including increased levels of case by case feedback;
- to conduct a cost/benefit analysis of the SARs regime;
- consideration should be given to amending the Proceeds of Crime Act 2002 to include a de minimis exclusion; and
- the Information Commissioner should review and report on the operation and use of the ELMER database.

### The main objective

SOCA's Annual Plan for 2009/10 sets out an objective of the reformed SARs regime of allowing greater value to be extracted from SARs data by law enforcement end users. The Committee's *main objective* for the regime for the next three years builds on this. It is *to increase the value and impact of the SARs regime*.

This means:

- increasing the contribution of SARs to the prevention and detection of money laundering and terrorist financing, and increasing their contribution to asset recovery activity; and
- increasing the contribution of SARs to reducing the harm of crime and terrorism.

### How will this be achieved?

This will be achieved by focusing on four aims:

- 1) Appropriate SARs to be submitted by the full range of reporting sectors.
- 2) Maximising the use of information provided by reporters to understand, prevent and detect crime and terrorism and recover criminal assets.
- 3) Enhancing the technical capabilities and experience of reporters and end users.
- 4) Improving the governance and transparency of the regime.

Under these strategic aims lie a number of tactical goals with deliverables for the first year. These are outlined in the Action Plan in Annex K. The strategy will be refined after the first year with a new Action Plan set for year two.



## Aim 1) Appropriate SARs to be submitted by the full range of reporting sectors

### What is this?

At present the UKFIU has confidence that many areas of the reporting sector are fulfilling their obligations appropriately. The aim is to build on this and to ensure that reporting across the full range of regulated firms and non-regulated firms is appropriate and, in line with the Government's wider AML/CTF strategy, proportionate.

To take forward work in this area it will be important that, as a first step, the UKFIU better understands current reporting levels and patterns. From this baseline it will be necessary to refine ongoing communication efforts to focus on those sectors that are most at risk of abuse by criminals and terrorists and on areas where there may be concern that firms are not adequately protecting themselves. It will also be important to maintain focus on all reporting sectors at an appropriate level, including on areas of less high or emerging risk. Refining dialogue with reporters in this way will help address the recommendations of the House of Lords inquiry around private sector engagement and increased feedback. The UKFIU recognises that it has a crucial role to play in feeding back information to reporters in order to assist them in submitting appropriate SARs.

The House of Lords also gave consideration to the whether the "all-crimes" approach was proportionate. The Government remains of the view that the "all-crimes" approach should be maintained, including reporting based on suspicion where the type of predicate crime is unknown. However, to help further ensure proportionality the UKFIU will also undertake outreach to reduce reporting that is unnecessary, namely those reports not required by the legislation.

### Money Service Businesses

The Government's strategy on money laundering and terrorist financing set out the vulnerabilities associated with a number of areas including the Money Service Business sector. The UKFIU will continue to focus on this area both in terms of outreach (in order to assist it to receive appropriate SARs reporting across the full range of regulated firms), and by working with partners across law enforcement, regulators and Government support other work to reduce these risks where possible.

### What will be the outcomes?

As well as bringing benefits to reporters of ensuring that they are adequately protecting themselves, achieving this aim will create a fuller picture of the suspicious activities of suspected criminals and terrorists, across a larger proportion of their financial lives. The information will in turn be able to be better used for law enforcement purposes. Maintaining appropriate focus also on lower risk areas will mean that efforts to increase the impact of the regime do not merely result in the displacement of criminal activity.

The main outcomes of this aim will be:

- a fuller picture of the suspicious activities of suspected criminals and terrorists, across a larger proportion of their financial lives;
- improved ongoing ability to identify weaknesses in reporting and target support to the reporting sector appropriately; and
- a reduction in unnecessary reporting which in turn will reduce the burden on businesses and provide assurance that SARs are being received from the areas that are most at risk.

### Aim 2) Maximising the use of information provided by reporters to understand, prevent and detect crime and terrorism and recover criminal assets

#### What is this?

Last year's Annual Report set out that SARs were now an aspect of all law enforcement agencies' work. Work has taken place to build on this and will continue. A series of measures have been devised which will increase the effectiveness of the SARs regime in combating money laundering and terrorist financing, in accordance with the Government's strategy.

Focus will be maintained on encouraging the mainstreaming of SARs within law enforcement agencies. Work will be prioritised that allows SARs to be used in combination with other data sets, which will in turn produce further benefits for partners. The development of the High Volume Operating Model (H-VOM), of which SARs will be an important part, will be key. SOCA is currently developing the H-VOM concept, together with the necessary technical support, and expects to have an evolving programme of outputs by 2010. In addition, it will continue to be important to seek out further opportunities to use SARs in combination with other forms of information, including intelligence obtained from international partners and non-SARs derived financial intelligence, and to understand which of these datasets are most useful for this purpose.

## Cash

The Government's strategy on money laundering and terrorist financing also sets out the abuse of cash as a high priority area. Dealing in cash allows criminals and terrorists to operate with minimal contact with the regulated sector and so avoid detection. Therefore financial intelligence that relates to the intra-criminal use of cash exists largely outside of the SARs regime. The UKFIU has a role in building such intelligence on the abuse of cash, which complements and enhances its intelligence derived from SARs.

This aim will also include strengthening the value derived from SARs by the UKFIU and end users in using them to develop intelligence assessments, and sharing such assessments with international partners where possible.

### What will be the outcomes?

Mainstreaming within existing user organisations will mean SARs intelligence is applied to a wider range of crimes, including serious organised crime, on a more consistent basis. Increasing the levels of end users will mean that the benefits of SARs are realised by a yet larger constituency, further multiplying the benefits.

The main outcomes of this aim will be:

- increased knowledge of the potential value of SARs by a broader user community. Outreach and feedback will then lead to a further increase in the value that is extracted;
- added value from SARs data as a result of increased cross matching with other sources of information;

- increased value extracted as a result of exposure to knowledge and expertise of users in areas of activity beyond financial intelligence and the use of SARs for new purposes; and
- stronger more collaborative relationships with international partners, including overseas FIUs.

## Aim 3) Enhancing the technical capabilities and experience of reporters and end users

### What is this?

The success of the SARs regime is contingent on the underpinning technology. Reporters, end users and the UKFIU rely on this to meet their responsibilities in the most efficient way possible. The commitments to deliver SARs transformation, as made in previous Annual Reports, remain, with increased functionality for end users remaining on target to be rolled out in 2010.

The number of SARs submitted to SOCA continues to increase year-on-year. To ensure the technology supporting the submission process continues to meet the needs of the regime, work will take place to assess the ability of the system to meet the future needs of SARs regime.

### What will be the outcomes?

The enhanced tools that SARs transformation aims to provide will enable improved knowledge and efficiency, leading to better outcomes in respect of the impact on crime and terrorism, including reduced harm. This is in line with the emphasis on 'effectiveness' in the Government's financial crime strategy. As a result of this enhanced capability, the following benefits to end users will be enabled:

- better ability to manage and prioritise high volumes of SARs data;
- more extensive intelligence and analysis capability through automated entity identification, linking and visualisation of SARs data;
- ability to produce better intelligence products based upon improved understanding of SARs data; and
- improved capability to provide feedback to SOCA on SARs reporting.

The improved capability to provide feedback will help the UKFIU meet the House of Lords' recommendation to intensify the dialogue with the private sector and increase levels of feedback. In addition, functionality which is resilient to the growth in the number of SARs and enables continued access by end users will provide a stable platform on which to build the value of the regime.



### The Government's strategy on serious organised crime: Putting SARs at the centre

The UKFIU will be able to support the delivery of the recommendations of 'Extending our Reach: A Comprehensive Approach to Tackling Serious Organised Crime' in a number of ways including:

- a UKFIU presence augmenting regional capability for tackling serious organised crime;
- ensuring newly created Regional Asset Recovery Teams (RARTs) exploit SARs;
- ongoing searches of Elmer for systematic bulk data comparisons of criminals engaged in organised crime, passports numbers that relate to stolen, lost or forged documents and other relevant searches;
- identifying opportunities from SARs to add value to tax investigations against serious organised crime;
- identifying suspected front companies, and briefing local law enforcement and working with professional regulatory bodies accordingly;
- engaging with regulators to enable them to tackle criminal businesses and report suspicious activity; and
- supporting a more ambitious approach to sharing intelligence with the financial sector to inform its reporting.

### Aim 4) Improving the governance and transparency of the regime

#### What is this?

The current governance arrangements for the SARs regime were established following the Lander Review. The key components are:

- SOCA holds overall responsibility for the functioning of the SARs regime;
- oversight of the performance of the regime's participants and the discharge of their responsibility is undertaken by the SARs Committee; and
- a published Annual Report to Ministers is produced on the operation of the regime.

These key components remain broadly appropriate with only minor adjustment needed to reflect the refreshed strategic approach set out above.

SOCA will remain responsible for operating the regime. This will include delivery of the agreed aims and objectives set out in this part. Overseeing the discharge of these responsibilities and the contribution made to this by other regime participants will remain the responsibility of the Committee. To enable this, the Committee's work plan will be refocused on the new strategy set out above.

As such the Committee's role will continue to be to assess the performance of the regime, and by extension consider whether the regime is effective, proportionate and taken forward with appropriate engagement.



Feedback also continues to be important for the purposes of transparency. The UKFIU will continuously improve the levels and quality of feedback including on specific cases where appropriate.

The House of Lords also recommended that “the Information Commissioner should review and report on the operation and use of the ELMER database, and should consider in particular whether the rules for the retention of data are compatible with the jurisprudence of the European Court of Human Rights.” This will be taken forward.

#### What will be the outcomes?

Aligning governance arrangements with the new longer term strategy will ensure a focus on the objectives for the regime and help guarantee delivery. Increasing transparency through improved feedback will allow the added value that the regime is producing to be demonstrated to the full range of SARS regime participants, thus promoting the creation of further value.

The main outcomes of this will be:

- clearer accountability for delivery of the strategy;
- improved ability to monitor progress within the lifetime of the strategy and to take corrective action where necessary; and
- enhanced feedback will assist reporters to submit better quality reports that will produce useful and actionable intelligence for law enforcement.



### **Intensifying dialogue and increasing levels of feedback**

The UKFIU is committed to continuously improving the levels and quality of feedback it provides to the reporting sector. Enhancing feedback sits across all four aims of the new strategy. Over the next three years, the UKFIU will aim to:

- refine and intensify its dialogue with reporters through new initiatives such as the New Reporters project and expanding the feedback mechanism to the largest reporters of SARs;
- provide feedback in selected cases to the originator of a SAR where it is clear that the SAR has contributed to the success of an AML or CFT operation;
- maximise its use of SARs and convey this knowledge to the reporting sector through outreach; and
- use the improved technology from SARs transformation to receive more feedback from end users which in turn can be used to assist reporters.

### **Conclusion**

The UKFIU will take forward the above over the next three years, overseen by the Committee. The UKFIU will report on the interim results of the strategy in successive annual reports in line with the timetable in the Action Plan set out at Annex K. An assessment of the first year's progress and an action plan for the following year will be published in November 2010.

# CONCLUSION

# Conclusion

The assessment of the Committee is that the SARs regime has continued to improve and that it is functioning better than ever before. The Committee believes that regime participants should be proud of their role in making the system work over the year and that the regime can be seen as an example of best practice globally. As in previous years this is largely thanks to collaboration across the regime by its various participants.

It is important to recognise that there remain matters of concern, such as some reporting sectors' issues around consent and the costs of compliance. However, there is now a good mechanism in place, in the form of the SARs Committee and its governance arrangements, to be able to deal with any concerns regime participants may have that have not been addressed through bilateral engagement or other mechanisms. In addition, efforts to tackle these and to build further on progress made will be enhanced by the longer term approach contained in Part 3. This approach will bring increased transparency and drive to the regime by providing more clarity as to what the aims of the regime are and how they will be achieved. The Committee looks to all regime participants to continue to work together as this strategy is taken forward.

# ANNEXES

# Annex A: Membership of SARs Regime Committee

SOCA Director of Intervention (Chair)

Association of Chief Police Officers

British Bankers Association

Financial Services Authority

HM Revenue and Customs

HM Treasury

Home Office

Institute of Chartered Accountants in England and Wales

The Law Society of England and Wales

Metropolitan Police Service

SOCA Deputy Director (Proceeds of Crime)

SOCA Deputy Director (Prevention and Alerts)

SOCA Head of the UKFIU (Proceeds of Crime)

SOCA Legal

SOCA Non-Executive Director

## Annex B: Total SARs, by industry sector\*

Reporting sector	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	July 09	Aug 09	Sep 09	Total	Total 07-08
Accountant	587	570	623	426	641	694	548	431	479	538	429	424	6,390	7,354
Asset Management	22	14	10	32	18	35	17	16	35	21	17	21	258	321
Auction House	1	1	1	3	0	1	1	3	0	0	0	0	11	9
Banking	13,477	11,617	18,602	16,554	11,438	15,524	13,219	13,301	14,120	15,074	14,009	15,095	172,030	145,905
Barrister	0	0	1	2	2	0	0	0	0	1	0	0	6	13
Bookmaker	16	19	12	7	12	12	11	5	20	22	6	3,123	3,265	9,546
Building Society	1,000	691	704	626	468	955	605	2,077	640	572	411	535	9,284	11,372
Bureaux de Change	401	327	294	265	232	383	314	327	412	356	336	336	3,983	3,553
Capital Markets	2	0	0	1	6	3	4	1	1	4	4	1	27	19
Charity	12	2	1	23	12	5	20	2	12	1	0	28	118	51
Cheque Casher	682	739	537	606	544	626	724	831	563	377	470	475	7,174	6,736
Clearing House	3	0	3	0	4	3	3	1	1	3	4	1	26	3
Company Formation Agent	3	5	2	4	3	19	15	6	3	11	1	1	73	48
Consumer Credit	0	0	1	0	2	4	0	3	0	3	10	17	40	8
Credit Card	0	0	0	0	0	2	3	2	3	10	1	1	22	33
Credit Union	12	20	15	20	10	17	22	7	12	10	3	21	169	153
Education	0	2	0	1	0	0	0	0	0	0	0	0	3	5
Electronic Payment	13	12	6	12	11	19	18	16	22	18	19	24	190	169
Estate Agent	16	19	16	11	9	9	9	12	14	12	6	2	135	176
Finance Company	98	145	103	217	162	249	227	164	294	391	236	272	2,558	1,815
Friendly Society	0	0	0	0	0	0	0	0	0	0	0	0	0	3
FSA others	142	137	212	186	273	264	184	150	193	114	95	101	2,051	1,266
Gaming	34	40	30	45	34	55	40	46	54	33	22	50	483	403
Government	99	111	128	163	105	137	130	112	109	115	115	125	1,449	682
High Value Dealer	1	1	2	0	1	2	1	1	1	4	4	2	20	51
Independent Financial Advisor	7	1	3	4	4	4	0	1	0	0	1	2	27	104
Insurance	118	100	121	77	109	162	125	160	104	117	128	108	1,429	1,434
Investment Exchange	1	0	0	0	0	0	0	0	0	0	0	0	1	3
IT	1	0	0	0	0	0	0	0	0	1	0	0	2	6
Legal (other)	5	6	9	6	3	7	6	10	7	16	9	7	91	108
Leisure	7	13	10	0	0	1	0	0	9	1	6	4	51	124
Licensed Conveyancer	15	8	9	12	15	13	20	9	11	12	19	17	160	131
Local Authority	5	7	6	3	2	4	3	5	11	8	7	6	67	88
Manufacturer	0	0	0	0	0	2	1	0	0	1	0	1	5	10
Money Transmission	943	351	1,028	862	837	719	799	422	555	639	539	683	8,377	7,299
Mortgage Provider	251	317	241	88	47	51	185	28	34	36	55	38	1,371	2,164
Motor Organisation	2	5	1	9	3	11	5	4	5	3	1	24	73	30
Markets and Exchanges	0	1	1	1	1	3	3	1	3	2	2	2	20	15
Other	95	97	138	79	80	125	63	104	163	103	111	151	1,309	1,080
Pension Provider	2	1	2	4	0	1	0	1	0	1	2	1	15	18
Private Individual	2	1	2	6	0	1	3	0	2	3	1	3	24	15
Regulator	18	28	11	8	10	19	24	23	34	17	14	8	214	304
Retail Intermediary	20	19	13	13	24	40	20	25	15	11	20	14	234	244
Security	6	13	2	3	3	1	0	0	0	0	0	0	28	65
Solicitor	536	482	359	348	388	432	376	401	435	353	316	346	4,772	6,460
Special Financial Services	11	10	2	7	10	3	8	1	3	8	6	3	72	65
Spread Betting	18	15	8	28	20	27	6	17	13	5	14	8	179	280
Stockbroker	29	27	21	20	28	22	14	24	26	23	18	17	269	294
Tax Adviser	12	5	8	5	9	6	9	9	6	4	15	8	96	123
Unknown / anonymous	31	11	6	14	20	23	19	10	10	17	13	9	183	366
<b>Total:</b>	<b>18,756</b>	<b>15,990</b>	<b>23,304</b>	<b>20,801</b>	<b>15,600</b>	<b>20,695</b>	<b>17,804</b>	<b>18,769</b>	<b>18,434</b>	<b>19,071</b>	<b>17,495</b>	<b>22,115</b>	<b>228,834</b>	<b>210,524</b>

\* SARs are attributed to the industry or profession that the reporter identifies itself as belonging to.

# Annex C: Consent SARs, by industry sector\*

Sector	Total	As a percentage of all consents	Number of consent SARs as % of all SARs submitted by sector
Accountant	276	2.0%	4.3%
Asset Management	59	0.4%	22.9%
Auction House	8	0.1%	72.7%
Banking	7,099	52.1%	4.1%
Barrister	4	0.0%	66.7%
Bookmaker	37	0.3%	1.1%
Building Society	571	4.2%	6.2%
Bureaux de Change	81	1.0%	2.0%
Capital Markets	4	0.0%	14.8%
Charity	5	0.0%	4.2%
Clearing House	7	0.0%	26.9%
Company Formation Agent	13	0.1%	17.8%
Consumer Credit	1	0.0%	2.5%
Credit Card	8	0.1%	36.4%
Credit Union	9	0.1%	5.3%
Electronic Payment	73	0.5%	38.4%
Estate Agent	37	0.3%	27.4%
Finance Company	317	2.3%	12.4%
FSA others	403	2.9%	19.6%
Gaming	114	0.8%	23.6%
Government	23	0.2%	1.6%
High Value Dealer	5	0.0%	25.0%
Independent Financial Advisor	4	0.0%	14.8%
Insurance	427	3.1%	29.9%
Legal (other)	54	0.4%	59.3%
Licensed Conveyancer	134	1.0%	83.8%
Local Authority	22	0.1%	32.8%
Manufacturer	3	0.0%	60.0%
Money Transmission	153	1.1%	1.8%
Mortgage Provider	38	0.3%	2.8%
Motor Organisation	1	0.0%	1.4%
Markets and Exchanges	4	0.0%	20.0%
Other	189	1.4%	14.4%
Pension Provider	5	0.0%	33.3%
Private Individual	3	0.0%	12.5%
Regulator	62	0.4%	29.0%
Retail Intermediary	24	0.2%	10.3%
Security	6	0.0%	21.4%
Solicitor	3,040	22.3%	63.7%
Specialist Financial Services	8	0.1%	11.1%
Spread Betting	137	1.0%	76.5%
Stockbroker	118	0.9%	43.9%
Tax Adviser	9	0.1%	9.4%
Unknown/anonymous	23	0.2%	12.6%
<b>Total</b>	<b>13,618</b>	<b>100.00%</b>	<b>6.0%</b>

\* SARs are attributed to the industry or profession that the reporter identifies itself as belonging to.



## Annex D: Terrorist finance SARs, by industry sector\*

Source Type	Number disseminated to NTFIU/CTUs from Oct 2008 to end Sept 2009	As a percentage of all terrorist finance SARs
Bank	596	84.56%
Building Society	14	1.99%
Solicitor	11	1.58%
Accountant	9	1.29%
Anonymous	9	1.29%
Finance Company	8	1.14%
Other	8	1.14%
Insurance	7	1.00%
Government	6	0.89%
Bureau de Change	4	0.59%
Money Transfer	4	0.59%
Regulator	4	0.59%
Spread Betting	4	0.59%
FSA others	3	0.46%
Mortgage Provider	3	0.46%
Bookmaker	2	0.29%
Credit Card	2	0.29%
Capital Markets	1	0.14%
Charity	1	0.14%
Cheque Cashier	1	0.14%
Estate Agent	1	0.14%
Legal other	1	0.14%
Licensed Conveyancer	1	0.14%
Retail Intermediary	1	0.14%
Specialist Financial Services	1	0.14%
Stockbroker	1	0.14%
<b>Total</b>	<b>703</b>	<b>100.00%</b>

\* SARs are attributed to the industry or profession that the reporter identifies itself as belonging to.

# Annex E: End Users of SARs<sup>16</sup>

UK Police Forces	UK Police Forces
Avon and Somerset Constabulary	Northern Ireland Environment Agency
Bedfordshire Police	Northern Ireland Police Service
British Transport Police	Northumbria Police
Cambridgeshire Constabulary	Nottinghamshire Constabulary
Central Scotland Police	South Wales Police
Cheshire Constabulary	South Yorkshire Police
City Of London Police	Staffordshire Police
Cleveland Police	Strathclyde Police
Cumbria Constabulary	Suffolk Constabulary
Derbyshire Constabulary	Surrey Police
Devon & Cornwall Constabulary	Sussex Police
Dorset Police	Tayside Police
Dumfries & Galloway Constabulary	Thames Valley Police
Durham Constabulary	Warwickshire Constabulary
Dyfed Powys Police	West Mercia Constabulary
East Midlands Special Operations Unit (EMSOU)	West Midlands Police
Essex Police	West Yorkshire Police
Fife Constabulary	Wiltshire Constabulary
Gloucestershire Constabulary	
Grampian Police	<b>Regional Asset Recovery Teams</b>
Greater Manchester Police	London
Gwent Constabulary	Midlands
Hampshire Constabulary	North East
Hertfordshire Constabulary	North West
Humberside Police	Wales
Kent County Constabulary	
Lancashire Constabulary	<b>Other</b>
Leicestershire Constabulary	ACPO Vehicle Crime Intelligence Service
Lincolnshire Police	Business Innovation and Skills (BIS) formerly BERR
Lothian and Borders Police	Child Exploitation and Online Protection (CEOP)
Merseyside Police	Civil Recovery Unit, Scotland
Metropolitan Police Service	Department for Environment, Fishing and Rural Affairs (DEFRA)
MOD Police	Department For Work and Pensions (DWP)
Norfolk Constabulary	HM Revenue and Customs
North Wales Police	National Policing Improvement Agency
North Yorkshire Police	National Ports Analysis Centre
Northamptonshire Police	Serious Fraud Office
Northern Constabulary	Scottish Crime and Drug Enforcement Agency
North Yorkshire Police	SOCA
Northamptonshire Police	Social Security Agency (Northern Ireland) NISSA
Northern Constabulary	UK Border Agency

<sup>16</sup> These are the end users which have direct access to the SARs database. There are also a small number of Financial Investigators from other agencies who have access via a local police force.

# Annex F: Regulators and Joint Working Agreements

This Annex sets out the agreements that are in place with the various regulators and compares this with the position one year ago.

## Key

Joint Working Agreement on SARs (JWA) Strategic Partnership Agreement with SOCA (PA)

Regulator	Agreement as at end-September 2008	Agreement as at end-September 2009
Association of Accounting Technicians	No agreement in place	<b>No agreement in place</b>
Association of Chartered Certified Accountants	No agreement in place	<b>No agreement in place</b>
Association of International Accountants	No agreement in place	<b>JWA in place</b>
Association of Taxation Technicians	No agreement in place	<b>No agreement in place</b>
Chartered Institute of Management Accountants	JWA being negotiated	<b>JWA being negotiated</b>
Chartered Institute of Public Finance and Accountancy	No agreement in place	<b>No agreement in place</b>
Chartered Institute of Taxation	No agreement in place	<b>No agreement in place</b>
Council for Licensed Conveyancers	JWA being negotiated	<b>JWA in place</b>
Department of Trade Enterprise and Investment (Northern Ireland)	No agreement in place	<b>JWA being negotiated</b>
Faculty of Advocates	No agreement in place	<b>No agreement in place</b>
Faculty Office of the Archbishop of Canterbury	No agreement in place	<b>No agreement in place</b>
Financial Services Authority	PA in place	<b>PA in place</b>
Gambling Commission	PA in place	<b>PA in place</b>
General Council of the Bar	No agreement in place	<b>No agreement in place</b>
General Council of the Bar of Northern Ireland	No agreement in place	<b>No agreement in place</b>
HM Revenue and Customs	PA in place	<b>PA in place</b>
Insolvency Practitioners Association	No agreement in place	<b>No agreement in place</b>
Institute of Certified Bookkeepers	JWA in place	<b>JWA in place</b>
Institute of Chartered Accountants in England and Wales	No agreement in place	<b>JWA being negotiated</b>
Institute of Chartered Accountants in Ireland	No agreement in place	<b>No agreement in place</b>
Institute of Chartered Accountants of Scotland	JWA in place	<b>JWA in place</b>
Institute of Financial Accountants	No agreement in place	<b>JWA being negotiated</b>
Law Society of Northern Ireland	JWA in place	<b>JWA in place</b>
Law Society of Scotland	JWA in place	<b>JWA in place</b>
Office of Fair Trading	JWA being negotiated	<b>JWA being negotiated</b>
Solicitors' Regulatory Authority (formerly Law Society)	JWA in place	<b>JWA in place</b>

# Annex G: Examples of Intelligence Products that SARs have contributed to<sup>17</sup>

Product	Date
SARs reporting on underage gambling.	August 2009
Money laundering: the criminal and legitimate uses of high value denomination euro notes.	March 2009
Suspected criminal use of pre-paid cards reported in SARs in 2008.	February 2009
Service based money laundering through music tours and night club events.	February 2009
Analysis of suspicious activity reporting from UK-registered online betting exchanges.	January 2009
Iranian money launderers supporting criminality in the UK.	January 2009
Money laundering: the use of securities.	November 2008
Analysis of SARs from a registered betting and gaming company.	November 2008
Use of fixed odds betting terminals within bookmakers to launder criminal finances and profits.	October 2008
Suspicious activity reporting trends on UK safety deposit box providers following police raids in 2008.	October 2008
Abuse of merchant service agreements for money laundering.	October 2008
Money laundering methods associated with Money Service Businesses.	October 2008

<sup>17</sup> These are reports developed directly from SARs-derived intelligence and are not published. There were also a number of other SOCA reports released over the year where SARs analysis and intelligence made a contribution.

# Annex H: Home Office circular 029/2008

## Proceeds of Crime Act 2002: Obligations to Report Money Laundering – the Consent Regime

1. THIS CIRCULAR contains guidance on the operation of the “consent” regime in the Proceeds of Crime Act 2002 (POCA). It has been drawn up in consultation with the Serious Organised Crime Agency (SOCA), Association of Chief Police Officers (ACPO), Association of Chief Police Officers (Scotland), the Crown Prosecution Service, HM Revenue and Customs, Revenue and Customs Prosecutions Office and others. It is being issued to ensure consistency of practice on the part of law enforcement in considering requests for consent under Part 7 of POCA. This is in response to concerns from the financial services industry and other sectors and professions that decisions are taken in an effective and proportionate way, with due engagement with all participants.

### Background

2. The Proceeds of Crime Act 2002 (POCA) created a single set of money laundering offences applicable throughout the UK to the proceeds of all crimes; these are known as the principal money laundering offences. There are separate offences of failure to disclose money laundering. These are set out in more detail in Home Office Circular 53/2005. A disclosure of money laundering or that another person is engaged in money laundering is commonly known as a Suspicious Activity Report (SAR). SARs can also be made under the Terrorism Act 2000. SARs submitted by firms in the regulated sector (defined by the legislation) reporting that another person is engaged in money laundering must be made to SOCA.

3. Under POCA individual persons and businesses in the regulated sector are required not only to report before the event suspicious transactions or activity that they become aware of, but to desist from completing these transactions until a specific consent is received. This is the ‘consent regime’ in section 335 of POCA. A person does not commit one of the principal money laundering offences in sections 327-329 of POCA if he makes a disclosure before the ‘prohibited act’ takes place and obtains the appropriate consent. (Under certain conditions, as set out in section 338(3), a defence

can be obtained by reporting after the event). Such disclosures, or “consent SARs”, can be made to any constable or officer of Revenue and Customs. However, current practice is for them to be made to SOCA. Where they are made to a constable or officer of Revenue and Customs they must be forwarded to SOCA as soon as practicable.

4. The “consent” provisions in sections 327-329 and section 335 of POCA have two purposes: they offer law enforcement agencies an opportunity to gather intelligence or intervene in advance of potentially suspicious activity taking place; and they allow individuals and institutions who make reports seeking to consent to proceed with a “prohibited act” the opportunity to avoid liability in relation to the principal money laundering offences in the Act.

### Consent – the decision making process

5. Decisions on requests for consent to proceed with a transaction or activity (“a prohibited act”) are taken by SOCA in consultation with the relevant law enforcement agency. There is a great need to ensure that the practices of all law enforcement agencies are consistent in this area. A policy has been formulated, in agreement with key partner agencies, which sets out the high-level principles by which the law enforcement agencies should make decisions on consent, and how these principles should be applied. In broad terms it is important that law enforcement agencies recognise the potential significant impact that each report and decision can have, for example on whether or not:

- the proceeds of crime are recovered;
- crime is prevented;
- honest individuals and businesses are exposed to financial loss or litigation; and
- the smooth running of commercial business is disrupted

6. The detailed policy is attached at Annex I to this Circular. It is very important that a consistent approach to dealing with requests for consent is adopted by all law enforcement agencies in order that the regime achieves its intended objectives. Against this background, chief officers of police and other relevant stakeholders should adopt and apply this policy in their organisations.

# Annex I: Appendix to Home Office circular on consent

This document sets out the high-level principles by which decisions to grant or refuse consent under s.335 of the Proceeds of Crime Act 2002 should be taken.

## Background

1. One of the defences to the money laundering offences in sections 327-329 of the Proceeds of Crime Act 2002 (POCA) is the making of an authorised disclosure and the obtaining of appropriate consent.
2. Further detail is available on the SOCA website, including on:
  - what constitutes an authorised disclosure for these purposes;
  - what constitutes appropriate consent;
  - the time limits within which SOCA must respond; and
  - the moratorium period before which the reporters cannot act in the event of a refusal of consent.

## The role of SOCA and other law enforcement agencies

3. In practice SOCA operates as the national centre for all authorised disclosures and also for the issue of decisions concerning the granting or refusal of consent. However, the majority of consent requests are of interest to other law enforcement agencies (LEAs) beyond SOCA.<sup>18</sup> In such cases, the decision-making process will consist of a collaborative effort between SOCA and the other LEA, with the latter providing a recommendation to SOCA. While the final decision will be taken by SOCA, in most cases it is likely to be based largely on the recommendation provided by the interested LEA.

## Consent – the balancing exercise

4. Policy on the operation of the consent regime, including on the basis for making decisions on whether to grant or refuse consent, has been developed in line with the Government's anti-money laundering and counter-terrorist financing strategy. This determines three organising principles which must guide anti-money laundering activity:

- **effectiveness** – making maximum impact on the criminal threat;
- **proportionality** – ensuring that the approach is balanced as far as possible in respect of the costs and benefits; and
- **engagement** – collaborative working amongst regime participants to ensure success.

5. The manner in which these three principles should be applied to the consent regime is set out below.

**Effectiveness:** Decision making in relation to whether to grant or refuse, including the formation of recommendations by LEAs, should be informed by the need to ensure the regime delivers law enforcement objectives in accordance with the Proceeds of Crime Act 2002. These objectives are to:

- enable suspected money laundering and other underlying criminal activity to be detected;
- prevent money laundering, and lead to the possible prosecution of offenders and recovery of the proceeds of crime which would otherwise be used to fund further crime or a criminal lifestyle or both; and
- prevent the movement of suspected criminal property for a limited period to allow such measures to be taken.

<sup>18</sup> 13 54.5% of requests for consent were referred to LEAs in the year October 2007 to end of September 2008.

**Proportionality:** However, decisions on whether to grant or refuse consent, including the formation of recommendations by LEAs, are also informed by the need to balance the public interest of the impact on crime with other interests. This includes the private rights of those involved in the activity which is subject to the consent request, and those of the reporter. All parties may have contractual and/or property rights which may be affected by a refusal of consent. Officers should also bear in mind the practical implications for these parties. If the case does not prove to involve money laundering a decision to refuse consent will cause a legitimate transaction to be frustrated. The results of this might include:

- significant financial loss,
- a legitimate business might cease trading; or
- severe financial or personal consequences to an individual (for example if concerns the purchase of residential property).

The result of such a balancing of interests is that, in the majority of cases, consent should only be refused when a criminal investigation with a view to bringing restraint proceedings is likely to follow or is already under way. However consent may be refused for other reasons (for example, to permit an application for a property freezing order) subject to the outcome of the same balancing exercise.

**Engagement:** as well as consultation with interested LEAs to obtain relevant information and reach a decision, SOCA will also consult with reporters to obtain further information as required. In addition, when a decision has been taken to refuse consent, SOCA is responsible for actively monitoring the situation throughout the moratorium period. This is to ensure that, in cases where consent continues to be withheld, this is justified. SOCA Officers therefore engage with interested LEAs to conduct periodic reviews accordingly. In addition, SOCA will consider any reasonable request for a review by persons affected by the decision (such as the reporter).

## Recording the decision

6. Any decision or recommendation to SOCA, particularly if a refusal of consent, should be properly documented, in order to demonstrate compliance with this guidance, and to reduce the likelihood of legal dispute.

## The need for review

7. Where a decision has been taken to refuse consent, it should be kept under review during the moratorium period. SOCA officers are responsible for actively monitoring the situation throughout the moratorium period to ensure that, in cases where consent continues to be withheld, this is justified. It is equally the responsibility of the appropriate LEA to monitor any change in circumstances and to inform SOCA. SOCA will conduct regular periodic reviews in collaboration with any interested LEAs. The potential of a refusal to have a serious impact on any party and the speed at which circumstances are changing will determine the frequency of these reviews.

## Wider application of the policy

8. LEAs are invited to make their own recommendations by reference to these criteria. It is in the interests of fairness to all those affected, and in the interests of good public administration, that any recommendations are provided consistently with this policy and the strategic principles of the Government's anti-money laundering strategy.

# Annex J – Framework to consider the value and the benefits of SARs

The following table suggests a framework for considering the value and impact of SARs on end user activity. Figure 1 considers the impact of activity if there had been an absence of SAR information.

Figure 1 – Value matrix of end user use of SARs

Impact	Definition	Example
i) SAR(s) made a critical contribution	The activity could not have taken place without the SAR.	Single SAR instigated a national enforcement campaign which will lead to asset recovery in excess of £1m. Led to amendment to regulations governing the sector affected by the campaign.
ii) SAR(s) made a significant contribution	The activity would have taken significantly longer and cost considerably more without the SAR.	SAR contained mobile telephone number of an asset recovery target. This information was not previously known by the end user and would have required surveillance techniques to be deployed to acquire it.
iii) SAR(s) made a contribution	The activity could still have happened without the SAR but information in the SAR was useful.	Number of SARs confirm address of individual of interest as contained in force intelligence database.

Some of the benefits end users can expect to see as a result of using information contained in SARs and engaging with the SARs regime are listed in Figure 2 below. Figure 2 looks beyond the traditional benefits of SARs (identifying money laundering and other financial crime) and the examples given show wider use and value of SARs.



Figure 2 – Benefits of SAR usage

Benefit	Example
Harm reduction (national/local)	<ul style="list-style-type: none"> <li>■ SAR information matched against information of National Asylum Support recipients identified individual claiming support/benefits and making a substantial profit running a business.</li> <li>■ Subsequent action closed the business and suspended payment of support to the individual. Harm is reduced on a local and national level.</li> </ul>
Knowledge building	<ul style="list-style-type: none"> <li>■ SOCA matched SAR information against key targets identified in ACPO organised crime mapping work produced a 13% hit rate, confirming what is already known and adding further entities to this information.</li> <li>■ Local knowledge improved with further entities, national knowledge of organised crime groups enhanced.</li> </ul>
More efficient law enforcement activity by end users	<ul style="list-style-type: none"> <li>■ SAR contained mobile telephone number of asset recovery target end user was previously unable to obtain.</li> <li>■ Sourcing this information through surveillance techniques would have been considerably more resource intensive than checking ELMER.</li> <li>■ End user saved resources through using available tools rather than specialist surveillance techniques.</li> </ul>
Better working relationships with local partners	<ul style="list-style-type: none"> <li>■ Reporters feel engaged in local law enforcement activity as they have contributed information.</li> <li>■ End user is able to discuss activity with Reporters, for example where end user grants consent for a large cash withdrawal but the reporter indicates the time at which the money will be collected enabling an effective cash seizure operation.</li> <li>■ End user successfully seizes cash, reporter sees contribution their SAR report makes to local harm reduction.</li> </ul>
Tasking new operations or projects	<ul style="list-style-type: none"> <li>■ SAR on a woman known to run a brothel revealed she owned a house. End user was previously unaware of this asset. This allowed the end user to undertake enforcement activity against her and recover the criminal assets.</li> <li>■ SAR information highlights new area of criminal activity which allows end users to target resources and undertake enforcement activity leading to local harm reduction impact.</li> </ul>

# Annex K: Action Plan for the Suspicious Activity Reports regime October 2009 to September 2010

Aim	Goal	Deliverable	Timings
Appropriate SARs to be submitted by the full range of reporting sectors	Build understanding of current picture	Analysis of current spread of reporting	June 2010
		Sectoral self-assessments of SARs submissions	June 2010
	Respond to increased knowledge through outreach	Devise approach to outreach and feedback to promote appropriate quantity and quality and reduce unnecessary reporting in order to inform following year's action plan	October 2010
Maximising the use of information provided by reporters to understand, prevent and detect crime and terrorism and recover criminal assets	Mainstream use of SARs	SARs adding value to High Volume Operating Model outputs	From June 2010
		Size the market of end users organisations assigned with the duties and powers to prevent and detect crime	March 2010
		Devise approach to outreach and feedback to promote increase in number of SARs users in order to inform following year's action plan	October 2010
		Strengthened intelligence sharing with international partners. Increased number of SARs-related intelligence assessments shared with international partners	September 2010
Enhancing the technical capabilities and experience of reporters and end users	SARs transformation	Enhanced interrogation tools	September 2010
		Improved capability to produce feedback for reporters	September 2010
		Assessment of technology developments to the Elmer database to ensure it continues to meet the needs of the SARs regime	December 2009
Improving the governance and transparency of the regime	Longer term strategic approach	Introduction of a three year strategy	Published November 2009, to be reported on every year
	Governance arrangements ensure delivery of strategy	SOCA to take responsibility for overall delivery, working with other SARs Regime Committee members	October 2009
		SARs Regime Committee to oversee delivery and report updates on progress in SARs Annual Reports	Committee to assume responsibility from October 2009. SARs Annual Reports published November each year
		Assurance review of Committee's role and structure	October 2010
	Enhanced transparency	Refined feedback processes	September 2010
Yearly thematic report to be produced by SARs Regime Committee		Themes to be decided December 2009. First report by October 2010	

# Annex L: Glossary

## Alerts

Direct and indirect warnings produced by SOCA for business, financial institutions and industry about serious organised crime and its effects. They lead to SOCA working closely with targeted audiences to devise and establish preventative measures against serious organised crime.

## Asset Recovery Working Group

This group delivers the Government's asset recovery vision by mainstreaming asset recovery activities, supported by developing innovative techniques, achieving excellence in financial investigation, driving performance and implementing robust management information systems.

## Association of Chief Police Officers (ACPO)

Comprises the senior ranks of all Home Office funded forces in England and Wales, as well as the Police Service of Northern Ireland.

## Association of Chief Police Officers in Scotland (ACPOS)

Comprises the senior ranks of Scottish Police Forces.

## CONTEST

This is the Government's strategy to address the overall terrorist threat to the UK.

## Consent regime

The Proceeds of Crime Act 2002 (POCA) allows persons and businesses to avail themselves of a defence against money laundering charges by seeking the consent of the authorities (effectively via the UKFIU) to conduct a transaction or undertake other activity (a 'prohibited act') about which they have concerns. The decision to refuse or grant consent is made by the UKFIU in consultation with the appropriate law enforcement agency.

## Counter Terrorism Act 2008

Schedule 7 of the Act enables HM Treasury to issue directions to financial sector firms when there is a high risk of money laundering or terrorist financing. The requirements on UK firms can apply to their business with particular countries, or entities within particular countries, outside of the European Economic Area.

## Counter Terrorism Units

These are regional units which were set up as part of a national response to terrorism, in line with the Government's counter-terrorism strategy, CONTEST.

## Data Protection Act 1998

Legislation governing the use of personal data by the public and private sector.

## Egmont

The coordinating body for the international group of Financial Intelligence Units (FIUs).

## ELMER database

The existing IT system in SOCA handling the national suspicious activity reporting regime.

## End User

A current or potential user of SARs such as a Law Enforcement Agency or relevant government body.

## EU regulation

A legislative act of the European Union which becomes immediately enforceable as law in all Member States simultaneously.

## Financial Action Task Force

The international standard setter for anti-money laundering and counter-terrorist financing. It sets forty 'Recommendations' for countries to undertake in order to combat money laundering and nine 'Special Recommendations' on terrorist financing.

## House of Lords Select Committee on the European Union

This Committee scrutinises and reports on a wide range of issues which affect peoples' everyday lives and the long term future of both the UK and Europe. The Committee carries out most of its investigations through its sub committees, who invite written and oral evidence from Government departments, EU institutions and other interested bodies and individuals in order to consider a wide range of points of view before reaching conclusions.

## Information Management Programme

SOCA-wide programme to deliver the necessary IT enabled business and organisational change required to achieve comprehensive improvements in the reliability, functionality and capacity of the SARs regime, and other SOCA IT systems.

## Impact Nominal Index

A computer system that enables UK police forces to establish whether any other force holds information on a person of interest.

# Glossary continued

## Joint Asset Recovery Database (JARD)

Is the national database used to record information throughout the process of asset recovery cases as they pass through the criminal justice system. JARD is used by over 2,000 users, including financial investigators, prosecutors and enforcement staff across the UK asset recovery community.

## Joint Working Agreement (JWA)

A voluntary agreement between SOCA and partners, mainly those designated with regulatory powers under the Money Laundering Regulations 2007, to formalise working relationships under the SARs regime. The agreement covers the types of information that may be shared between the parties. A JWA is subject to review every two years.

## Lander Review

Sir Stephen Lander's Review of the SARs regime, commissioned by the then Chancellor and Home Secretary and published in March 2006. It contained 24 recommendations for the improvement of the regime.

## Money Laundering Advisory Committee (MLAC)

Develops and oversees a strategic approach to money laundering prevention for the UK as a whole and includes members from Government, industry, law enforcement, and regulators.

## Money Laundering Regulations

Place requirements on certain industry sectors (the 'regulated sector') to put in place internal policies and procedures to prevent and forestall money laundering and terrorist financing.

## Money Laundering Reporting Officer (MLRO)

A person designated by a company required to fulfil obligations around reporting suspected money laundering or terrorist financing, seeking consent, fulfilling client identification requirements, keeping appropriate records, training staff, and fulfilling internal reporting procedures, as specified within the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2007. Known as a 'nominated officer' under the Regulations.

## Moneyweb

Online portal through which end users access the ELMER database.

## National Policing Improvement Agency (NPIA)

Assists forces to disseminate good practice and in the delivery of mission critical priorities and provides operational policing support where necessary.

## National Terrorist Financial Investigation Unit (NTFIU)

The law enforcement agency responsible for the investigation of terrorist finance in Great Britain. Based within Special Branch.

## Partnership Agreement

A written agreement between SOCA and relevant law enforcement agencies governing access to the SARs database and the use of SAR material.

## Politically Exposed Persons (PEPs)

Individuals who are or have been entrusted with prominent public functions including heads of state, heads of government, ministers, members of parliaments or other high ranking civil or military officials and their close associates and family.

## Proceeds of Crime Act 2002

Part 7 of the Act defines the primary money laundering offences and requirements around the reporting of suspicious activity.

## Regulators' Forum

A SOCA chaired group that aims to promote a better understanding between the UKFIU and the regulators to ensure the implementation of Lander Review recommendations relating to regulators.

## Reporter

An individual or an organisation that submits a Suspicious Activity Report (e.g. a bank, accountant, solicitor).

## Reporting Sector

Those organisations that report SARs or are expected to report SARs.

## Supervisors Forum

Convened by HM Treasury and is a forum in which regulators discuss anti-money laundering and counter-terrorist financing issues.

## Suspicious Activity Report (SAR)

A collection of structured and unstructured information describing a reporter's suspicion of money laundering activity. SARs may be submitted under a legal requirement applying to UK organisations or outside such a legal requirement.

## Suspicious Activity Reporting Regime

The end-to-end system by which industry spots suspicious activity related to money laundering or terrorist financing and reports this to the UKFIU in a SAR. The UKFIU processes the SAR and stores it on the ELMER database, and end users in law enforcement subsequently make use of it.

## SAR Online

The current portal allowing Reporters to submit SARs via a web interface.

## SARs Regime Committee

Oversees the discharge of the responsibilities of regime participants and enhances the partnership and communication between them. It also ensures developments in the regime are effectively reported to the Home Office/HM Treasury Money Laundering Advisory Committee.

## Twice Yearly Feedback Questionnaire

Means by which end users provide details of their use of SARs to the UKFIU.

## Vetted Group

A UKFIU created group that comprises representatives of the reporting sectors, of law enforcement and of the key policy departments. Its aims are to discuss sensitive casework and reporting issues, and to clear the distribution of SOCA guidance.

## United Kingdom Financial Intelligence Unit (UKFIU)

Receives and analyses suspicious activity reports (SARs) concerning suspected proceeds of crime and terrorist financing and makes them available to law enforcement for appropriate action.





