Cryptocurrency exchanges to cut customer anonymity, AML risk by crime reporting under new FCA requirements

Published 06-Apr-2021 by
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Cryptoasset exchanges and wallet providers will see reduced customer anonymity because of the Financial Conduct Authority (FCA) crime reporting (REP-CRIM) requirements imposed on the entities from March 2022, lawyers said. The new obligation will help address the money laundering risk attached to such anonymity, they said. The entities will need to conduct a yearly assessment and provide the FCA with numbers of politically exposed persons, non-EEA correspondent banks, and all other high risk persons under the financial crime reporting obligation.

"These new economy firms at the very least will need to conduct a comprehensive assessment of the high risk clients," Arvin Abraham, a lawyer at McDermott, Will & Emery in London, said, pointing to the requirements for financial crime reporting, as set out in the FCA's March 2021 policy statement, Extension of Annual Financial Crime reporting obligations.

"They will need to enhance their systems and controls to carry out the necessary checks. They will only need to report the numbers of these people to the FCA, but as part of that process will also to identify them in case it should ask for names. This brings these firms' compliance more into alignment with that of traditional regulated firms, and they may need to recruit new compliance staff, ideally with experience in the financial sector, who have familiarity with these types of processes," Abraham said.

"When cryptoassets are held by a crypto custodian or exchange, there is currently a separation between who is logged on the register and who the underlying holder of the assets is. This anonymises the identity of the true owners, but the FCA's new requirements go a step towards removing this veil of anonymity," he said.

The FCA's March 2021 policy statement 1.6, following consultation in August 2020 as reported, states that all cryptoasset exchange providers and wallet providers will be required to provide it with REP-CRIM information irrespective of their total annual revenue. Other sectors newly imposed with the financial crime reporting obligation including all electronic money institutions, all organised trading facilities, and all multilateral trading facilities, as well as certain authorised firms holding client money or assets, and all payment institutions.

'Home finance mediation activity' and 'making arrangements with a view to transactions in investments' have been excluded.

Potentially bigger risk

The FCA's resources are targeted at firms that carry on activities posing potentially higher money laundering risks, it said. "This approach will result in continued improvement of firms' money laundering systems and controls, reduce the risk of money laundering and help improve the overall integrity of the UK financial system."

In the REP-CRIM financial crime report, section 2, the FCA requires firms to provide the total number of the firm's relationships with PEPs, non-EEA correspondent banks and all other high-risk clients.

A cryptoasset business is not required to submit information set out in sections 4 of the financial crime report, about sanctions-specific information, the FCA said. "However, a cryptoasset business may choose to do so voluntarily."

The FCA has 25 anti-money laundering investigations continuing into firms and 17 into individuals, involving among other things, systems and controls over politically exposed persons and correspondent banking and trade finance, and transaction monitoring, Mark Steward, executive director of enforcement and market oversight, said in a speech on Friday.

The FCA has an unregistered cryptocurrency businesses list on which it placed first names this month, including all crypto ATM firms and 29 crypto wallet holders, he said.

Complaints Procedure

Produced by Thomson Reuters Accelus Regulatory Intelligence 06-Apr-2021