



The Role of the Money Laundering Reporting Officer - Responsibilities, Risks, and Rewards



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Set up in 2001, The Institute's mission is to be the voice of money laundering prevention officers and the wider financial crime prevention community across the regulated sectors, championing their concerns, and providing a platform for dialogue, support, and continuous professional developing. The Institute's aim is to nurture the professional growth of the financial crime prevention profession through continued education, development programmes, research, and evidence-based thought-leadership. It is committed to enabling financial crime prevention professionals to spearhead the industry's response to money laundering, bribery & corruption, fraud, tax evasion, human trafficking, and other manifestations of financial crimes.

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Executive Summary

It is now 30 years since the introduction of the Money Laundering Reporting Officer (“**MLRO**”) in UK financial services. This report aims to comprehensively outline the role of the MLRO, detailing their responsibilities, liabilities, and the essential skills, knowledge, and competencies required to effectively discharge it. By synthesising legal and regulatory guidance, current academic literature, industry best practices and insights from practitioners, this study will shed light on the critical functions of MLROs in identifying, monitoring, and reporting suspicious activities, as well as their role in developing and overseeing the implementation of anti-money laundering and counter-terrorist financing (“**AML/CTF**”) policies, procedures and compliance programmes.

The report also addresses the challenges MLROs face, including maintaining up-to-date knowledge of rapidly evolving regulatory landscapes and technological advancements in financial crime prevention, as well as significant pressures from internal and external stakeholders. It is not intended as a practice guide, but as an educational document that outlines what MLROs do.

Key questions the report aims to answer include:

- What are the key responsibilities and liabilities of MLROs?
- What skills, knowledge, and competencies are essential for MLROs to perform their roles effectively?
- How can MLROs shape a firm's culture to enhance the effectiveness of financial crime prevention strategies?
- Under what circumstances might MLROs want to re-evaluate their position within a firm, and what steps should they consider if the environment is not conducive to effective AML compliance?

The laundering of money appears to have reached almost epidemic proportions, due primarily to the increase in profit from the sale of illegal drugs; the growth of organised crime; the sales of oil outside of OPEC quotas; and the syphoning off of aid funds. We hope that this report will serve as a valuable resource for individuals seeking MLRO appointments. By providing a detailed exploration of the MLRO role, our aim is to enhance the understanding and implementation of effective AML/CTF measures. Ultimately, this report seeks to contribute to the broader effort of safeguarding the integrity of the financial system by equipping aspiring MLROs with the knowledge needed to succeed in their role. Through collaboration, ongoing education, and adherence to good practices, we believe that the challenges facing MLROs can be met and overcome, leading to a more secure and transparent financial services environment.

The Institute
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Our Approach

This report is predicated on a comprehensive methodology that integrates the review of primary and secondary sources, including legislation and regulation as well as case law, best practices guidance issues by regulatory agencies, analysis of the academic literature related to the role and responsibilities of the MLRO, as well as interviews and discussions with industry practitioners. This multi-faceted approach ensures that the report is not only grounded in practical examples, but backed by empirical evidence.

The initial research involved a detailed review of the legal and regulatory framework to identify the MLROs obligations under the law, as well as regulatory expectations, with focus on the United Kingdom (“**UK**”). Parallel to this review, a survey of the academic literature related to MLROs was undertaken. Keyword searches were carried out via the EBSCO, ScienceDirect, APA PsycInfo and SciSpace research databases. A total of 60 relevant articles were identified. However, upon review it was found that the information contained in the academic literature was most repetitive, noting that the MLRO is responsible for ensuring financial institutions comply with regulations, file suspicious activity reports, and know their customers to prevent money laundering. It was also not focused on the UK context. One publication however stood out: Usman Bello’s 2016 book *Improving Anti-Money Laundering Compliance*. This book, based on Bello’s PhD thesis highlights the challenges MLROs face in understanding and discharging their responsibilities, and identified coping mechanisms widely applied in the industry. Other publications reviewed as part of the literature review highlighted ongoing issues around compliance failures in financial services, and criticised the effectiveness of the national and international efforts to combat financial crime.

To supplement these findings, consultations with stakeholders from different sectors were undertaken. These consultations included discussions with current and former MLROs, regulators, compliance officers, legal professionals and academics. By drawing on such a broad spectrum of sources, this report offers a well-rounded perspective on the role of the MLRO, including responsibilities, risks, and rewards.

Introduction

The role of the MLRO was first introduced to the UK in 1994, following the coming into force of the Money Laundering Regulation 1993 (“**MLRs 1993**”)¹. Regulation 14(a) of the MLRs 1993 required firms to:

identifying a person (“the appropriate person”) to whom a report is to be made of any information or other matter which comes to the attention of a person handling relevant financial business and which, in the opinion of the person handling that business, gives rise to a knowledge or suspicion that another person is engaged in money laundering.

While the financial services industry had adopted the term MLRO early on, section 2 of The Money Laundering Regulation 2001 (“**MLRs 2001**”) later explicitly stated that:

“money laundering reporting officer” means the appropriate person within the meaning of regulation 14 of the 1993 Regulations.

The Financial Services Authority (“**FSA**”) was the UK's integrated regulator for the financial services industry from 2001 until 2013. It was responsible for overseeing banking, securities, and insurance sectors to protect consumers, ensure industry stability, and promote healthy competition. In 2013, the FSA was split into two separate regulatory authorities: the Financial Conduct Authority (“**FCA**”) and the Prudential Regulation Authority (“**PRA**”), to better address the distinct aspects of financial regulation and oversight.

Early versions of the FSA Handbook, still available via the National Archive, note that the FCA has power, under section 146 of the Financial Services and Markets Act 2000 (“**FSMA 2000**”) to:

make rules in relation to the prevention and detection of money laundering in connection with the carrying on of regulated activities by authorised persons.

The FSA, in anticipation of the coming into force of FSMA 2000, and in line with section 146 of the Act, issued Consultation Paper 46 (“**CP46**”) in spring 2000². In this document, the FCA noted that in order to report suspicions of money laundering effectively, regulated firms must appoint a MLRO. CP46 notes the responsibilities of the MLRO as:

- Receiving reports of suspected money laundering from others within the firm; and submitting reports of suspected money laundering to the National Criminal Intelligence Service;
- Ensuring that the firm has adequate arrangements for money laundering awareness and training; and
- Making an annual report to management about the firm's money laundering compliance.

¹ As noted in: Bosworth-Davies, R. (1998). Living with the law: A survey of money-laundering reporting officers and their attitudes towards the money-laundering regulations. *Journal of Money Laundering Control*, 1(3), 245–253.

² Financial Services Practitioner Forum (2001) *Annual Report 2000*. Available at: <https://www.fca.org.uk/panels/practitioner-panel/publication/fspp00.pdf>

CP46 also noted that firms are required to ensure that the MLRO has sufficient seniority and resources to carry out their role.

The Terrorism Act 2000 (“**TACT 2000**”), the Proceeds of Crime Act 2002 (“**POCA 2002**”), and the Money Laundering Regulation 2003 (“**MLRs 2003**”) subsequently changed the term “*appropriate person*” to “*nominated officer*”³.

Later versions of the FSA Handbook included a Money Laundering sourcebook (“**ML**”), which noted that:

If convenient, a relevant firm may decide that the same person can carry out the responsibilities of the MLRO and of the "nominated officer" under the Money Laundering Regulations.

ML has subsequently been removed from the FSA (now FCA) handbook, and replaced by the Financial Crime Guide: A firm’s guide to countering financial crime risks (“**FCG**”), and Financial Crime Thematic Reviews (“**FCTR**”).

Key Responsibilities and Liabilities of the MLRO

The role of the MLRO may vary in its duties and responsibilities across different firms and sectors. This variability is influenced by factors such as regulatory guidance, industry standards, and as detailed above, products and services offered, framework and program set up, multiple location and jurisdictional responsibilities and the details of the individual's employment agreement. With regards to financial services for example, the current Senior Management Arrangements, Systems and Controls sourcebook (“**SYSC**”) section of the FCA Handbook makes it a requirement for regulated firms to⁴:

- (1) appoint an individual as MLRO, with responsibility for oversight of its compliance with the FCA's rules on systems and controls against money laundering; and*
- (2) ensure that its MLRO has a level of authority and independence within the firm and access to resources and information sufficient to enable him to carry out that responsibility.*

It notes that the job of the MLRO within a firm is to act as the focal point for all activity within the firm relating to AML. The FCA expects that a firm's MLRO will be based in the UK. Additionally, firms must allocate to a director or senior manager (who may also be the MLRO) overall responsibility within the firm for the establishment and maintenance of effective AML systems and controls.

At a high level, the responsibilities of the MLRO may include, but are not limited to:

- Acting as the Nominated Officer;

³ Part 3, TACT 2002; Part 7, POCA 2002; Regulation 7(1)(a), MLRs 2003.

⁴ SYSC 3.2.6H and SYSC 3.2.6I

- Ensuring compliance with relevant legal provisions of the MLRs, POCA 2002, TACT 2000 and other applicable laws;
- Ensuring compliance with applicable regulatory requirements, guidance and expectations;
- Providing advice and guidance to internal stakeholders on the proper interpretation and application of laws as well as regulatory requirements, guidance and expectations;
- Creating and updating AML/CTF and counter-proliferation finance (“**CPF**”) as well as sanctions compliance policies and procedure;
- Carrying out ML/TF and Proliferation Finance (“**PF**”) and sanctions compliance risk assessments to identify, manage and mitigate such risk;
- Developing and implementing risk-based AML/CTF/CPF and sanctions compliance systems and controls to ensure the firm they work for complies with relevant laws and regulations;
- Develop and implement appropriate measures to ensure that AML/CTF/CPF and sanctions risk is taken into account in the day-to-day operation of the firm, including in relation to new product development; customers take-on; and changes in the firm’s business profile;
- Conducting ongoing monitoring, testing and assurance to ensure compliance with these systems and controls;
- Identify and highlight to senior management any areas where the operation of AML/CTF/CPF controls should be improved, and propose appropriate improvements; and regularly update senior management on the progress of any such remediation exercises;
- Attending board and committee meetings to present management information (“**MI**”) related to the firm’s risk exposure and performance of AML/CTF/CPF and sanctions compliance systems and controls;
- At least annually, deliver a formal report on the operation and effectiveness of the firm’s AML/CTF/CPF systems and controls to senior management;
- Ensure the Annual Financial Crime Report (“**REP-CRIM**”) required by the FCA is accurate and submitted on time;
- Developing and Providing training to and ensure awareness of management and staff on ML/TF/PF prevention and compliance with relevant sanctions regimes, including their explicit legal obligations and liabilities;
- Ensuring that the firm obtains, and appropriately uses, any information related to ML/TF/PF country risk indicators issued by the FATF and UK government;
- Assisting senior management in establishing and maintaining good relationships with regulators; and
- Maintaining appropriate and up to date records.

In some firms, the MLRO may also be required to oversee enhanced due diligence (“**EDD**”), including reviewing and signing off high-risk relationships with clients (including Politically Exposed Persons, “**PEPs**”) and transactions, at onboarding and on an ongoing basis. In addition to AML/CTF/CPF and sanctions compliance, they may also be responsible for the firm’s Counter-

Fraud (“**CF**”), Anti-Bribery & Anti-Corruption (“**ABAC**”), and Prevention of the Facilitation of Tax Evasion systems and controls.

It is not uncommon for smaller firms to combine the MLRO and Head of Compliance (“**HoC**”) roles, and / or to require the role holder to also take responsibility for compliance with applicable data protection requirements as the firm’s Data Protection Officer (“**DPO**”). Other firms may assign the MLRO role to the Head of Risk or Chief Risk Officer (“**CRO**”).

Where the MLRO delegates any tasks assigned to them to other individuals or functions, they are required to ensure appropriate oversight over these tasks. The MLRO must therefore ensure that suitable monitoring processes and procedures across the firm are established and maintained. This includes appropriate control and oversight over outsourced activities.

Nominated Officer Responsibilities and Liabilities

While the MLRO may also be a firm’s nominated officer, both roles differ from each other. Unlike the MLRO, a nominated officer carries defined legal responsibilities that are not subject to change by employment terms or regulatory interpretations. Specifically with regards to the Nominated Officer role, there are other, additional and explicitly stated obligations individuals need to be aware of:

- The nominated officer is required to properly consider and, if necessary, investigate any internal disclosure made to them under section 330 of POCA 2002.
- They are required to make a disclosure to the National Crime Agency (“**NCA**”) where they know, suspect or should have reasonable grounds to know or suspect ML/TF and/or other crimes, such as sanctions evasion.
- It is an offence for a nominated officer within the regulated sector to **not** make a disclosure to the **NCA** where they know, suspect, or have reasonable grounds to know or suspect ML/TF and other crimes. A conviction for failing to disclose suspicion can incur a custodial sentence of up to five years and an unlimited fine.

Given the FCA’s emphasis of the MLRO as “*the focal point for all activity within the firm relating to AML*” and their overall responsibilities for a firm’s financial crime prevention systems and controls, it is an expectation that where the Nominated Officer role is held by another individual, the MLRO should exercise some level of oversight over the Nominated Officer’s work, either via line management or assurance and testing activities. It should however be noted that the MLRO and Nominated Officer roles are often combined, to the extent that the job description of most MLROs includes responsibilities as Nominated Officer.

Reporting Lines of the MLRO

The effectiveness of the MLRO role is reliant on well-defined and efficiently structured reporting lines. These lines are the channels through which critical information flows, ensuring that compliance with AML/CTF/CPF laws, regulations and regulatory expectations is both comprehensive and proactive. Clear and effective reporting lines enable the MLRO to communicate with senior management and the board promptly and directly, facilitating a swift

response to AML/CTF/CPF risks and compliance issues. This direct line of communication is vital for maintaining the firm's integrity, reputation, and legal compliance. Furthermore, it also underscores the firm's commitment to a robust AML/CTF/CPF framework, fostering a culture of transparency and accountability.

Properly established reporting lines ensure that AML/CTF/CPF efforts are integrated into the broader organisational strategy, thereby enhancing the overall effectiveness of the financial crime prevention framework and supporting the firm's long-term success in navigating the complexities of regulatory compliance and financial crime prevention. The establishment of clear and effective reporting lines is vital for several reasons:

- **It ensures direct access to senior management and the board of directors**
Direct access to the highest levels of management ensures that MLROs can report and escalate AML-related issues without delay. This immediate access is crucial for addressing potential risks before they escalate, ensuring that AML compliance is given the priority it demands. It also signals to the entire organisation the importance placed on compliance and ethical conduct, reinforcing a culture of transparency and integrity.
- **It facilitates timely and effective communication of AML/CTF/CPF risks and incidents**
Effective reporting lines enable MLROs to communicate essential information regarding AML risks and potential or actual incidents swiftly and to the right stakeholders. This timely communication is essential for the rapid deployment of strategies to mitigate risks, thereby safeguarding the organisation against legal, financial, and reputational damage.
- **It supports the independence of the MLRO**
Independent reporting lines help in maintaining the MLRO's autonomy by minimising potential conflicts of interest and ensuring that their judgments are not influenced by unrelated business considerations. This independence is critical for the MLRO to perform their duties effectively, allowing for impartial assessment and reporting of AML activities.
- **It ensures that AML/CTF/CPF concerns are addressed at the appropriate level of seniority**
When MLROs report to senior levels, it ensures that AML concerns are considered with the seriousness they deserve and that decisions are made with an understanding of the organisation's broader objectives and risks. This senior oversight is crucial for aligning AML strategies with the organisation's risk appetite and for securing necessary resources for AML activities.

One of the most effective structures for MLRO reporting is a direct line to the board or senior management. This structure ensures that financial crime related issues receive the necessary attention and resources from the highest level of the firm. It facilitates a direct dialogue between the MLRO and the firm's decision-makers, enabling the MLRO to influence the strategic direction

of AML/CTF/CPF policies and practices. Moreover, it underscores the organisation's commitment to compliance, enhancing trust among regulators, partners, and customers.

For global organisations, dual reporting lines can be particularly beneficial, where the MLRO reports to both local and global decision makers. This structure ensures that global AML standards are implemented consistently across all jurisdictions, while also allowing for local adaptations where necessary. Dual reporting lines facilitate the sharing of best practices and insights across different parts of the organisation, enhancing the overall effectiveness of the AML framework. Additionally, it helps in balancing global oversight with local autonomy, ensuring that AML strategies are both globally coherent and locally relevant.

Having the MLRO report directly to the firm's Chief Executive Officer ("**CEO**") on a day-to-day basis is advisable for several reasons. Firstly, this direct line emphasises the critical importance of financial crime prevention efforts within the firm's highest levels, ensuring AML/CTF/CPF remains a top priority. Reporting to the CEO facilitates swift decision-making and action on financial crime matters, as the CEO has the overarching view of the company's operations and strategic direction. This positioning enhances the visibility and authority of the MLRO's role, promoting a strong compliance culture throughout the organisation. Direct reporting to the CEO can also ensure AML/CTF/CPF issues are integrated into broader business strategies, aligning with overall corporate goals and risk management practices. It also signals to regulatory bodies and external stakeholders the firm's serious commitment to compliance, potentially fostering greater trust and confidence in the company's operations.

For the MLRO to report to the firm's Chief Compliance Officer ("**CCO**") may also be beneficial. Firstly, it ensures that the financial crime prevention strategy is aligned with the overall compliance strategy of the firm. This centralised approach allows the CCO to have broad oversight of all compliance areas, integrating AML with other compliance functions. This alignment enhances the efficiency and effectiveness of the organisation's compliance efforts. Reporting to the CCO also streamlines communication and decision-making processes, ensuring that AML issues are quickly addressed within the broader context of compliance. The CCO can allocate resources effectively, providing the MLRO with the necessary support and tools to perform their duties. Additionally, the CCO can incorporate AML risks into the organisation's holistic compliance management framework, providing a comprehensive view of this area. This enhances accountability and ensures that both the CCO and MLRO understand their roles in maintaining compliance and managing risks. However, there are potential issues with this reporting line that could be problematic. If the CCO's broad responsibilities dilute the focus on AML, critical money laundering risks might not receive the attention they require. There could also be conflicts of interest if the CCO prioritises other compliance areas over AML. To mitigate these risks, it is essential for the firm to ensure that the MLRO has direct access to the board or senior management for AML-specific issues, maintaining the necessary level of independence and focus on AML compliance.

A reporting line to the Chief Risk Officer ("**CRO**") also holds significant benefits. The CRO's expertise in risk management and their understanding of the company's risk appetite make them well-suited to appreciate and act on the complexities of AML/CTF/CPF challenges. This reporting structure ensures that financial crime considerations are fully integrated into the broader risk management framework, facilitating a comprehensive approach to identifying, assessing, and

mitigating risks. It also allows for the alignment of AML/CTF/CPF strategies with other risk-related initiatives, creating synergies and enhancing the efficiency of the firm's risk management efforts.

However, a reporting line to the Chief Legal Officer (“**CLO**”) or Chief Legal Counsel (“**CLC**”) is generally not advisable⁵. The primary focus of the legal department is to provide legal advice and ensure legal compliance, which might not always align with the operational and risk-focused perspective required for effective AML/CTF/CPF governance. This could potentially lead to conflicts of interest, especially when legal considerations might overshadow or conflict with financial crime prevention requirements. Moreover, the CLO's responsibilities often involve defending the company's legal interests, which could inadvertently create a situation where financial crime concerns are not escalated or addressed with the necessary level of independence and objectivity. Additionally, CLOs and CLCs routinely provide privileged advice to businesses in circumstances where a MLRO would be unable to rely on such privilege. Furthermore, the FCA has on a number of occasions noted that firms should not approach compliance and financial crime prevention purely from a legalistic approach based on literal interpretation of legislation but embrace a purposive approach that seeks to look for the spirit and purpose of the legislation before interpreting the words.

Structuring the MLRO's Team

The structure and size of the MLRO's team should be tailored to the risk profile of the firm, recognising that there is no one-size-fits-all model. The MLRO should lead a team that is appropriately resourced to effectively manage the firm's AML obligations as well as any other duties and responsibilities assigned to the MLRO.

For firms managing higher risk relationships, products, and services, it is essential to consider having a larger team working directly under the MLRO. This ensures that the MLRO and the firm can adequately identify, monitor, and mitigate financial crime risks. The team should include staff who are trained and equipped to adequately contribute to the firm's financial crime prevention needs.

In lower risk environments, a smaller team might suffice, but it is important that the team's capacity aligns with the firm's specific risk exposure. Regular assessments of the firm's risk profile should guide decisions about team size and composition, ensuring that the MLRO has sufficient resources to fulfil their duties effectively. The goal is to have a well-structured MLRO function able to maintain robust financial crime prevention controls, keeping pace with evolving risks and regulatory requirements.

Enforcement Action against MLROs

Failure to discharge the responsibilities appropriately, including failure to take reasonable steps to ensure that the business of the firm for which they are responsible for complies with the

⁵ See Fanto, J. A. (2020). The Professionalization of Compliance: Its Progress, Impediments, and Outcomes. *Notre Dame Journal of Law, Ethics and Public Policy*, 35(1), 183-260.

relevant requirements and standards of the regulatory system may constitute a breach of Principle 7 of the FCA's Principles for Approved Persons. Over the years, the FCA, and its predecessor the FSA have brought enforcement action against a number of MLROs, including:

- **Michael Wheelhouse**, the MLRO for Sindicatum Holdings Ltd, a London-based corporate advisory firm. The FSA found that Mr Wheelhouse had breached Statement of Principle 7 of the Statements of Principle and Code of Practice for Approved Persons (“**APER**”) by failing to take reasonable steps to implement adequate AML systems and controls at the firm. Consequently, he was fined £17,500 in October 2008.
- **Syed Hussain**, MLRO for Habib Bank AG Zurich. The FSA noted that Mr Hussain breached Statement of Principle 7 of APER by failing to properly ensure the establishment and maintenance of adequate and effective financial crime prevention risk management systems and controls. He was fined £17,500 in May 2012.
- **Peter Johnson**, former MLRO and compliance officer of Keydata Investment Services Ltd, a product provider that designed and distributed structured investment products. The FCA found that Mr Johnson's conduct was not fit and proper. He breached Statement of Principle 1 of APER by failing to act with integrity in carrying out his controlled functions, as well as Statement of Principle 4 of APER for not dealing with the regulator in an open and co-operative way. In 2016, the FCA made an order prohibiting Mr Johnson from performing any function in relation to any regulated activity. If he had not been in serious financial hardship, the FCA would have fined him £200,000.
- **Steven Smith**, former MLRO for Sonali Bank (UK) Ltd. The FCA found that Mr Smith breached Statement of Principle 6 of APER for failing to exercise due skill, care and diligence in managing the bank's business, and for being knowingly concerned in the bank's breach of Principle 3 of the FCA's Principles for Businesses. Mr Smith was aware that, in 2010, the regulator had identified serious failings in Sonali Bank's AML systems and controls as a result of which the bank had put in place a remedial plan. However, among other things, he failed to put in place compliance monitoring plans that were appropriately focused on the risks the bank faced, and that adequately demonstrated that the bank's AML systems were working effectively. Mr Smith also failed to impress on senior management the need for further resources, even when these were adversely affecting the monitoring work being carried out by the MLRO department. He was fined £17,900 in October 2016, and is prohibited from performing the MLRO functions again.
- **David Price**, former Executive Director and MLRO for CFP Management Ltd. In May 2023, the FCA noted that it had found that Mr Price breached the Statement of Principle 1 of APER by providing potentially unsuitable advice on the transfer of safeguarded pension benefits to clients. He acted recklessly by disregarding the high risk associated with the Pension Transfer Model and caused a significant risk of loss to a large number of clients who transferred out of their Defined Benefit Pension Schemes based on CFP's advice. This resulted in a large number of potentially unsuitable advice given by CFP, which may have caused detriment to vulnerable customers. The FCA considered Mr Price's failings

to be particularly serious, as they occurred over a sustained period and resulted in a significant risk of loss for a large number of clients. The FCA would have imposed a financial penalty of £777,494, consisting of £632,594 disgorgement and £144,900 as the punitive element. However, it should be noted that while Mr Price held the MLRO position, the fine imposed on him is not related to failings of his duties and responsibilities as an MLRO.

Essential Skills, Knowledge, and Competencies

The effectiveness of a firm's arrangements to prevent, detect, manage and mitigate financial crime is directly influenced by the role, position, and skill level of the MLRO, as well as how the firm's internal reporting processes for suspicious activities are established and executed.

Within the financial services sector, the role of the MLRO has been designated by the FCA as a controlled/Senior Management function (SMF17) under section 59 of FSMA 2000. Anyone wishing to perform the function must be individually approved by the FCA, on the application of the firm, before performing the role.

While there are no perceived training or competency requirements for MLROs, the FCA recommends that firms thoroughly evaluate the suitability of candidates for the MLRO position, ensuring they possess the required competence and ability to perform effectively in the role before an application is made. Candidates must have the essential skills and knowledge, gained through training and experience, to be effective. The necessary level of skills and knowledge should correspond to the firm's size and exposure to risk.

Based on this, the FCA has offered high-level guidance to assist firms in determining whether a candidate is appropriate for the position. It highlights that most candidates who successfully obtain approval usually have:

- Completed relevant training courses before seeking approval, noting that those planning to take necessary courses post-approval are less likely to be accepted.
- Participated in training specifically tailored to or relevant for the business sector of the firm they wish to join.
- Engaged in recent and current training to ensure their knowledge of regulatory rules and expectations is up-to-date. Candidates whose training was years ago might need to show how they have kept their knowledge current through ongoing professional development courses.
- Undertaken comprehensive and in-depth training courses that equip them with the knowledge required for the MLRO role. Brief introductory courses are generally insufficient, regardless of the firm's size.

The FCA does not advocate for any specific courses, training providers, or training formats (such as classroom-based, e-learning, or textbooks). However, it views courses that include exams or assessments as more effective in proving a candidate's acquisition of relevant knowledge. The FCA notes that experience can vary, but emphasises that:

- It is not essential for applicants to have previously held MLRO positions; roles like deputy MLRO or more junior compliance positions can also indicate suitability.
- Having occupied similar approved positions before is a positive indicator but does not guarantee approval.
- A diverse background in areas such as compliance, law, accounting, and consulting is common among successful MLRO applicants. However, experience solely in frontline roles, without additional training or experience, may not sufficiently demonstrate the necessary skills and knowledge for establishing and managing a compliance function.
- In smaller firms, it may be fitting and proportionate for the owner or CEO to take on these responsibilities, provided they have the relevant training and experience to ensure compliance with regulatory requirements.

The FCA has highlighted that whoever performs the MLRO function must commit sufficient time to the role. Applicants who only intend to spend a few hours a week on it tend to be unsuccessful.

- Many businesses have a full-time MLRO, but part-time arrangements can be acceptable in smaller firms if the commitment is appropriate and sufficient.
- The FCA will assess potential conflicts of interest for MLROs with other internal or external roles, favouring candidates who are independent of client-facing operations due to the oversight required.
- The location of the MLRO is important, with a preference for those based at the firm's main UK office.
- MLROs are often senior leaders or company directors; external consultants or non-senior leaders frequently lack the necessary influence or authority for the role.

Even with appropriate experience or training, the FCA may request an interview to verify these claims, also considering responses given during the application process to assess competence and capability. With regards to third-party support however, the FCA suggests that firms may use external advisors for compliance support during the application process or for ongoing MLRO functions. While not mandatory, external support can complement in-house arrangements. Sole reliance on external compliance support, however, is often unsuccessful. External support does not alleviate concerns about an MLRO candidate's competency. The accountable individual must possess adequate knowledge and experience to make informed compliance decisions, seek advice when necessary, and implement that advice effectively.

Additional guidance relating to the MLRO role can be found under 3.2.2 and 3.2.5 of the FCA's FCG, where it notes that MLROs should:

- Be independent, knowledgeable, robust and well resourced, and poses effective challenge to the business where warranted;
- Possess credibility and authority, gained through experience and adequate seniority;
- Have a thorough understanding of the policies they oversee and the reasoning behind them;
- Be able to demonstrate that unusual transactions are consistently reported to them;
- Have a direct reporting line to executive management or the board; and

- Have adequate oversight of all high-risk relationships and be able to promptly access information about the firm's high-risk customers upon request and actively monitor these relationships.

The FCA also highlights that the MLRO of a firm that is part of a group should ensure that the group policy fully complies with UK AML obligations.

The FCA's decision to deny the registration of a cryptoasset company under the MLRs 2017, as demonstrated in the case of *Gidiplus Ltd v FCA [2022]* provides additional insight with regards to the FCA's evaluation criteria. A key concern for the FCA was the appointed nominated officer's lack of sufficient knowledge, skills, and experience concerning the company's responsibilities under the Regulations. The officer in question was deemed to lack the necessary experience and training for the role, highlighted by their minimal compliance background and completion of only 1.5 hours of AML and ABAC training as of June 2020. Particularly troubling for the FCA was the individuals' unfamiliarity with the term 'smurfing'⁶ during an interview with the FCA, given its relevance to the firm and its activities. Consequently, the FCA concluded that the individual did not meet the "fit and proper person" criteria set out in regulation 58A of the MLRs 2017, nor could they ensure compliance with the obligations stated in regulation 59(1)(e)(ii) of the MLRs 2017.

Regardless of whether a firm is regulated by the FCA or any other regulator for AML/CTF/CPF purposes, all firms need to allocate enough resources to mitigate the risk of being used as a conduit for financial crimes. The extent of resources provided should be in line with the firm's size, complexity, and risk profile of its customer and product portfolio.

Professional Qualifications

Professional compliance and financial crime prevention qualifications can equip individuals with the expertise and knowledge necessary for senior positions, such as the MLRO role. They provide specialised knowledge in a specific field, which can be useful for career progression. Moreover, earning such qualifications demonstrates a commitment to personal development.

However, it is also important to recognise that while professional qualifications are worthy of attaining, they are only one part of what makes an individual ready for the MLRO role, but not a prerequisite. Soft skills, such as communication, leadership, and strategic thinking, along with practical experience, are equally important. MLROs often require a blend of technical knowledge and the ability to manage teams, drive change, make strategic decisions, and engage in difficult conversations. These skills are honed through experience rather than knowledge-based qualifications.

Professional qualifications have their strengths, but they do have limitations when it comes to preparing individuals for the entirety of what the MLRO role entails. Many professional qualifications focus on theoretical knowledge rather than hands-on experience. Holding the MLRO role often demands the ability to navigate complex, real-world challenges that can be

⁶ Smurfing is a term used to describe a money laundering typology whereby individuals break down a large sum of cash into multiple smaller transactions to avoid regulatory reporting limits and detection.

significantly different from textbook scenarios. Leadership, teamwork, communication, and problem-solving are crucial for MLROs. Professional qualifications may not always provide enough emphasis on developing these soft skills, which are vital for managing teams, negotiating, and driving strategic decisions.

Some parts of the regulated sector evolve so quickly that by the time a qualification is earned, the industry could have shifted. This can make some knowledge outdated, requiring continuous learning and adaptability beyond what the qualification offers. While having specialised knowledge is valuable, MLROs require a broad perspective that encompasses understanding multiple aspects of a business. A specific qualification might not cover this breadth, potentially limiting an individual's ability to strategise and manage across diverse functions. Professional qualifications can sometimes lack the networking component that comes with other forms of professional development, such as conferences or industry events. Building a broad network is often more important for success in the MLRO role. The financial and time investment required for some professional qualifications can also be significant. This can be a barrier for some individuals, potentially limiting diversity in MLRO positions.

Additionally, overconfidence can be a pitfall for some individuals after attaining a professional qualification. While these qualifications are valuable and demonstrate a level of expertise in a specific area, they might lead some to overestimate their abilities or readiness for the MLRO role. Overconfidence can make individuals underestimate the complexity of challenges they will face as MLROs. They might assume that the qualification alone has equipped them with all the answers, which is rarely the case. Believing that a qualification is the pinnacle of one's professional development can also hinder continuous learning. In today's fast-paced financial services environment, staying updated with the latest trends, technologies, and practices is critical. Overconfidence can lead to a complacency that stunts professional growth. Furthermore, MLROs must be able to listen, collaborate, and value the contributions of others. Overconfidence can result in a lack of openness to feedback and an underappreciation of stakeholders' insights, potentially harming organisational dynamics and performance. It can also lead to taking unnecessary risks or making decisions without adequately assessing the situation. This can result in mistakes or failures that could have been avoided with a more balanced view of one's capabilities and limitations.

Similarly, firms might place excessive weight on compliance and financial crime prevention qualifications during the hiring or promotion process. Employers might assume that a candidate with specific professional qualifications will automatically succeed in the MLRO role, overlooking the importance of experience, soft skills, and product knowledge. This can lead to hiring or promoting individuals who are not necessarily the best match for the position or the team dynamics. An overemphasis on formal qualifications can lead employers to undervalue candidates who may have gained equivalent or even superior skills through experience. This could result in missing out on talent that could drive innovation and growth, particularly in roles where practical experience and the ability to adapt are required.

By prioritising certain qualifications, employers might inadvertently create barriers for candidates from diverse backgrounds who may not have had the same opportunities to attain those qualifications but possess valuable skills and perspectives. This can limit the diversity of thought within the organisation, which is essential for innovation and problem-solving.

Overreliance on the value of professional qualifications can also result in placing individuals in leadership positions who lack these essential skills, potentially undermining team morale and organisational goals. To mitigate these risks, firms should adopt a more holistic approach to hiring MLROs, considering a blend of qualifications, experience, soft skills, and potential.

Application in Practice

As rightly noted by the FCA, the role of the MLRO extends beyond academic and professional qualifications to encompass a broad range of qualities and experiences. It requires a deep and nuanced grasp of the legal, regulatory, and practical aspects of preventing financial crimes. Ideally, the core qualities an MLRO should have, or aspire to have include at a minimum⁷:

<p><i>Detailed knowledge of applicable laws and regulations</i></p>	<p>MLROs should have a thorough knowledge of the criminal law related to the proceeds of crime and money laundering regulations through study, research, and analysis. Professional and academic qualifications can be useful in this regard. Additionally, MLROs should be aware of the strengths and weaknesses of ML/TF/PF typologies, principles, and theories and know those which have been validated through research and scholarly inquiry. MLROs should also be mindful of the constantly evolving nature of financial crime, and ensure their knowledge stays up to date and current via relevant Continuing professional development (“CPD”).</p>
<p><i>Extensive understanding of regulatory expectations</i></p>	<p>In addition to knowledge of the law and regulations, MLROs should know and understand regulatory expectations related to customer due diligence (including EDD), transaction monitoring, payments screening, identification and assessment of suspicious activity, and risk assessments as well as corporate governance principles, among others. They should have a proven track record using this knowledge to draft clear, comprehensive and comprehensible policies and procedures and designing risk-based and proportionate systems and controls to meet the needs of organisations. MLROs should be able to acknowledge instances where regulatory expectations may either be lacking, or more concerned with risk elimination than risk management. They should be able to understand and clearly articulate why organisations at times need to do more than what is prescribed to keep safe from being used as conduits for ML/TF/PF.</p>
<p><i>Wide-ranging practical experience</i></p>	<p>Theoretical understanding of laws, regulations and regulatory expectations alone however is not sufficient. Hands-on experience in applying this knowledge in real-world situations is essential. As such, it is important for MLROs to have experience in successfully navigating and applying the laws, regulations, regulatory</p>

⁷ Initially published as: Menz, M (2023). What makes an AML expert? *Money Laundering Bulletin* [online], 30 January.

	<p>expectations and risks over an extended period of time. The systems and controls they design must meet and often exceed legal and regulatory expectations, and effectively prevent criminals from using the financial system for ML/TF/CP purposes. More importantly, those systems and controls should be able to withstand external scrutiny and validation.</p>
<p><i>Attention to detail</i></p>	<p>MLROs should exhibit meticulous attention to detail to effectively identify suspicious activities, ensure compliance with complex regulations, maintain accurate reporting, conduct thorough risk assessments, provide precise training and guidance, uphold diligent record-keeping, and develop and implement clear financial crime prevention policies. This level of precision is important to evidence skill, care, and diligence in their role.</p>
<p><i>Risk literacy</i></p>	<p>Risk literacy refers to the ability to understand and make decisions about risk⁸. This includes knowledge of probability and statistics, as well as an understanding of how to process and use information about risk in real-world situations. MLROs should know the difference between possibility and probability. They should be able to understand that the former refers to the ability of something to happen or exist. It is a qualitative measure expressing whether something can happen or not. The latter on the other hand is a quantitative measure expressing the likelihood or chance of an event occurring. As such, the quality of an MLRO's advice is not only determined by its outcomes (or lack thereof), but also by the probability of the outcome occurring. MLROs should know the difference between ML/TF/CP risk on the one hand, and regulatory risk on the other hand. The systems and controls designed by MLROs should not only be conscious of the existence of risks, but also proportionate to the actual probability of each of those risks manifesting.</p>
<p><i>Communication skills</i></p>	<p>Knowledge of the law and application of regulatory expectations in practice only represents a factor of the MLRO's remit. In addition to all these elements, MLROs should be able to clearly articulate and communicate their knowledge and experience. MLROs should be open and welcoming to others, making it easy to initiate a conversation or interact with them. Effective MLROs tend to be good listeners and show genuine interest in other people. They should be able to explain complex concepts and methods in simple terms, and have a reputation for being knowledgeable, reliable, accurate, and trustworthy.</p>

⁸ Gigerenzer, G. (2014). *Risk Savvy: How To Make Good Decisions*. Allen Lane

<p><i>Commercial awareness</i></p>	<p>To be effective in their roles, MLROs should have an appreciation of the economic and business environment in which they and their firm’s operate. They should have insight into industry and market trends, the competitive landscape, and the factors which drive the success of a business. Having commercial awareness also means understanding business objectives, products and services, and the position of organisations in the market – their own, as well as those of customers and counterparties. This allows MLROs to apply their knowledge to different environments, evaluate risks in the context in which they occur, and distinguish valid commercial practices from unusual or suspicious customer behaviour.</p>
<p><i>Curiosity</i></p>	<p>Curiosity to learn is often considered a key component of human development and learning, as it drives individuals to seek out new information and experiences which can help them grow and develop⁹. It can also be a key driver of innovation and progress, as it leads individuals and organisations to explore new ideas and possibilities. MLROs should have an innate desire to seek out and acquire new knowledge and experiences and engage in intellectual debate. They should never be indifferent to their subject but have a passion for it. This can manifest in a variety of ways, from questioning the validity of established practices, to seeking out new ways of applying their knowledge, to wanting to understand new products and technologies, or questioning existing money laundering typologies and current practice.</p>
<p><i>Confidence</i></p>	<p>MLROs should generally be confident about their knowledge and expertise, but also know their limits. They should believe in their own abilities and self-worth and display a sense of security and self-assurance. At the same time, MLROs should be open to feedback and willing to learn from others. They should not feel threatened by the ideas or opinions of others and appreciate that risks can be managed and mitigated in a variety of different ways. Seasoned MLROs are typically willing to take risks, try new approaches to identifying, managing and mitigating financial crime risks, and where necessary admit their mistakes.</p>
<p><i>Emotional intelligence</i></p>	<p>Emotional intelligence is important because it allows for effective navigation of relationships and social interactions¹⁰. MLROs should be able to recognise, understand, and manage their own emotions,</p>

⁹ Kashdan, T. B. and Silvia, P. J. (2011). Curiosity and Interest: Benefits of Thriving on Novelty and Challenge. In Lopez. S. J. and Snyder. C. R. (eds). *The Oxford Handbook of Positive Psychology*. OUP.

¹⁰ Moon, J. (2021). Effect of Emotional Intelligence and Leadership Styles on Risk Intelligent Decision Making and Risk Management. *Journal of Engineering, Project, and Production Management*, 11(1), 71-81.

	<p>as well as the emotions of others. They should be able to show empathy, self-awareness, self-regulation, and social skills. This allows them to communicate effectively, create positive and productive work environments, and resolve conflicts. Individuals with high levels of emotional intelligence tend to have better mental and physical health, as they are better able to manage stress and cope with difficult situations¹¹.</p>
<p><i>Integrity</i></p>	<p>Integrity is the quality of being honest and truthful, and having strong moral principles¹². It involves consistency between one's words, actions and values. While extensive knowledge of, and practical experience in all things AML is necessary to be an effective MLRO, such knowledge and experience need to work hand in hand with integrity. Within the context of financial crime prevention, integrity is an important factor in decision making and problem solving as it ensures decisions are made with the best intentions of stopping criminals using a firm as a conduit for ML/TF/PF and undermining the integrity of the financial system. MLROs should not compromise their beliefs or values for personal gain or advantage. They should be willing to stand up for what they believe in, even if it is difficult or unpopular. If an individual has no integrity, they should not be an MLRO.</p>

Supporting Organisational Culture

Ever since the FSA noted culture as a major contributor to – if not the cause for – the 2008 financial crisis¹³, numerous speeches and publications by the FSA and its successor the FCA have aimed to define what culture is, why it should be changed, and how.

The concept of culture initially gained popularity in the business world in the 1950s, following the publication of Elliott Jaques' book *The Changing Culture of a Factory*. In it, Jaques highlighted culture as a collection of factors that can be adjusted to improve productivity and profitability. During the 70 years that followed, innumerable definitions of culture have emerged. Academics have debated how culture should be assessed, classified, measured and, if necessary, adjusted.

¹¹ Ciarrochi, J, Deane, F. P. and Anderson. S. (2002). Emotional intelligence moderates the relationship between stress and mental health. *Personality and Individual Differences*, 32(2), 197-209.

¹² Killinger, B. (2010). *Integrity: Doing the Right Thing for the Right Reason*. 2nd Edn. McGill-Queen's University Press.

¹³ Hector Sants (2010). *Do regulators have a role to play in judging culture and ethics?* Speech to Chartered Institute of Securities and Investments Conference, London, UK.

But consensus on any of these issues has so far not been reached¹⁴. The academic literature alone contains over 300 definitions! If 10 people are asked to define culture, it is likely to get 12 different answers. It is no surprise then that the debate about culture continues.

Edgar Schein¹⁵, one of the most influential personalities in the organisational culture debate, described culture as the habitual behaviours and assumptions that organisations develop when dealing with internal and external factors. He points out that when organisations deal with different issues, they tend to develop different norms and behaviours. With this in mind it is possible to say that **compliance culture is the habits and mindsets organisations have developed when dealing with regulation and compliance**. While the emphasis of this definition is on the act of compliance as opposed to the MLRO directly, the way firms deal with the latter also shows how they perceive, think and feel about the act of compliance.

While recent years have seen the emergence of various culture measurements, it is important to acknowledge that culture is subjective. Individuals often intuitively know how to assess whether the culture of an organisation is suitable for them by measuring it against their own values, beliefs and attitudes.

The debate about the 'right' organisational culture in financial services is complex, largely because there is no one-size-fits-all solution. But while the FCA has shied away from providing prescriptive requirements for the culture it expects firms to have, understanding its objectives is the first step in understanding the regulator's expectations in relation to culture:¹⁶

- **Consumer Protection:** To secure an appropriate degree of protection for consumers, ensuring that consumers get fair products and services and are protected from scams and financial harm.
- **Protecting Financial Markets:** To protect and enhance the integrity of the UK financial system, including by tackling financial crimes and market abuse, and ensuring the overall transparency and resilience of markets.
- **Promoting Competition:** To promote effective competition in the interest of consumers, to ensure consumers have a choice of financial services and products, and that the market encourages innovation and fair pricing.

From these objectives it is possible to see that a healthy culture is one that is equally consumer-centric, compliant, transparent, and accountable, while also promoting fair competition and innovation in financial markets.

Building a strong compliance culture involves creating a work environment where employees understand and follow rules and regulations, and in which management sets an example and actively monitors compliance. A strong compliance culture can help prevent and detect financial crime, and can help organisations avoid legal, regulatory, financial and reputational risks. MLROs

¹⁴ Benjamin Schneider and Karen Barbera (2014) *The Oxford Handbook of Organizational Climate and Culture*. OUP

¹⁵ Edgar H. Schein (1986). What You Need to Know About Organizational Culture. *Training & Development Journal*, 40(1), 30-33.

¹⁶ About the FCA, <https://www.fca.org.uk/about/what-we-do/the-fca>

play a critical role in helping their organisation build a strong compliance culture, where ML/TF/PF and other forms of financial crime are not acceptable. Some of the steps MLROs can take to do this include:

- **Being accessible and approachable**

To build a strong compliance culture, the MLRO (and their teams) have to actively engage with other stakeholders, be seen and heard. Compliance Officers (at all levels) who regularly engage with the business can play a significant part in raising the profile of their teams as being approachable, reliable and helpful.

- **Communicating effectively**

If employees understand their responsibilities, they are more likely to act compliance. Clear, concise policies and procedures written in plain English with little ambiguity can support compliance standards, reduce anxiety and leave little room for ‘creative interpretations’. Likewise, advice and guidance provided by Compliance should be practical and specific to the circumstances of the organisation.

- **Leading by example**

People may not always listen to what is being said, but usually carefully watch what is being done. MLROs should show their commitment to ethical behaviour and integrity by following the organisation's policies and procedures. Especially with regards to audit and assurance, the MLRO and their teams should hold themselves to the same standards they expect from others. In addition, the role of Internal Audit should be acknowledged not only in ensuring the MLRO and their teams are also subject to oversight and challenge, but also in the prevention and detection of money laundering¹⁷.

- **Collaboration with other departments**

MLROs should be working closely with other departments within their organisations to ensure AML/CTF/CPF are integrated into the organisation's overall strategy and operations. Close cooperation with Human Resources in particular is important to ensure culture and conduct are aligned to the appraisal process, and the FCA's Conduct Rules are actively taken into consideration.

- **Being proactive**

Legal and regulatory expectations constantly evolve. As such, MLROs should be proactive in identifying and addressing potential compliance risks, and proactively implement policies, procedures, systems and controls to mitigate such risks. MLROs should actively engage in horizon scanning and keep stakeholders informed about any changes to laws or regulations that may affect the organisation.

¹⁷ Yusoff, Y. H., Ghazali, N. I., Fazel, A. A. M., Jamaludin, N., Tawil, N. L., & Madzlan, N. (2023). Roles of Auditor in Combating Money Laundering: A Concept Paper. *International Journal of Academic Research in Business and Social Sciences*, 13(4), 78-87.

- **Being competent**

Just like any other profession or occupation, MLROs have to be competent to be taken seriously. This not only includes a thorough understanding of laws, regulations and regulatory expectations, but also of the risks associated with financial products and the organisation's strategy and business model as well as interpersonal and communication skills. Benchmarking against the *National Occupational Standards*¹⁸ and providing training and development opportunities for financial crime teams to build competence can further support a healthy compliance culture.

By applying these principles, MLROs can work towards creating mutual trust and respect between their own and other functions and influence the habits and mindsets of the organisations.

Re-evaluating the Position within a Firm and key challenges

Research carried out by the Corporate Compliance Institute (“**CCI**”) has shown that a staggering 56% of compliance officers report that their job negatively impacts their mental health. More than half suffer from burnout. Job-related stress is a daily companion for 51%, with 43% reporting difficulties with anxiety or having been diagnosed with it in the past year. An overwhelming 69% cite the rapidly changing regulatory landscape as the most stressful aspect of their job. Additionally, respondents to the CCI survey noted that while they operate under a zero tolerance for failure, other departments in their organisations seem to be allowed to make mistakes. There is a sense that Compliance contributions are undervalued, and that our opinions, advice, and guidance, critical to the integrity of the organisation, often go unappreciated.

Identifying the red flags that might signal the need to reassess their positions within their firms often manifest as systemic issues, reflecting a broader organisational culture that might not fully support or prioritise AML/CTF/CPF efforts. Recognising these signs early can empower MLROs to initiate necessary changes or make difficult decisions about their professional futures.

Bello (2016) investigated the concerns and behaviours of MLROs in UK financial services and noted severe pressure from internal as well as external stakeholders, communication breakdown, and under-resourcing as the most prominent issues faced by MLROs. These factors often lead to decision-making based on self-preservation, a behaviour described by Karni and Schmeidler (1986, p.71) as:

the maximization of the probability of survival in a finite horizon model where in each period the decision maker must choose a risky prospect from a feasible set of such prospects and becomes extinct if his accumulated fortune becomes non-positive.

¹⁸ National Occupational Standards for Anti-Money Laundering, Compliance, and Financial Crime Prevention <https://www.int-comp.org/membership/national-occupational-standards>.

Under such circumstances, MLROs tend to choose a course of action that will increase their chance of survival rather than a course of action that would result in the best AML/CTF outcome for the firm.

- **Lack of Support from Senior Management or the Board**

A foundational pillar for any effective AML program is unwavering support from senior management and the board. This support is not merely rhetorical but is demonstrated through actions and decisions that prioritise compliance initiatives. When MLROs face indifference or resistance at this level, it significantly hampers their ability to enforce AML policies and cultivate a compliance-centric culture within the organisation. Key indicators of insufficient support include dismissive attitudes towards ML/TF/PF concerns, delays or refusals in approving necessary resources, and a general reluctance to engage with compliance issues at the strategic level.

- **Inadequate Resources or Investment in AML/CTF/CPF Programmes**

Effective financial crime prevention requires appropriate resourcing in terms of both staffing and technology. MLROs operating with inadequate resources find themselves at a significant disadvantage, unable to keep pace with the evolving demands of regulatory expectations and the sophisticated nature of financial crimes. Signs of under-resourcing can range from insufficient personnel dedicated to compliance roles, outdated or lacking technological tools for monitoring and reporting, to minimal training opportunities for staff. This not only affects the efficiency and responsiveness of financial crime prevention systems and controls but also places undue stress on the MLRO and their teams, potentially leading to burnout and staff turnover.

- **Persistent Non-Compliance Issues or Reluctance to Implement Recommended Changes**

A firm's repeated failure to meet regulatory requirements or a persistent pattern of non-compliance issues is a glaring red flag. This situation often arises from a systemic reluctance to implement changes recommended by the compliance function or external auditors. MLROs may find their recommendations consistently sidelined or watered down, reflecting a misalignment between the organisation's actions and its stated commitment to compliance. Such an environment not only jeopardises the firm's regulatory standing but also places the MLRO in a professionally untenable position, by making them responsible for financial crime prevention yet powerless to effect change.

- **Ethical Concerns or Conflicts of Interest**

Ethical concerns or conflicts of interest within the firm can severely compromise the integrity of AML efforts. These issues might manifest as undisclosed relationships with clients, pressure to overlook or under report suspicious activities, or any actions that suggest a prioritisation of business interests over compliance imperatives. For MLROs, navigating an environment where ethical compromises are expected or tolerated is not only professionally challenging and personally demoralising, but it also increases the likelihood of regulatory censure. It undermines the fundamental principles of

compliance and can erode the trust and respect necessary for the MLRO to perform their role effectively.

Assessing the situation critically and taking decisive actions to address these challenges is vital. This process involves an evaluation of the current AML/CTF/CPF framework, gathering insights from various stakeholders, and possibly seeking external advice to gain support in addressing the issues at hand.

<p><i>Conducting a risk assessment of the current AML/CTF/CPF framework</i></p>	<p>The initial step in addressing concerns involves conducting a thorough, documented risk assessment of the existing financial crime prevention framework. This should focus on evaluating the effectiveness of current controls, identifying any gaps in the, and understanding the potential for legal and regulatory risks. A comprehensive risk assessment will consider factors such as the adequacy of policies and procedures, the effectiveness of customer due diligence measures, and the efficiency of transaction monitoring systems, and the availability of resources to address identified issues effectively.</p>
<p><i>Seeking feedback from team members and other departments</i></p>	<p>Insights from team members who deal directly with compliance tasks can provide additional perspectives on the practical challenges and operational bottlenecks. Similarly, engaging with other departments such as sales, operations, and customer service can shed light on how systems and controls are perceived and implemented across the firm. This internal feedback can highlight areas of improvement and opportunities to strengthen the financial crime prevention culture within the firm.</p>
<p><i>Consulting with external experts or legal advisors</i></p>	<p>An unbiased external perspective can be crucial in validating the internal assessments and provide strength to the argument for change. Consulting with professional services firms or legal advisors can help the MLRO benchmark their financial crime prevention framework against industry good practices and regulatory expectations. Such external stakeholders can also offer guidance on addressing specific challenges and mitigating identified risks.</p>
<p><i>Proposing solutions</i></p>	<p>The MLRO should then develop a risk mitigation plan to address these issues. This plan should outline specific, actionable steps to improve the AML framework, including proposals for additional resources, enhancements to policies and procedures, technology upgrades, and staff training programs. Presenting a clear, solution-focused strategy can facilitate executive buy-in and support for implementation.</p>
<p><i>Engaging with senior management</i></p>	<p>Once a clear, documented understanding of identified challenges has been established, the MLRO should seek to engage with senior management by presenting an overview of the findings from the risk</p>

	assessment and feedback sessions, emphasising the implications of unaddressed issues on the firm. This open and honest dialogue is essential to securing the executive support necessary for meaningful enhancements. The outcome of these discussions should be documented and shared with all stakeholders.
<i>Seek external support</i>	In situations where internal efforts to address identified challenges require additional validation or support, engaging with external consultants can be beneficial. This external engagement can provide access to specialised expertise, regulatory insights, and potential collaboration opportunities to bolster the firm's AML compliance efforts. Depending on the nature, extent and severity of issues, it may also be necessary to notify FCA under Principle 11 of the FCA's Principles of Business ¹⁹ .

Throughout the assessment and engagement process, maintaining detailed records of identified issues, proposed solutions, and management's responses is important as this can serve as an accountability tool, providing a transparent record of the efforts undertaken to address challenges. It also forms the basis for ongoing monitoring of the enhancement progress and the effectiveness of the actions taken. By thoroughly assessing the situation, engaging constructively with internal and external stakeholders, and proposing targeted solutions, MLROs might be able to effectively address challenges and enhance the robustness of their firm's AML/CTF/CPF framework.

Steps to consider if the environment is not conducive to effective financial crime compliance

While MLROs encountering challenges should initiate open dialogues with senior management to articulate the resulting risks and propose constructive solutions, there might be situations where the firm remains resistant to change. MLROs may then need to consider the sustainability of their positions within such environments.

The decision to stay or leave usually hinges on a complex interplay of professional ethics on the one hand, and the need to sustain their livelihood on the other hand. While it is often thought that the commitment to uphold the principles of financial crime prevention and a desire to protect the integrity of the financial system remain paramount, a more realistic understanding of this situation also considers the financial and emotional well-being of the individual.

Transitioning out of the MLRO role is a significant step, not just for the individual but also for the firm. It is necessary to approach this transition responsibly to ensure a seamless handover. In some instances, it may be necessary to create a formal transition and handover document of all ongoing AML/CTF/CPF activities, investigations, any systems and controls issues that need further attention, governance committees and key reporting requirements. This should include

¹⁹ A firm must deal with its regulators in an open and cooperative way, and must disclose to the FCA appropriately anything relating to the firm of which that regulator would reasonably expect notice.

detailed notes on the current status of each matter, next steps, and key contacts. The MLRO's insight into the role can be invaluable in selecting a successor. Where possible, the MLRO should be involved in the recruitment process by helping to define the role's requirements, reviewing candidate profiles, and even participating in interviews.

How the MLRO discusses their departure can set the tone for the transition. It is important to communicate the reasons for leaving professionally and constructively, focusing on the future rather than any past frustrations. Offering constructive feedback on how the firm can continue to strengthen its financial crime prevention efforts and expressing a willingness to support the transition period can make the process easier for all stakeholders. A well-planned communication strategy related to the MLRO's departure can help maintain confidence among team members and stakeholders in the firm's commitment to financial crime prevention.

For MLROs in financial services, it is not uncommon to be asked by the FCA to attend an exit interview with the regulator. MLROs should remember the FCA's Conduct Rules in this regard:

You must be open and cooperative with the FCA, the PRA and other regulators.

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