



Regulatory spotlight on firms registered with the FCA for anti-money laundering purposes

When businesses consider whether they fall within the Financial Conduct Authority's regulatory perimeter, the focus is naturally often on whether they are carrying on a regulated activity requiring Financial Conduct Authority authorisation. However, where no authorisation or other regulatory coverage is required, an increasingly important question is whether the firm separately needs to be registered with the Financial Conduct Authority for anti-money laundering supervision as an 'Annex 1 financial institution'.

Recent Financial Conduct Authority (FCA) communications and supervisory activity also demonstrate a growing scrutiny by the FCA of applications for anti-money laundering (AML) registration, together with the effectiveness of AML systems and controls of firms already registered with it. This is particularly the case in relation to 'Annex 1 financial institutions' (Annex 1 firms) which are lenders.

What is an Annex 1 firm?

Annex 1 firms are firms that carry out certain activities in the UK by way of business that are within the scope of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (**MLRs**) but which do not require FCA authorisation, under the Financial Services and Markets Act 2000.

Broadly speaking, where a firm falls within one or more relevant categories, it must register with the FCA as an Annex 1 firm. The FCA supervises these firms for compliance with the MLRs. Such firms will, amongst other things, be subject to ongoing requirements relating to obtaining customer due diligence.

Which activities fall within scope?

Firms can often be surprised to discover they fall within the Annex 1 regime. Examples of activities potentially requiring registration include the following, amongst others, to the extent the firm is not already authorised:

- lending;
- financial leasing;
- money broking;
- safe custody and safekeeping services;
- securities administration and registrar activities; and
- certain M&A advisory activities.

Taking a couple of examples, UK-based lenders that are not FCA authorised, such as special purpose vehicles (**SPVs**) in fund lending structures, are commonly required to register with the FCA as Annex 1 firms. This is subject to limited carve-outs, such as where the SPV in question is not the original lender.

Additionally, firms carrying on corporate finance advisory activities whose activities do not go so far as to constitute the regulated activities of 'advising on investments' or 'arranging deals in investments' under the FSMA 2000 (Regulated Activities) Order 2001 will typically need to be registered as an Annex 1 firm.

Whilst the FCA does provide some guidance as to the scope of the various activities (primarily in the guidance notes to the registration form itself), this is reasonably high level and firms can often be left in a situation where they are unclear on whether they fall within the remit of the registration obligation, needing to seek specialist legal advice.

What does the registration application involve?

The application primarily involves the submission to the FCA of the AML registration form via the FCA's portal, [Connect](#).

Forms must also be submitted with respect to certain individuals, such as directors and those beneficial owners who own or control more than 25% of the shares or voting rights in the company (where a corporate entity). The FCA will then assess the fitness and propriety of such persons.

A 'nominated officer' must also be appointed for AML purposes, as well as appointing a board member or a senior manager to oversee compliance with the MLRs. Typically, this is the same person.

The FCA helpfully summarises on its [website](#) failings that it frequently identifies in firms' applications. These include, for example, Disclosure & Barring Service checks not having been completed for relevant individuals before submission and the submission of incorrect forms.

Whilst the firm's AML policy and business wide risk assessment / customer risk assessment do not need to be submitted with the application, the FCA will in most instances request and carefully review such documents in our experience.

The FCA has 45 days to determine the application with the ability to "stop the clock" to ask for further information. This timing, therefore, needs to be factored in by firms in terms of when to start their in-scope activities.

Common missteps

Our experience suggests firms often encounter difficulties in five key areas in this sphere.

1. Assuming 'unregulated' means 'outside the FCA's remit'

Businesses may assess (or, typically, instruct legal counsel to assess) whether they require FCA authorisation but fail to consider AML registration obligations separately. As a result, Annex 1 registration can be overlooked entirely, sometimes for significant periods.

2. Financial crime controls failing to keep pace with business growth

Where firms recognise the registration requirement, they sometimes assume that the ongoing compliance burden is relatively light because they are not FCA authorised.

The FCA has made clear that this is not the case. One element the FCA flagged to firms through a 'Dear CEO' letter in 2024 (as covered in our previous [article](#)) was that many firms had grown significantly in a relatively short period, however their financial crime policies, controls and procedures had not kept pace with the size and complexity of the business.

This is not a 'once and done' requirement. Firms should be assessing on an ongoing basis whether their AML framework is fit for purpose, especially where they are scaling rapidly. This includes whether they have the necessary staff resource.

3. Deficiencies in business-wide risk assessment / customer risk assessment

The FCA has expressed serious concerns with the business-wide risk assessment and customer risk assessment of Annex 1 firms in the past.

For instance, when reviewing them in the context of applications for registration, it has found some business-wide risk assessments to be vague, and the methodology used by the firms to be unclear. In one example, a firm was able to identify the high-level risks that it was exposed to. However, the business wide risk assessment failed to clearly articulate the relevant mitigation measures in place to counteract this risk.

In our experience, the FCA is increasingly undertaking detailed reviews of the risk assessment in the course of registration applications and it is vital to ensure that these are sufficiently detailed, comprehensive and well-considered to avoid delays to the application process or, indeed, in a worst-case-scenario, refusal.

4. Policies and procedures

A common issue identified by the FCA in its 'Dear CEO' letter referred to above is that firms' AML/counter-terrorist financing (**CTF**)/counter-proliferation financing (**CPF**) policies are not sufficiently detailed around, for instance, when and how simplified client due diligence and enhanced due diligence should be applied.

The FCA has also noted issues present in firms' ongoing monitoring policies and procedures, where a lack of clarity creates ambiguity about whether ongoing monitoring was taking place, and how this was being achieved.

As with the business-wide risk assessment / customer risk assessment referred to above, firms should ensure that their AML/CTF/CPF policy is sufficiently detailed and ensure that it is kept-up-to date with regulatory developments and any changes to the business.

5. Governance and training

We are aware of several areas in this context in respect of which the FCA often feels that firms do not meet the requisite standard:

- a lack of appropriate oversight from senior management, with them failing to appropriately take responsibility for AML/terrorist financing/proliferation financing risks;
- lack of training ,or of appropriate training, for relevant employees of the firm; and
- weaknesses in management information provided to senior management and record keeping for financial crime decisions, including a failure by some firms to document how they have responded to risks.

Particular issues for lenders

As noted above, particular FCA scrutiny is falling on unregulated lenders which are Annex 1 firms.

The FCA published a [pronouncement](#) on its website in August of this year, flagging two specific concerns the FCA has in relation to such firms:

- Unregulated lenders are relying too heavily on the financial crime controls of their parent companies. Each individual firm within a group must assess whether these controls are appropriate for their financial crime risks, governance, and operations. Crucially, Annex 1 firms cannot simply rely on 'off-the-shelf' procedures designed for a different company. Each must have controls tailored to the way they operate and the risks they need to manage.
- The FCA is especially concerned with risks to consumers and markets from unregulated lending through complex structures, including SPVs. This is commensurate with what we are seeing in practice, with Annex 1 firm registrations for such SPVs being subject to detailed FCA review and challenge.

Annex 1 firm lenders may also be aware that the FCA has flagged potential concerns to regulated firms that deal with Annex 1 firms and has notified such firms that they should ensure they conduct necessary due diligence, including confirming registration status.

What should firms be thinking about?

For new market entrants, the regulatory analysis should not stop with the question: 'Do we need FCA authorisation?'. An equally important question is: 'Do our activities require FCA registration as an Annex 1 financial institution for AML supervision purposes?'.

For firms requiring registration, and those for firms that are already registered with the FCA as Annex 1 firms, it is vital to ensure compliance with the MLRs on an ongoing basis. This includes, amongst other things, by:

- keeping their business-wide risk assessment/customer risk assessment up-to-date and in line with any changes to the business as it scales;
- making sure that appropriate training is provided to relevant individuals; and
- ensuring that there is a suitable (and properly documented) governance framework in place.

How we can help

We have extensive experience in:

- advising firms on whether Annex 1 registration is required;
- drafting / advising on Annex 1 FCA registration applications;
- advising firms on the drafting of business-wide risk assessments and AML/CTF/CPF policies;
- the provision of AML training;
- advising firms who are the subject of FCA information requests / scrutiny; and
- assisting with financial crime remediation exercises.

Please reach out to one of the Financial Regulatory team if you have any questions.



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