

THE SUSPICIOUS ACTIVITY REPORTS REGIME ANNUAL REPORT

2007



SOCA

SERIOUS ORGANISED CRIME AGENCY





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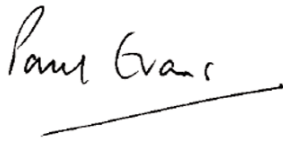
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STATEMENT BY THE CHAIR OF THE SUSPICIOUS ACTIVITY REPORTS REGIME COMMITTEE

I have pleasure in publishing the first Annual Report to Home Office and Treasury Ministers on the Suspicious Activity Reports (SARs) regime. The regime is a central plank in the UK's efforts against money laundering and terrorist financing. That there should be such a report to Ministers on its operation was one of the recommendations of Sir Stephen Lander's review of the SARs regime, published in March 2006, and commissioned by the then Chancellor and Home Secretary.

The Report has been prepared by the SARs Regime Committee, an independent Committee, involving the reporting sector, law enforcement and the Serious Organised Crime Agency (SOCA), set up, as recommended by Sir Stephen, to oversee the performance of the regime's participants and the discharge of their responsibilities.

As the Report attests, there has been good progress since the Lander Review, due to the collective efforts of all participants, and a notable shift towards more of a partnership approach. However, it is also clear from the report that there is more to do to secure the full potential of the regime to prevent terrorists and organised criminals securing and concealing the funds they use to pursue their criminal activities. The Report also therefore outlines the Committee's proposals for further improvements. Developments in that regard shall be reported in next year's Annual Report.



Paul Evans

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

SUMMARY

This report considers the following aspects of the Suspicious Activity Reports (SARs) regime:

- ▶ progress against the recommendations made in Sir Stephen Lander's Review of the SARs regime of March 2006;
- ▶ the current health of the regime; and
- ▶ next steps in its development.

Progress against the Lander Review Recommendations

The UK Financial Intelligence Unit (UKFIU) and its partners have addressed all 24 recommendations contained in Sir Stephen's Review. However, the recommendations differ in nature and in the extent to which they have been implemented. Some can be described as fully implemented, for example recommendation 18 on giving the Serious Fraud Office access to the ELMER database (the database on which SARs are stored). Of the remaining recommendations, some have been largely addressed and are now an integral part of the regime that will require ongoing effort, such as the requirement in recommendation 2 to conduct sector-specific seminars. Finally, there are others which will require significant further effort for the full intention of the recommendation to be realised, such as recommendation 20 on integrating SARs work into mainstream policing.

Current Health of the Regime

The UKFIU is performing well, both in regards to its bureau functions such as processing international requests and consent and terrorism SARs, and in regards to dialogue and intelligence activities, although there remains potential for further enhancement. This is within a challenging resource environment at SOCA. Further development will require additional resources.

The quality of SARs submitted by reporters has improved, although there remains scope to further reduce the numbers of reports submitted manually, which impose delays and reduce overall efficiency. Use of SARs by end users remains patchy with significant areas of weakness, although the number of breaches of the confidentiality of SARs by law enforcement has been reassuringly low.

Next steps

There are two main priorities for the year ahead. First, to maintain recent progress in the face of a challenging resource context. Improvements in the regime's performance resulting from implementation of the Lander Review need to be maintained. The second priority is to drive up the value extracted from the regime by end users. Without such an improvement the full benefit of the reporting sector's efforts will not be realised.

The key planned mechanism for delivering future progress in the regime will be the SARs Transformation Project. This will bring significant change to the technology underlying SARs and the surrounding business processes. In addition, progress will also need to be maintained alongside or in support of changes in the wider policy environment. A number of developments are on the horizon which may impact on the SARs regime, particularly the introduction of the Money Laundering Regulations 2007, developments in the consent regime, the introduction of a prescribed form, the Government's Asset Recovery Plan and implementation of the Fraud Review.

Conclusion

Much progress has been made since April 2006. There exists much good practice in many areas. Investment and developments going forward need to be concentrated on making it easier for end users to better exploit SARs and SARs derived information. Improvements are also required to the statistics and feedback that can be extracted from the regime. This Annual Report aims to set a benchmark with which future reports can be compared. However, the ability to obtain meaningful management information from the system is limited currently. Funding permitting, the SARs Transformation Project will bring improvements in this regard.

The overall goal is a SARs regime which provides the best possible balance between:

- ▶ the costs to reporters and to other regime participants;
- ▶ addressing the threats to the UK from crime and terrorism; and
- ▶ the reward that the regime potentially offers through the reduction of harm and the recovery of the proceeds of crime.

INTRODUCTION

This is the first Annual Report of the SARs Regime Committee on the operation of the SARs regime. The Committee was set up by SOCA's Board to oversee the performance of the regime's participants and the discharge of their responsibilities. Membership of the Committee is set out in Annex A.

A recommendation that there should be an Annual Report was included in Sir Stephen Lander's Review. The Review, commissioned by the then Chancellor and the Home Secretary and published in March 2006, also included a range of other recommendations to improve the regime.

The Committee invites SOCA's Board to submit this report to Ministers. It covers the first year of SOCA's management of the regime, from 1 October 2006 to 30 September 2007. While SOCA took over operation of the UKFIU from the National Criminal Intelligence Service (NCIS) when it was created in April 2006, it did not take on responsibility for the regime as a whole until October 2006.

This report also aims to meet the UK's obligations under the third EU Money Laundering Directive to provide feedback to industry on SARs. It also builds on the UK's 'largely compliant' ratings under Recommendations 26 and 32 of the Financial Action Taskforce (FATF), given in the recent evaluation by the FATF of the UK anti-money laundering/counter-terrorist financing (AML/CTF) system. Recommendation 26 requires the UKFIU to provide feedback and Recommendation 32 requires it to review the effectiveness of the SARs regime in combating money laundering and terrorist financing by keeping statistics relevant to its efficiency and effectiveness.

In February 2007 the Government published its AML/CTF strategy, in a document entitled 'the Financial Challenge to Crime and Terrorism'.¹ That document encompassed all aspects of the effort against the abuse of the financial system by criminals and terrorists, and set out a number of strategic priorities to guide the activity of the members of the AML/CTF community. This report endeavours to make clear the linkages between the SARs regime and the wider strategy, to provide assurance on the part the regime is playing in the larger whole. Details of this are set out at Annex B.

Wider policy on AML/CTF continues to evolve within the overall strategy. A number of changes are in prospect which will impact on the SARs regime. These are outlined in part 3.

The first part of this document looks at progress against the recommendations of the Lander Review, the second considers the current health of the regime, and the third looks at next steps in its development.

PART 1: PROGRESS AGAINST THE LANDER REVIEW RECOMMENDATIONS

Sir Stephen Lander's Report on the SARs regime identified twenty-four recommendations to address weaknesses in the system.

The Report noted a perception that not enough was being done to exploit SARs in order to detect and prevent crime and recover criminal proceeds. This was reflected in a number of recommendations targeted at end users.

The UKFIU and its partners have addressed all twenty-four recommendations. Implementation of each is at various stages, and some require further work. The recommendations are set out in full below, along with an overview of progress against each.

No	Recommendation	Implementation
1	SOCA should take overall responsibility for the effective functioning of the SARs Regime.	SOCA took responsibility for the regime on 1 October 2006.
2	<p>The governance arrangements for the regime should have the following features:</p> <ul style="list-style-type: none"> ▶ a published Annual report to Ministers on the operation of the regime; ▶ supervision of SOCA's discharge of its responsibilities by a committee of SOCA's Board, comprising members from the reporting sectors, the regulators and from end users as well as the UKFIU management; ▶ a vetted group of representatives of the reporting sectors, of law enforcement and of the key policy departments, to discuss sensitive casework and reporting issues, and to clear the distribution of SOCA guidance; and ▶ quarterly, sector-specific seminars for MLROs and their senior management. 	<p>This is the first Annual Report. These will be produced each year.</p> <p>The SARs Regime Committee was set up in October 2006, with membership as set out in Annex A. It meets quarterly. The Committee oversees the performance of the regime's participants and the discharge of their responsibilities. It also ensures developments in the regime are effectively reported to the Home Office/HM Treasury Money Laundering Advisory Committee (MLAC).</p> <p>The Vetted Group was set up in October 2006. Terms of Reference were agreed by the SARs Regime Committee in September 2006, and membership was appointed following nominations from the sectors concerned. Meetings take place every 6 weeks.</p> <p>A format of sector-specific seminars was established and a programme is ongoing. Quarterly SOCA seminars for the banking, insurance, legal and accountancy sectors are now in place. Regular seminars are also being held for a number of other sectors.</p>
3	There should be significant further investment to improve the timeliness of operation of the UKFIU and to secure more effective exploitation of the information as it arrives at, and when stored in, the ELMER database.	Improvements to the IT that supports the SARs regime have been introduced, but further development will be necessary. A series of IT 'quick wins' has provided partial solutions to some necessary functions, but to address this recommendation fully further significant change to the underlying technology of ELMER (the database on which SARs are stored) and surrounding business processes is required. This is being taken forward as a distinct 'SARs Transformation Project', which is likely to extend over a number of years.

<p>4</p>	<p>The UKFIU should press ahead with administrative changes to the operation of the ELMER database in consultation with other participants. This should include:</p> <ul style="list-style-type: none"> ▶ the introduction (by Statutory Instrument under POCA s.339) of the prescribed form, but against an undertaking to review its effectiveness after two years of use; ▶ the setting of a timetable for the extension of electronic reporting throughout the sectors; and ▶ The development, with the reporting sectors, of a glossary of terms to be used in reporting to improve the quality and consistency of SARs, in particular in relation to the way in which grounds for suspicion are described. 	<p>A Home Office consultation on this ended on 22 October. The aim is that, if agreed by Parliament, a Statutory Instrument will come into effect on 1 April 2008, the next date on which this is possible.</p> <p>The capacity for reporters to submit SARs electronically is available to all through SAR Online. In the year to October 2007 86.7% of SARs were submitted electronically. The priority now is to drive up this proportion. SAR Online is being championed at all UKFIU interactions with reporters. Statistics on volumes of paper and electronic reporting are set out in part 2.</p> <p>A glossary of terms was made available in January 2007, based on extensive consultation with end users and parts of the reporting sector. Revisions to the glossary are ongoing to ensure it meets the needs of all reporters.</p>
<p>5</p>	<p>Consideration should be given to outsourcing the operation of the ELMER database to a service level agreement that would address necessary new requirements and meet participants' reasonable performance expectations.</p>	<p>A project was undertaken to establish whether outsourcing some or all of the ELMER database and linked services would be feasible and desirable. To achieve this, the following questions were considered:</p> <ul style="list-style-type: none"> ▶ what did stakeholders want the IT to provide; ▶ what could be provided by in house IT; and ▶ what could be provided by an external provider? <p>Conferences and meetings were held on these issues, including with potential suppliers. From this, the SOCA Board concluded that outsourcing was an option for delivery of the necessary improvements to the IT. This view was endorsed by an Office of Government Commerce Gateway (OGC) Review.</p>
<p>6</p>	<p>There should be a greater volume of routine reporting by SOCA from the UKFIU, designed to share perspectives on the operation of the regime as a whole.</p>	<p>While there is still more to do, the UKFIU has taken steps to increase the volume of routine reporting. The following types of report have been issued, some as 'Alerts' and some as analysis of the performance of the regime:</p> <ul style="list-style-type: none"> ▶ an assessment of identity fraud reporting; ▶ strategic and tactical assessments and typologies, for example on the vulnerabilities of letting agents; ▶ intelligence reports on the prevalence of money laundering and the associated risks to reporting institutions; ▶ quantitative and qualitative overviews of activity by reporting and end user organisation and sector, for example an assessment of reporting by FSA regulated firms; and ▶ evidence, where available, of tangible benefits to the reporting sectors such as frauds prevented or damage to reputation avoided such as through 'Alerts' to industry.

7	SOCA should build up bilateral dialogue between the reporting sectors and the UKFIU, and should extend such dialogue to the main end users of SARs.	<p>As well as the range of new dialogue fora that have been established, the UKFIU also initiated a programme of bilateral visits for individual firms. In addition, the UKFIU has recruited to its Dialogue team experienced law enforcement officers based around the UK who have been focussing on improving dialogue with end users.</p> <p>A breakdown of visits to the regulated sector, and also sector-specific seminars held over the period of this report, is found at table 1 below.</p>
8	SOCA should accept responsibility for producing guidance on the regime and for supporting other participants in the training they provide for their own staff.	<p>A substantive revision of the SOCA website took place in January 2007. It now includes guidance on the legislation, how to submit a SAR, what makes a good SAR and on confidentiality, as well as answers to frequently asked questions. The UKFIU also provides material for use by trainers and contributes to the development of guidance by others, such as the Joint Money Laundering Steering Group.</p>
9	SOCA should develop and propose to other participants a performance measurement framework for the regime as a whole.	<p>A light touch framework focussing on mutual visibility rather than prescriptive targets or predetermined outcomes was developed in October 2006. It:</p> <ul style="list-style-type: none"> ▶ measures delivery of the SARs Review recommendations; and ▶ provides an oversight of the regime from start to finish, allowing each sector to see the performance of other participants as well as measuring improvement over time. <p>More enhanced management information capabilities are being developed as part of the SARs Transformation Project.</p>
10	It would be inappropriate for SOCA as the UKFIU or for Government more generally to seek to suppress the overall numbers of SARs.	<p>No action has been taken to suppress the volume of SARs.</p>
11	SOCA should commit effort to identifying problems of uneven volumes and mixed quality of reporting and to helping reporters address them.	<p>The UKFIU has made this commitment. Analysis has been undertaken of the quality and volume of SARs and the findings are being addressed, either with individual firms or through sectoral engagement, such as through trade associations or at sector-specific seminars. The first 5 SARs submitted online by new reporters are now examined for quality and any consistently poor submissions are being addressed.</p> <p>A Regulators' Forum was established in September 2006 to promote a better understanding between the UKFIU and the regulators, and to ensure the implementation of this and other relevant Lander Review recommendations.</p>
12	A risk-based approach to supporting the weaker (reporting) performers should be the subject of further discussion with regulators with the aim of devising joint programmes of work going forward.	<p>Discussions continue. As above, analysis continues to be undertaken of the quality and volume of SARs. This has formed the basis of joint programmes of work with the Financial Services Authority (FSA), HM Revenue and Customs (HMRC) and the Law Society of Scotland.</p>

13	<p>All end users should accept obligations of confidentiality in the handling of SARs as a condition of access to the ELMER database.</p>	<p>Partnership Agreements, covering the rights and obligations for end user access to ELMER were signed between the UKFIU and all end users between September 2006 and February 2007. They include obligations of confidentiality. This work has been reinforced and supported by the SARs Confidentiality Line (Recommendation 14).</p>
14	<p>The Home Office circular (on SARs handling) should be reinforced through the following arrangements. SOCA should:</p> <ul style="list-style-type: none"> ▶ establish a hotline for the reporting sectors to raise any concerns about the inappropriate use of SARs, and should pursue those concerns with the end users involved; ▶ issue more detailed guidance to all end users on the appropriate handling of the information in SARs, including on sharing with international partners and record keeping aspects; and ▶ include in the SARs Annual Report an account of the number of breaches of SARs confidentiality and of the action taken to prevent repetition. 	<p>The Confidentiality hotline was introduced in October 2006 (0800 234 6657). Details of the calls received and follow up made are set out in part 2.</p> <p>Partnership Agreements contain requirements on confidentiality. Articles were placed in suitable law enforcement focused media to ensure that all end users are aware of the conditions of SAR use. The UKFIU is also engaged with prosecutors to ensure awareness of the conditions related to SAR use.</p> <p>Part 2 contains this information.</p>
15	<p>SOCA should provide a service of information, intelligence and leads to end users which in due course should have following features:</p> <ul style="list-style-type: none"> ▶ active use of the data in SARs on receipt; ▶ facilitation of law enforcement exploitation of ELMER; ▶ provision of intelligence products and management reports from the ELMER database; 	<p>IT “quick wins” were developed and are being implemented to ensure that more active use of data in SARs is undertaken on receipt. Following requests from end users, capacity to search the “free text” box in SARs has been introduced. This is being used and is regarded as valuable by end users.</p> <p>The UKFIU has facilitated an increased exploitation of the database by end users, including by demonstrating to them how to get the most of the regime, for example through ELMER roadshows. In addition, improved training for end users has taken place and will continue.</p> <p>SARs intelligence has been supplied to the following, resulting in new leads and saved man hours:</p> <ul style="list-style-type: none"> ▶ HMRC to support MTIC investigations; ▶ the Metropolitan Police regarding suspicious activity across a variety of possible predicate crime including for Operation Trident. <p>The UKFIU has provided searches of the ELMER database in response to requests from UK Law Enforcement Agencies. 543 standard searches were disseminated in the period of this report.</p>

	<ul style="list-style-type: none"> ▶ use of ELMER in relation to all acquisitive crime; and ▶ cross matching of SARs against other databases. 	<p>This was covered within the Partnership Agreements and has been discussed at ELMER roadshows for end users. In addition, regular contact from the UKFIU provides end users with advice on best practice, assistance in the mainstreaming of SARs for use in work on all acquisitive crime and gives the UKFIU evidence of how SARs are being used and their successes, to feed back to reporters.</p> <p>However, overall use of ELMER remains patchy with significant areas of weakness. This is explored in more detail in parts 2 and 3.</p> <p>A pilot project to undertake cross matching SARs with other Government databases was completed in May 2006. The results of this project were cited in the data sharing chapter of the Home Office's Green Paper on "New Powers Against Organised and Financial Crime".</p> <p>Some other projects have been undertaken in this way, to add value to existing SARs intelligence by cross matching it with external data. An example of this (the PILLS exercise) is contained in part 2.</p>
16	<p>All end users should now commit to reporting twice yearly to the UKFIU on the use made by them of SARs and SARs derived reporting, and the outcomes already delivered and those anticipated in the months ahead.</p>	<p>Commitment to providing twice yearly feedback was included within the Partnership Agreements which have been signed.</p> <p>The extent of feedback submitted has been limited so far, although it is increasing, as end users put into place the systems to collect the information and report it back to the UKFIU.</p>
17	<p>The quality of SARs work, as well as proceeds of crime work more generally should feature routinely in HMIC's inspection programmes.</p>	<p>SARs have featured in HMIC's crime inspection programme. Information on further activity in this regard is set out in part 3.</p>
18	<p>SFO should have on-line access to the ELMER database so that they can identify for themselves any SARs reporting that bears on the crimes they investigate or the individuals in whom they have an existing investigative interest.</p>	<p>The SFO was given access to the ELMER database in October 2006.</p>
19	<p>Each police force should nominate a senior officer to oversee all SARs and consent request work and to act as a contact point for the UKFIU and the reporting sector as necessary.</p>	<p>The requirement to nominate such an officer was included in the Partnership Agreements. Single Points of Contact (SPOCs) for all end users have been appointed.</p>
20	<p>Forces should explore how their SARs work could best be integrated into mainstream policing activities to:</p> <ul style="list-style-type: none"> ▶ secure "all acquisitive crime" benefits; and ▶ increase the involvement of wider policing experience thereby reducing reliance on trained and accredited financial investigators. 	<p>A broad spectrum of work has been undertaken to deliver the "mainstreaming" of SARs within law enforcement. At a strategic level, it was included as a priority within the Government's anti-money laundering/counter-terrorist financing strategy in February 2007.² At a tactical level it was made a key objective for a new SOCA-led joint Programme of Activity tackling criminal finances and profits, which is part of the new Control Strategy programme.</p> <p>However, overall use of SARs remains patchy with significant areas of weakness. This is explored in more detail in parts 2 and 3.</p>

² The Financial Challenge to Crime and Terrorism, page 40.

21	Regulators should not have direct access to the ELMER database, but instead SOCA should commit to providing a service of relevant information to each.	The UKFIU has committed to providing a service to each regulator. Delivery has begun with the production of an in-depth analysis for the FSA on SAR reporting by the firms it regulates.
22	The service SOCA shall provide should be the subject of formal agreement with each regulator, and the efficacy of these arrangements should be reviewed after two years' operation.	Key regulators have signed up to Joint Working Agreements. Further agreements with other regulators are expected to be ratified in October 2007.
23	SOCA should have a responsibility for ensuring that Departments receive the intelligence reporting and SARs regime performance data they need.	The information that Departments should receive has been agreed, and has been provided to their according to their needs. For example intelligence reports were produced to assist HM Treasury in developing the Money Laundering Regulations 2007.
24	The implementation timetable proposed, covering the eighteen months from April 2006, should be adopted.	The implementation timetable was agreed with the SARs Regime Committee and the SOCA Board following publication of the Lander Report.

Table 1: Sector Specific Seminars and regulated sector visits, in the year to October 2007

	<i>Sector Specific Seminars</i>	<i>Visits</i>	<i>Total</i>
Accountancy	6	35	41
Banking	8	62	70
Legal	7	13	20
Money Service Businesses	1	7	8
Gaming	3	17	20
Insurance	2	10	12
Estate Agents	2	5	7
Trust and Company Service Providers	0	2	2
Factors and discounters	0	1	1
			181

Significant, coordinated efforts have been made to improve the SARs regime, which has done much to promote confidence in SOCA's ability to deliver further progress.

Philip Robinson, Director – Financial Crime and Intelligence Division, Financial Services Authority

Conclusion

The activity described in this section represents considerable progress. The UKFIU and its partners have addressed all 24 recommendations contained in Sir Stephen's Review. However, the recommendations differ in nature and in the extent to which they have been implemented. Some can be described as fully implemented, for example recommendation 18 on giving the Serious Fraud Office access to the ELMER database (the database on which SARs are stored). Of the remaining recommendations, some have been largely addressed and are now an integral part of the regime that will require ongoing effort, such as the requirement in recommendation 2 to conduct sector-specific seminars. Finally, there are others which will require significant further effort for the full intention of the recommendation to be realised, such as recommendation 20 on integrating SARs work into mainstream policing.

PART 2: CURRENT HEALTH OF THE REGIME

Introduction

This chapter looks at the current health of the regime, as at the end of September 2007. It looks at what the regime can now achieve as a result of the implementation of the Lander Recommendations, and how each of the regime participants are contributing – the UKFIU, reporters and end users.

Key statistics

	2005	2006	October 2006 – October 2007
Total SARs received	195,702	213,561	220,484
Consent SARs	9,513	9,674	11,277
SARs disseminated to the National Terrorist Finance Investigation Unit	649	907	1,088
Percentage submitted electronically	67.65%	81.60%*	86.70%
Percentage submitted manually	32.35%	18.40%	13.30%
Breaches of confidentiality	N/A	8 (from April 2006)	6**

* SAR Online was introduced in April 2006, which explains the big leap in the percentage of reports submitted electronically in 2006.

** In addition, one call to the confidentiality telephone line is still under investigation.

It is expected that the number of SARs received will continue to grow, although at a less high rate. There are 932,324 SARs on the database as at end-September 2007. A breakdown of SARs received, consent SARs, and terrorism SARs, by sector, is contained at annexes C, D and E.

At the time of the Lander Report, the UKFIU had 80 directly employed staff, and SOCA management assessed that approximately 200 were needed. In July 2007 the Financial Action Taskforce commented that “the UK FIU should continue to increase its staff, especially its analytical staff in the Intelligence Team and other teams, in line with the objective set out in the SARs (“Lander”) review”. Currently there are around 96 directly employed staff in the UKFIU. More staff are required if current levels of effectiveness are to be sustained.

Key points

UKFIU

The **level of dialogue** between the UKFIU and other regime participants has increased under SOCA. As a result, communication and understanding between each SAR regime participant has improved. In the year to October 2007, 29 sector-specific seminars and 152 bi-lateral visits took place, in addition to an increased number of attendances at local and regional money laundering and financial crime fora.

Structures and processes are in place for **sharing information**, and **intelligence products** judged to be useful by recipients have been produced. The Vetted Group, established to enhance private and public sector intelligence-sharing about money laundering and terrorist financing risks, comprises members of the reporting sectors and law enforcement. As part of its role, it considers whether intelligence products contain aspects that could be developed into an ‘Alert’ for the private sector. Participants from the banking sector in particular are positive about the impact of the Group at this early stage, although there is more to do if its full benefit is to be felt by the reporting sector as a whole.

The SOCA Vetted Group is a mutually supportive forum designed to assess the most effective method of deploying intelligence across the private sector in order to add value in the fight against financial crime and terrorism. Its members are dedicated to making a difference. It has worked well and continues to demonstrate the potential of an inclusive approach informed by Law Enforcement and the Reporting Institutions.

Private sector member of the vetted group

On **Politically Exposed Persons**, a total of 79 intelligence packages on specific subjects were produced from SARs and disseminated to partners.

The UKFIU also receives and analyses SARs related to **terrorist finance**. The information contained in SARs related to terrorist finance has been used to assist in the prevention of further terrorist activity, through being linked to ongoing enquiries and regularly adding valuable new information. The UKFIU communicates to a wide range of financial institutions and trade bodies on terrorist finance issues, through a number of fora. The result of this has been increasingly useful SARs, as demonstrated by feedback from NTFIU. Importantly, SARs are used to provide leads in substantive terrorist enquiries, rather than only for purely financial investigations. UKFIU officers also work with the reporting sector to assess whether new financial products may be vulnerable to abuse by terrorist financiers.

Internationally, the UKFIU now has a turnaround time of around 11 days for responding to enquiries for financial intelligence from Egmont partners (Egmont is the coordinating body for the international group of FIUs). This is against an Egmont standard of 30 days and a UK time in excess of 40 days at the inception of SOCA. The richness of intelligence content in these replies has also increased. Whilst obtaining feedback on the use made of the UKFIU responses is not always practical, good feedback has been received on some disseminations, from the USA in particular.

The UKFIU markets the role of Egmont amongst UK LEAs and facilitates the acquisition of overseas financial intelligence from foreign FIUs. Feedback from UK law enforcement on the results of this has been positive. In one case HMRC have highlighted the UKFIU's facilitation with Liechtenstein in a fraud case which identified tens of millions of pounds in hidden assets.

Consent

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. Through analysis it identifies opportunities for law enforcement to undertake operational activity under the Act and ensures that the SAR is allocated to the appropriate agency.

The consent regime has delivered law enforcement results over the last year. For example consent requests referred to the revenue function of HM Revenue and Customs (HMRC) largely related to tax credit fraud identified by banks and building societies. Of these, consent was refused in 98% of cases and £13,376,000 has been recovered. Such referrals to HMRC consisted of 10% of all consent cases received.

However, comprehensive data on investigative outcomes resulting from the consent regime is not available from many other law enforcement agencies. The UKFIU is developing a more proactive approach to eliciting feedback from end users on the outcome of refused consent requests.

The turnaround time taken for partner agencies to deal with consent cases is dependant on an amalgam of factors including the volume of cases referred by the UKFIU, the complexity of the cases, the need to clarify information or liaise with the reporter, the likelihood of an agency refusing consent, available resources and the appetite to pursue the proceeds of crime. Turnaround time on its own is not an accurate measure of the effectiveness of the consent regime as a whole, in part for these reasons. In addition, longer turnaround times by law enforcement agencies often lead to greater volumes of assets recovered or other intervention activity.

In addition, since the courts have clarified the position in regards to reports from solicitors on litigation³ there are fewer cases requiring administrative consent, leading to a much higher percentage of actionable requests for the UKFIU and its partner agencies. These consequently require more careful consideration. The cases also now tend to address more complex applications of the POCA consent provisions, sometimes requiring legal advice and often demanding further engagement with the reporter. Therefore, there is an upward pressure on turnaround times that has no bearing on effectiveness.

³ *Bowman v Fels* (March 2005)

However, faster turnaround times improve pressures on reporters. Because of this, along with the fact that the legislation sets a seven day limit for the UKFIU to respond, the UKFIU measures these times.

Figure 1: Consent data from October 2006 to end September 2007

Requests Per Month	955
Referred to LEA	63%
All consent requests (days)	3.0
Requests dealt with by the UKFIU	1.7
Requests referred to law enforcement agencies	3.8

Reporters

The quality of SARs generally has improved. Monthly feedback reports show that, of the initial assessments made by end users on SARs, only a very low number – 3% or less of returns – have indicated that SARs contained insufficient data.⁴

Analysis of specific comments provided shows that, of those that relate to the quality of SARs, two issues in particular arise: first that the SAR uses trade language or abbreviations that are not understood by end users and second, a very small number of SARs are received with no reason for suspicion given. This may be due to the SAR being submitted to the UKFIU in error before the form has been fully completed with either no reason for suspicion given or with only a comment which is probably meant for internal use only, for example "further investigation required".

While the number of SARs submitted manually has decreased in recent years, there remains room for further automation. Based on it being possible for one person to manually enter 4 SARs per hour, the number of SARs received manually in the year to October 2007 represents a cost to the UKFIU of around 977 man days of effort. In addition, were these to be submitted through SAR Online, it would be likely to result in better quality reports, as reporters would be prompted to complete key boxes. More detail on the reporting methods used is contained in the table below.

Number of SARs

<i>Method of Reporting</i>	<i>Oct '06</i>	<i>Nov '06</i>	<i>Dec '06</i>	<i>Jan '07</i>	<i>Feb '07</i>	<i>Mar '07</i>	<i>Apr '07</i>	<i>May '07</i>	<i>Jun '07</i>	<i>Jul '07</i>	<i>Aug '07</i>	<i>Sep '07</i>	<i>Total</i>
SAR Online / Internet	2,037	2,392	1,788	2,157	2,490	2,952	2,359	2,892	2,981	3,370	2,894	2,687	30,999
Money.Web / Extranet	1,364	1,288	1,295	1,198	1,179	1,674	1,311	1,462	1,305	1,203	1,073	795	15,147
CSV file / Encrypted bulk data file	12,651	16,815	10,928	12,986	11,872	13,887	11,036	13,080	10,953	9,638	10,806	9,083	143,735
Encrypted e-mail	50	152	123	139	67	88	93	123	93	138	65	152	1,283
Manual	3,022	3,043	2,221	2,433	2,116	3,379	4,147	2,243	2,111	1,796	1,709	1,100	29,320

Reporters also make a significant contribution to the various fora that are central to the operation of the SARs regime, such as the SARs Regime Committee, the Vetted Group and various groups related to the SARs Transformation Project.

End users

There is a range of end users of SARs. This includes law enforcement agencies, but also government departments and the private sector, which utilise SARs-derived intelligence products. Value has been extracted from the regime by the full range of this community, through the achievement of law enforcement outcomes, the development of government policy and the enhancement of firm's anti-money laundering/counter-terrorist financing controls.

⁴ Monthly reports have been produced by the UKFIU on feedback submitted by end users since January 2007. The data does not present the full picture as not all end users have returned feedback, and not all SARs have been looked at by end users. Consideration of this figure as an indicator of reporter performance must also be tempered by the fact that some reports may be incomplete because the full information is not available to the reporter rather than due to a failure on the reporters' part.

The UKFIU's threat assessment products and information derived from SARs and other intelligence have a vital role to play in informing Government policy to tackle financial crime. The development of revised risk-based Money Laundering Regulations was substantially informed by important analysis from the UKFIU.

Paul Rankin, Director – Financial Services, HM Treasury

In regards to law enforcement agencies, SARs can contribute to a range of outcomes including the building of intelligence on criminals and terrorists, harm reduction, investigations, convictions, and asset recovery. Not all SARs will be of use for law enforcement purposes.

There is evidence of the regular use of SARs by a number of law enforcement agencies, as set out in the examples below. In addition, SARs have featured in a number of high profile investigations, some of which cannot be referred to in this document. However, in line with evidence previously uncovered for the Lander Review it is clear that SARs usage is still not as widespread and regular as it should be.

It is the case however, that end users do not yet have the management information systems in place to enable them to accurately gather information on the use made of SARs, and feed this back to the UKFIU. In addition, sanitised SAR intelligence is often mainstreamed by end users into local intelligence systems, where no quantitative feedback on its successful utilisation is available. Despite this, it remains the case that overall levels of SARs usage are sub-optimal.

Confidentiality

The [telephone line](#) established in response to recommendation 14 received sixteen calls reporting concerns about inappropriate use of SARs in the year to October 2007. Nine of these concerns were deemed by the UKFIU not to be confidentiality breaches. Of these nine cases on six occasions the suspect had made an assumption that the reporter had provided law enforcement with information. However, there had been no such breach by law enforcement. The other three cases involved a misunderstanding or incorrect use of the confidentiality telephone line. For example, a call was received from a reporter after its customer had become aware that a SAR had been made on him and contacted its head office to discuss. However, it emerged that the customer had overheard staff at the reporting institution discussing the SAR, rather than had been informed of its existence by law enforcement.

Six calls have been confirmed as breaches, and one is still under investigation. Of the six confirmed breaches, four resulted from a SAR, or material held within a SAR, being mentioned to a suspect at interview. Each of these have been followed up to the satisfaction of the reporter. Two were disclosed in Court by order of the Judge. The breaches have originated from the following sources: City of London Police, HM Revenue and Customs (2), Leicestershire Police, Nottinghamshire Police, and the Royal Mail. However, after investigation it is clear that the breaches that have taken place are not indicative of systematic problems within the end users, but rather are isolated errors by individuals. Effective investigations have been undertaken within the organisations involved, and detailed feedback provided to the relevant reporters.

While the SARs Regime Committee accepts that any breach of confidentiality is unacceptable, the low numbers indicated above suggest that this problem is not as widespread as it once was. However, continued vigilance is required.

When SARs material is disseminated to overseas agencies it is sanitised by the UKFIU to ensure that the Reporter cannot be identified. All search requests from Egmont partners undergo appropriate checks and must satisfy basic criteria prior to dissemination.

The evidential use of material disseminated (and received) by the UKFIU in this manner is governed by the Criminal Procedure and Investigations Act 1996. Normally it will be for intelligence purposes only. However, in the event of it featuring in a prosecution, Public Interest Immunity must be sought. Risk assessment procedures are applied to the dissemination of such intelligence.

The lack of confidentiality of SARs was a serious problem that threatened to undermine the reporting regime and its credibility with the regulated sector. SOCA's efforts to create awareness of the Home Office Circular and ensure compliance with it have made breaches of confidentiality much less common now and restored confidence in the regime.

Robin Booth, Partner, BCL Burton Copeland

SARs successes

Cross matching in action: The PILLS exercise (April 2007)

A cross-matching exercise was carried out on SARs and information reported to SOCA by pharmaceutical companies (under EU Directives 273/2004 and 111/2005) relating to suspicions about drug precursor chemicals and cutting or bulking agents; chemicals associated to terrorist misuse or chemical assisted sexual assault and other crime; and specialist scientific equipment orders or enquiries.

The cross-match against ELMER of nominal data from 131 such chemical records made in the past two years identified 18 confirmed matches which enhanced SOCA's intelligence picture. Some examples of these matches are:

- ▶ the chemical record identified a subject arrested in Germany and the seizure of a drug precursor chemical. ELMER contained further details on the subject and identified large sterling and euro transfers to third parties;
- ▶ the chemical record identified a subject with previous convictions for controlled drugs supply who was purchasing tablet manufacturing equipment. ELMER contained further details linking the subject's company to controlled substances and the receipt of large credits;
- ▶ the chemical record linked an address to trading of an unlicensed pharmaceutical drug. ELMER linked the address to suspicious transactions in excess of \$1million;
- ▶ the chemical record linked an address concerned with the purchase of large quantities of a drug cutting agent. ELMER contained details of an associated company receiving large deposits into their bank account; and
- ▶ the chemical record linked a telephone number to a subject attempting to purchase drug precursor chemical. ELMER linked the telephone number to a request for a cash advance of \$900,000 from a bank.

These matches were further developed for subsequent law enforcement action and they demonstrate the added value that can be extracted through matching SARs against other criminal intelligence databases.

Example of the value of terrorist SARs

Operation OVERT was the generic name for the long term operation which culminated in the arrest of 24 persons for suspected terrorist offences on 10 August 2006. The UKFIU provided operational support for the National Terrorist Finance Investigation Unit (NTFIU) and counter-terrorism agencies. In total, 153 SARs were linked to the investigation and passed to NTFIU.

PEPs SARs in action

A number of disclosures relating to former Nigerian State Governors were collated and disseminated by the UKFIU to the Metropolitan Police's Proceeds of Corruption Unit. This assisted in successful intervention activity against a number of the governors and their close associates.

Evidence of the routine use of SARs by a number of law enforcement agencies includes:

- ▶ the Metropolitan Police conducts analysis of SARs allocated to it and feeds this into its tasking process for wider operations. Data-mining, including of particular names associated with specific predicate offences, and cross referencing with other databases, takes place and proves fruitful. In addition it is developing a performance management framework through which to assess the use made of SARs by different boroughs;
- ▶ Merseyside Police has developed numerous SARs, on a large number of individuals, to assist it in identifying an organised crime network, which resulted in the recovery of 2 kilos of cocaine and the arrest of offenders;
- ▶ Police forces including Cumbria Constabulary have provided feedback on SARs that have been used to identify assets and criminal benefit in the course of confiscation investigations;
- ▶ many police forces, including Bedfordshire Police, Kent Police and West Midlands Police, have provided details of successful investigations featuring Consent SARs, including multi-million pound frauds, large cash forfeitures and highly successful confiscation proceedings;
- ▶ in Scotland, the Scottish Money Laundering Unit (SMLU) of the Scottish Crime & Drug Enforcement Agency (SCDEA) has a record of responding efficiently to Consent requests. In addition it has the role of assessing other SARs for action by Scottish police forces; and
- ▶ Trading Standards, the Department for Work and Pensions and the Department for Environment, Food and Rural Affairs are all utilising the financial intelligence from SARs to combat such crime as counterfeiting goods, and benefit and other frauds.

HM Revenue and Customs (HMRC) utilises SARs as a vital and valuable source of intelligence for a surprisingly diverse range of its activities. HMRC exploits this resource to inform and focus enforcement and compliance intervention activity from money laundering investigations to the full cross section of taxes and duties it administers.

David Humphries, Head of Criminal and Enforcement Policy, HM Revenue and Customs

Examples of success with SARs:

- ▶ A single SAR received by a UK Police Force concerned an account that received numerous round amounts of cash credits. Subsequent checks on the SAR revealed that the subject in this case had been in receipt of state benefits for several years and further evidence identified a lifestyle not keeping with the declared financial status. As a result of the SAR a confiscation order for over £100,000 was made and a further £50,000 is to be repaid as compensation.
- ▶ A SOCA investigation into an organised criminal gang has been assisted by SARs from a number of sources in several sectors. The SARs have provided information about the gang's lifestyles, identified bank accounts and telephone numbers, and led to large cash seizures. The case is ongoing.
- ▶ A SAR identified an emerging fraud on the pension fund of an EU state involving €280m. Prompt action by the UKFIU, engaging both the overseas FIU and the SOCA Liaison Officer in the country concerned resulted in an intervention which prevented the fraud.

- ▶ As a direct result of a number of SARs submitted from sectors such as banking and payment service providers a joint investigation between a UK Police Force and Trading Standards was initiated. The investigation led to the arrest of an individual who had been selling counterfeit goods as genuine via the Internet. The subject was subsequently convicted of a number of related offences and received over 12 month's imprisonment. The individual concerned also became subject to a confiscation order of over £100,000.
- ▶ A number of SARs from the Banking Sector in relation to a relative of a known prolific criminal led to a search warrant being obtained and the discovery of over £70,000 in cash. This cash was seized under the Proceeds of Crime Act 2002.
- ▶ After the recent discovery of a skunk cannabis farm within a UK Police Force area, a SAR led to the identification of a number of other skunk cannabis farms in a neighbouring force area. As a result of this discovery a number of the farms were raided, cannabis plants were seized and several arrests were made.

The use of SARS on a recent stock market fraud investigation demonstrated that the SAR Regime is working. In effect it has been the equivalent of having a hundred sets of eyes and ears across the financial world. Professional advisers across a range of disciplines have been trained in their obligations under the law and put this training into practice by making useful, well-balanced SARs when they have come across something they are concerned with. This intelligence has been developed by the SFO and made a major impact on a high profile investigation.

Senior Manager, Serious Fraud Office

Conclusion

The UKFIU is performing well, both in regards to its bureau functions such as processing international requests and consent and terrorism SARs, and in regards to dialogue and intelligence activities, although there remains potential for further enhancement. This is within a challenging resource environment at SOCA. Further development will require additional resources.

The quality of SARs submitted by reporters has improved, although there remains scope to further reduce the numbers of reports submitted manually, which impose delays and reduce overall efficiency. Use of SARs by end users remains patchy with significant areas of weakness, although the number of breaches of the confidentiality of SARs by law enforcement has been reassuringly low.

PART 3 – NEXT STEPS

As set out in part 1, the UKFIU and its partners have addressed all 24 recommendations of the Lander Review. Implementation is at various stages, and some require further work. This has addressed some urgent problems with the pre-SOCA SARs system. Chapter 2 showed the current state of the regime, and the performance of each of the regime's participants.

While this represents good progress, there is still more to be done in many areas. The emphasis going forward will be to build on that progress, to further improve the operation of the regime in response to three questions:

- ▶ how can the UKFIU do better?
- ▶ how can the quality of reports be further improved?
- ▶ how can more value be extracted from the regime by end users?

It is important that activity within these contexts is consistent with the approach of the Government's overarching AML/CTF strategy. Annex B sets out the linkages in this regards.

This part also considers forthcoming changes to the policy landscape which will also have an impact.

How can the UKFIU do better?

SARs Transformation

Lander recommendation 3 has not been fully implemented. This relates to improving the timeliness of the operation of the UKFIU and enabling more effective exploitation of information in SARs through improving the IT. As indicated in Part 1, a series of IT 'Quick Win' changes have provided partial improvements to some functions. However, the UKFIU has determined that, in order to meet this recommendation, further change to the underlying technology and surrounding business processes are required, and that such change needs to be significant.

The SARs Transformation Project has been set up to deliver this change. It seeks to:

- ▶ expand the value extracted from the SARs Regime by end users;
- ▶ minimise the burden placed by the SARs Regime on reporters in fulfilling their legal obligations effectively; and
- ▶ facilitate the UKFIU's capacity to manage the SARs Regime more efficiently on behalf of all participants, including through effective data analysis.

A key element of the project will be to deliver improvements in feedback and management information across the Regime, including to the reporting sector.

An Outline Business Case has been developed setting out in detail how the Project might be taken forward. At the time of the report, assurance over funding has not been secured. Without the required funding the improvements to the regime that the Lander Review envisaged will not be delivered.

Using more SARs

Previous research has established that not all SARs that are potentially useful are exploited by end users. To improve on this, current work within the UKFIU to identify such SARs and, with the assistance of wider SOCA, to build knowledge around them will be rolled out. Once packages have been developed, if appropriate the UKFIU will distribute them for potential action by end users, either in SOCA or externally.

How can the quality of reports be further improved?

Quality will be driven up through enhanced engagement with the reporting sector, building on successes achieved so far. This will mean a broadening of outreach, balanced with a more targeted approach. Such a broadening is necessary to reach larger numbers of reporters. A more targeted approach is needed to ensure that the UKFIU is able to reach those that would benefit the most from contact – the unaware, the non-compliant and the 'at risk'.

The opportunity for one-to-one contact is limited, whilst the need for innovation is acute.

To these ends, and to complement the current programme of sector-specific seminars, the UKFIU will identify further sectoral and regional audiences to whom messages can be delivered. For example, it will work closely with regulators, professional and trade bodies to examine the feasibility of conducting some seminars to multi-sector audiences, delivering presentations on subjects of generic interest in plenary, complemented by break-out sessions on sector-specific issues. Participation in industry-sponsored events will continue and be expanded to further maximise the audiences reached. In addition, articles will be placed in specialist media and publications such as those produced by regulators and trade associations. Further innovations will also be considered that aim to further develop communication and understanding between SAR regime participants.

Work to produce 'Alerts' to industry, as outlined in part 2, will be built on. Effort will increase to ensure that the efforts of the UKFIU and the Vetted Group translate into timely and good-quality Alerts that are relevant to different sectors. This will assist reporters in submitting better quality reports as well as protecting themselves against criminals and terrorists.

SOCA has made a massive effort to multiply personal contacts with members of the reporting sector. Their efforts are appreciated. The challenge now is to deepen the dialogue and to inject even more substance into the exchanges.

David Coates – Director for Financial Crime, British Bankers' Association

There will also be further entrenchment of feedback into the system. The UKFIU will review the format of the Twice Yearly Feedback Questionnaires (TYFQs), to make it more user-friendly. This will in turn further drive up quality, as reporters are given more information about the strengths and weaknesses of their reporting.

How can more value be extracted from the SARs regime by end users?

Changes brought about as a result of IT 'Quick Wins', outlined in part 1, have provided partial improvements to some functions. Going forward the SARs Transformation Project will provide new tools which will allow end users to identify, analyse and extract relevant information fully. As such the supply of quality financial intelligence, and access to that supply, will be improved significantly. However, while addressing these supply issues is important if increased use of SARs is to be achieved, the reasons for the present muted demand for SARs-derived intelligence must also be considered.

Inspections

To address in part the demand issues the Lander Review recommended that the inspection programmes of HM Inspectorate of Constabulary (HMIC) and HM Inspectorate of Constabulary for Scotland (HMICS) should cover SARs work (Recommendation 17). As set out in part 1, HMIC has included SARs in its inspection programme on volume crime. Moving forward, this will be extended.

To this end the UKFIU has held discussions with the Association of Chief Police Officers (ACPO), the Association of Chief Police Officers for Scotland (ACPOS), HMIC and HMICS with a view to establishing basic principles for enhanced inspections. Discussions in Scotland are at an early stage. However, ACPO has agreed the following basic principles to be applied in England and Wales:

- ▶ adherence to the terms of Partnership Agreements on the use of SARs;
- ▶ allocation of resources to support exploitation and mainstreaming of SARs data;
- ▶ completion and return to SOCA of the Twice Yearly Feedback Questionnaire; and
- ▶ adherence to the Home Office Circular 53/2005 on confidentiality.

In collaboration with ACPO and ACPOS, the UKFIU will produce detailed guidance for end users. From this it will provide an inspection framework that will support HMIC and HMICS in conducting more detailed inspections of the end use of SARs by the Police Service. Both HMIC and HMICS have advised the UKFIU that they will include SARs in their future inspection programmes, to take this forward. This began in October 2007 with HMIC's Serious and Organised Crime inspections, which are focusing on how forces gather and use intelligence from partners.

Wider issues

There are other factors that affect the demand for SARs derived intelligence. The management of SARs intelligence typically resides with specialist Economic Crime Units (ECU) within Forces and, although some work has been done to mainstream activity, use of SARs within wider Force Intelligence Bureau (FIBs) or intelligence teams is limited. The SARs Transformation Project is considering whether the number of users accessing the database can be increased, while maintaining confidentiality. End users have indicated that lack of resources is often a factor that prevents wider use of SARs, both in regard to funding and also there being policing priorities that compete with financial investigation. Funds from the Asset Recovery Incentivisation Fund are not always reinvested into financial investigation work.

In addition, while it is clear from experience and analysis that SARs contain potentially valuable information to law enforcement, it is acknowledged that the production of extensive empirical evidence on the potential impact of SARs has not yet been achieved. Work is underway between the Association of Chief Police Officers (ACPO) and the National Policing Improvement Agency (NPIA) to understand further the value of SARs to Police Forces through undertaking a number of pilot projects.

While such structural and evidential limitations exist, it remains that end users could do more currently to extract more value from SARs, and the level of SARs use remains sub-optimal. Rectifying this would bring significant gains. However, beyond this, in order to achieve a more complete step change in the level of SARs exploitation, changes to the wider policy context will also be required. Without this, the results of the efforts described above are likely to plateau at some point.

Changes to the policy environment

A number of changes to the policy environment are in prospect which will impact on the SARs regime. The main changes are:

The Money Laundering Regulations 2007

On 15 December 2007 revised Money Laundering Regulations will come into place, which will implement the Third EU Money Laundering Directive. The new Regulations introduce a number of changes to the internal policies and procedures that firms must put in place.

Perhaps the area that will have the most impact on the SARs regime is that, for the first time, all firms within the regulated sector will be supervised for their compliance. Such an expansion of supervision is likely to result in an improvement in the quality of internal policies and procedures in some reporters, leading to improvements in the quality of customer due diligence information obtained and held. This in turn should result in increases in the quality and quality of reports to the UKFIU from those firms. In addition, the UKFIU will need to expand its contacts to include the new regulators.

Consent

The reporting sector continues to have concerns about the operation of the consent regime, including that it might result in the criminal prosecution of diligent Money Laundering Reporting Officers acting in good faith. A Home Office consultation document on this is to be published shortly.

Prescribed Form

The Lander Review recommended that the provisions in the Proceeds of Crime Act 2002 which enable the Home Office to prescribe by Order the manner and form of SARs be enacted. A Home Office consultation on this ended on 22 October. The aim is that, if agreed by Parliament, a Statutory Instrument will come into effect on 1 April 2008, the next date on which this is possible.

Asset Recovery

On May 24 2007 the Home Office published a consultation on its Asset Recovery Action Plan. This suggested that £250 million should be taken from criminals by the asset recovery community by 2009-10. The plan recognises that SARs are under-used as a source of intelligence. It is important that the potential contribution SARs can make in helping to meet asset recovery targets is considered further.

Fraud Review

The final report of the Fraud Review, published on 24 July 2004 included a proposal for the establishment of a National Fraud Reporting Centre, for businesses and individuals to report fraud on a voluntary basis. Work will be taken forward to ensure that the linkages with the SARs regime are coherent, and to maximise the synergies of the two systems.

Conclusion

There are two main priorities for the year ahead. First, to maintain recent progress in the face of a challenging resource context. Improvements in the regime's performance resulting from implementation of the Lander Review need to be maintained. The second priority is to drive up the value extracted from the regime by end users. Without such an improvement the full benefit of the reporting sector's efforts will not be realised.

The key planned mechanism for delivering future progress in the regime will be the SARs Transformation Project. This will bring significant change to the technology underlying SARs and the surrounding business processes. In addition, progress will also need to be maintained alongside or in support of changes in the wider policy environment. A number of developments are on the horizon which may impact on the SARs regime, particularly the introduction of the Money Laundering Regulations 2007, developments in the consent regime, the introduction of a prescribed form, the Government's Asset Recovery Plan and implementation of the Fraud Review.

SOCA has exceeded expectations in its ownership and management of the SAR regime over the last 12 months. The challenge will be to maintain this momentum and embed the changes made against a hardening budgetary environment. The effective use by SOCA and other law enforcement agencies of the intelligence and information derived from SARs will not only prevent money laundering but contribute to the delivery of the targets in the Government's Asset Recovery Action Plan.

Stephen Webb – Head of Organised and Financial Crime Unit, Home Office

CONCLUSION

Much progress has been made since April 2006. There exists much good practice in many areas. Investment and developments going forward need to be concentrated on making it easier for end users to better exploit SARs and SARs derived information. Improvements are also required to the statistics and feedback that can be extracted from the regime. This Annual Report aims to set a benchmark with which future reports can be compared. However, the ability to obtain meaningful management information from the system is limited currently. Funding permitting, the SARs Transformation Project will bring improvements in this regard.

The overall goal is a SARs regime which provides the best possible balance between:

- ▶ the costs to reporters and to other regime participants;
- ▶ addressing the threats to the UK from crime and terrorism; and
- ▶ the reward that the regime potentially offers through the reduction of harm and the recovery of the proceeds of crime.

ANNEX A: MEMBERSHIP OF SARS REGIME COMMITTEE

SOCA Director of Intervention (Chair)
Association of Chief Police Officers
British Bankers' Association
Financial Services Authority
Home Office
HM Revenue and Customs
HM Treasury
Institute of Chartered Accountants for England and Wales
Law Society of England and Wales
Metropolitan Police Service
SOCA Deputy Director (Proceeds of Crime)
SOCA Deputy Director (Prevention and Alerts)
SOCA Head of Business Strategy (Proceeds of Crime)
SOCA Head of the UKFIU (Proceeds of Crime)
SOCA Legal
SOCA Non-Executive Director

ANNEX B: THE FUTURE CONTRIBUTION OF THE SARs REGIME TO THE GOVERNMENT'S STRATEGIC PRIORITIES

The next steps described in part 3 are fully in line with the Government's anti-money laundering/counter-terrorist financing strategy, 'the Financial Challenge to Crime and Terrorism'. That document set out 6 strategic priorities that are applicable to all participants in the UK's efforts against money laundering and terrorist financing.

<i>Strategic Priority</i>	<i>SARs contribution</i>
Building knowledge	<ul style="list-style-type: none"> ▶ The SARs Transformation Project will provide new ways of interrogating and exploiting the information contained in SARs to ensure the intelligence potential is realised, for example through the production of strategic assessments on criminal activity, new criminal threats and geographic and thematic hotspots. This will contribute to the building of knowledge and understanding of crime and terrorism, the harm it causes, and of the effectiveness of different responses. ▶ The joint ACPO-NPIA work to demonstrate the value of SARs to Police Forces, will also add to the understanding of how SARs can have an impact on crime.
Making the best use of the available tools	<ul style="list-style-type: none"> ▶ Transforming the SARs regime should stimulate greater SARs use by law enforcement agencies. In addition, improving the supply of quality intelligence on criminal and terrorist finances and profits will be necessary if the law enforcement community is to meet the Government's new asset recovery targets, which are central to this strategic priority. ▶ Utilising currently un-actioned SARs will push up the use of financial intelligence. Successes will encourage others to make greater use of SARs. ▶ Further entrenching SARs within HMIC inspection programmes will also provide an incentive for greater use of SARs.
Entrenching the risk based approach	<ul style="list-style-type: none"> ▶ The SARs Transformation Project will mean that the UKFIU is better placed to produce information for its partners on trends, developments and risks. This will enable reporters to target their resources where they are most needed, in line with the risk-based approach, and help end users shape their priorities on what to investigate. ▶ Enhanced and tailored forms of dialogue will mean that information about threats and vulnerabilities is better communicated to reporters.
Minimising burdens on business	<ul style="list-style-type: none"> ▶ The SARs Transformation Project will address the fact that the mechanisms that firms are required to use to report are sub-optimal and complex. In addition, the Project will be taken forward in a way that avoids putting undue burden on reporters, and ensures that the level of change they experience during and after transformation is minimal. ▶ In addition, enhanced and tailored dialogue will mean that messages to business will be delivered in a more tailored, manner, which will be more convenient for reporters.
Engaging partners	<ul style="list-style-type: none"> ▶ All future activity will continue to be taken forward collaboratively with partners, in order to ensure effectiveness and proportionality. It is through collaboration that efforts will have the most impact. ▶ In addition, UKFIU facilitated dialogue will become more sophisticated and nuanced, so ensuring engagement and communication.

*SARs are attributed to the sector that the reporter identifies itself as belonging to.

ANNEX C: TOTAL SARs, BY SECTOR*

Reporting Sector	Oct '06	Nov '06	Dec '06	Jan '07	Feb '07	Mar '07	Apr '07	May '07	Jun '07	Jul '07	Aug '07	Sep '07	Total
Accountant	728	697	566	569	736	770	617	678	788	836	617	508	8,110
Anonymous	10	21	3	10	5	7	13	7	5	9	4	11	105
Asset Management	108	73	16	184	89	24	68	22	30	109	35	29	787
Auction House	1	2	2	0	2	3	0	2	0	0	0	0	13
Bank	13,111	16,076	10,919	12,646	11,176	12,786	9,635	11,966	10,278	10,370	11,533	9,941	140,437
Barrister	0	1	0	0	1	32	58	0	0	3	1	1	97
Bookmaker	2	2	3	4	3	3	11	9	6	4	8	5	60
Building Society	947	1,032	736	1,045	799	1,452	796	1,318	791	833	1,353	601	11,703
Bureaux De Change	304	306	284	286	375	283	308	265	335	508	380	286	3,920
Capital Markets	3	1	4	4	3	1	1	1	1	4	3	5	31
Channel Islands/Isle of Man FIU	0	21	60	29	1	1	0	0	0	0	3	0	115
Charity	3	2	1	2	2	2	1	2	2	2	0	2	21
Cheque Cashers	239	588	295	544	630	748	634	601	580	848	605	608	6,920
Company Formation Agent	3	42	35	5	0	11	2	0	1	0	1	3	103
Consumer Credit	1	1	0	0	1	0	0	2	1	0	0	0	6
Credit Card	5	1	3	0	5	1	0	1	0	0	0	0	16
Credit Union	16	9	5	4	7	5	8	12	8	15	9	8	106
Education	1	0	0	0	0	1	0	1	0	0	0	0	3
Electronic Payment	1,208	2,125	1,205	1,532	1,638	1,877	1,800	2,109	1,825	468	19	20	15,826
Estate Agent	10	10	8	15	6	11	12	8	12	15	27	13	147
Finance Companies	215	155	124	143	90	164	209	296	202	161	172	121	2,052
Foreign FIU	7	4	1	1	1	2	0	0	3	4	4	1	28
Friendly Societies	3	55	0	1	2	0	1	0	0	0	0	0	62
FSA others	79	81	58	69	114	103	69	60	67	95	62	57	914
Gaming	10	67	27	10	18	36	12	39	17	17	27	19	299
Government	1	11	29	15	7	10	16	13	13	16	11	10	152
High Value Dealer	3	2	0	0	2	2	1	3	2	4	2	7	28
Independent Financial Adviser	19	13	3	7	8	16	17	14	10	6	11	32	156
Insurance	121	141	86	118	156	184	123	118	108	163	115	107	1,540
Investment Exchange	0	0	0	0	0	0	0	0	0	1	0	0	1
IT/Software	2	1	1	3	0	0	0	0	0	0	0	0	7
Law Enforcement Agency	73	140	172	134	48	82	62	36	146	57	8	92	1,050
Legal other	3	2	11	13	15	11	11	7	17	13	12	3	118
Leisure	22	12	14	7	11	17	7	13	16	9	14	3	145
Licensed Conveyancer	4	7	2	5	0	6	2	0	1	5	7	6	45
Local Authority	4	6	1	1	6	7	1	1	11	10	4	3	55
Manufacturer	0	0	0	0	1	6	1	0	2	1	5	0	16
Money Transmission Service	878	734	565	499	782	1,138	1,205	554	885	561	443	347	8,591
Mortgage Providers	214	222	135	205	157	188	180	159	143	129	156	211	2,099
Motor Organisation	9	10	13	9	13	9	2	2	3	0	3	0	73
Markets & Exchanges (Non FSA)	7	3	1	1	1	1	0	2	0	0	0	1	17
Other	139	170	175	152	139	135	135	85	88	100	130	132	1,580
Pension Provider	0	0	0	0	0	3	2	1	0	2	0	2	10
Private Individual	0	5	2	2	3	8	4	3	0	5	1	0	33
Regulator	12	11	23	7	46	12	4	12	9	7	20	9	172
Retail Intermediary	18	16	17	15	21	24	12	17	19	18	22	11	210
Security	7	3	3	2	3	12	5	4	7	4	5	6	61
Solicitor	510	742	690	547	526	1,701	2,830	1,176	893	605	573	507	11,300
Specialist Financial Services (Non FSA)	1	2	10	0	4	3	3	3	3	6	8	12	55
Spread Betting	12	11	1	6	6	13	16	101	55	62	51	34	368
Stockbroker	32	33	28	44	44	48	24	43	37	36	37	24	430
Tax Adviser	4	7	4	4	9	5	4	16	13	12	3	11	92
Unknown	15	14	14	14	12	16	24	18	10	12	43	7	199
Total	19,124	23,690	16,355	18,913	17,724	21,980	18,946	19,800	17,443	16,145	16,547	13,817	220,484

*SARs are attributed to the sector that the reporter identifies itself as belonging to.

ANNEX D: CONSENT SARs, BY SECTOR*

Data is for October 2006 to end-September 2007.

<i>Sectors</i>	<i>Number of consent SARs</i>	<i>As a percentage of all consents</i>	<i>Number of consent SARs as percentage of all SARs submitted by sector</i>
Accounting	275	2.44	3.39
Anonymous	3	0.03	2.86
Asset Management	67	0.59	8.51
Auction House	4	0.04	30.77
Banking	3,887	34.47	2.77
Barrister	4	0.04	4.12
Bookmaker	12	0.11	20.00
Building Society	906	8.03	7.74
Bureaux De Change	32	0.28	0.82
Capital Markets	12	0.11	38.71
Charity	1	0.01	4.76
Cheque Cashier	6	0.05	0.09
Company Formation	4	0.04	3.88
Consumer Credit	1	0.01	16.67
Credit Union	5	0.04	4.72
Education	2	0.02	66.67
Electronic Payment	20	0.18	0.13
Estate Agent	36	0.32	24.49
Finance Company	80	0.71	3.90
FSA others	95	0.84	10.39
Gaming	3	0.03	1.00
Government	20	0.18	13.16
High Value Dealer	6	0.05	21.43
Independent Financial Adviser	8	0.07	5.13
Insurance	460	4.08	29.87
Investment Exchange	1	0.01	100.00
IT	1	0.01	14.29
Law Enforcement Agency	1	0.01	0.10
Legal other	46	0.41	38.98
Leisure	2	0.02	1.38
Licensed Conveyancer	30	0.27	66.67
Local Authority	19	0.17	34.55
Manufacturing	3	0.03	18.75
Money Transmission	575	5.10	6.69
Mortgage Provider	84	0.74	4.00
Markets and Exchanges (non-FSA)	4	0.04	23.53
Other	123	1.09	7.78
Pension Provider	4	0.04	40.00
Private Individual	1	0.01	3.03
Regulator	30	0.27	17.44
Retail Intermediary	26	0.23	12.38
Security	31	0.27	50.82
Solicitor	3,771	33.44	33.37
Specialist Financial Services (non-FSA regulated)	5	0.04	9.09
Spread Betting	317	2.81	86.14
Stockbroker	202	1.79	46.98
Tax Advisor	5	0.04	5.43
Unknown	47	0.42	23.62
Total	11,277	100%	-

*SARs are attributed to the sector that the reporter identifies itself as belonging to.

ANNEX E: TERRORIST FINANCE SARs, BY SECTOR*

Data is for October 2006 to end-September 2007.

<i>Source Type</i>	<i>No. disseminated</i>	<i>%</i>
Banking	924	84.93
Building Society	29	2.67
Solicitor	21	1.93
Insurance	20	1.84
Money Transmitter	15	1.38
Electronic Payment	12	1.10
Bureau De Change	10	0.92
Accountant	9	0.83
Finance Company	7	0.65
Government	7	0.65
Mortgage Provider	6	0.55
Asset Management	5	0.46
Anonymous	3	0.28
Other	3	0.28
FSA Others	2	0.18
Gaming	2	0.18
Pension Provider	2	0.18
Channel Islands and Isle of Man FIU	2	0.18
Unknown	2	0.18
Charity	1	0.09
Credit Card	1	0.09
Foreign FIU	1	0.09
Independent Financial Advisor (IFA)	1	0.09
Regulator	1	0.09
Security	1	0.09
Tax Advisor	1	0.09
Total:	1088	100.00%

ANNEX F: GLOSSARY

Association of Chief Police Officers

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

Comprises the senior ranks of Scottish Police Forces.

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 Incentivisation Fund

Established by the Home Office to encourage the targeting of criminal finances by law enforcement and prosecuting authorities by providing a percentage of the money recovered to drive further asset recovery work.

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.

Egmont

The coordinating body for the international group of FIUs.

ELMER database

The IT system in SOCA handling the national suspicious activity reporting (SAR) scheme.

End Users

The end users of SARs, typically law enforcement agencies, regional police forces and the operational arms of SOCA itself.

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.

Force Intelligence Bureau

The coordination centre of police force (criminal) intelligence activity and, in most cases, SOCA's primary portal for engagement with police intelligence assets.

Financial Services Authority (FSA)

Regulates the financial services industry in the UK. One of its statutory responsibilities is to reduce the extent to which it is possible for a regulated firm to be used for a purpose connected with financial crime.

HM Inspectorate of Constabulary (HMIC)

Promotes the efficiency and effectiveness of policing in England, Wales and Northern Ireland through inspection of police organisations.

HM Inspectorate of Constabulary for Scotland (HMICS)

Similarly, to above HM Inspectorate of Constabulary for Scotland monitors and improves the Police Service in Scotland.

Joint Money Laundering Steering Group (JMLSG)

The Joint Money Laundering Steering Group is made up of the leading UK Trade Associations in the Financial Services Industry. Its aim is to promulgate good practice in countering money laundering and to give practical assistance to firms in interpreting relevant UK legislation. This is primarily achieved by the publication of industry guidance.

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.

Law Society of Scotland

The governing body for Scottish solicitors. The Society promotes the interests of the solicitors' profession and those of the public in relation to the profession.

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 2003 (soon to be replaced by the Money Laundering Regulations 2007). Known as a 'nominated officer' under the Regulations.

Missing Trader Intra-Community (MTIC) fraud

Commonly involves criminals importing high value/low volume goods on which VAT does not have to be paid at the time of importation. The goods are then sold in the country of importation with VAT added on to the price. The criminal keeps the VAT paid to them by the customer and disappears without having remitted it to the relevant tax authority. Otherwise known as 'Carousel' Fraud.

National Criminal Intelligence Service (NCIS)

Responsible for receiving and disseminating SARs, prior to the creation of SOCA.

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.

Operation Trident

An anti-gun crime operation run by the Metropolitan Police Service to help bring an end to a spate of shootings and murders among young, black Londoners.

Partnership Agreement

A formal, written agreement about the terms of collaborative working between SOCA and another agency or body. Its chief attribute is that it acknowledges the common interest in tackling the harm caused by serious organised crime and that such an undertaking requires contributions from all those who are able, safely, to bring expertise and additional assets to the task.

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 (POCA)

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

Regulators' Forum

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

Reporting Sector

Those firms that submit reports to the UKFIU.

Suspicious Activity Report (SAR)

A report of the suspicion of money laundering or terrorist financing delivered in accordance with the Proceeds of Crime Act or the Terrorism Act 2000 as amended by the Anti-terrorism, Crime and Security Act 2001.

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 online portal through which reporters can submit SARs electronically.

SARs Confidentiality Line

A confidential phone line for receiving and subsequently investigating suspected SAR confidentiality breaches (0800 234 6657).

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.

SARs Transformation Project

Project to deliver significant change to the underlying SARs technology and surrounding business processes, focusing on what the regime should look like in 5 – 10 years time.

Scottish Crime and Drug Enforcement Agency (SCDEA)

Aims to prevent and detect serious and organised crime as it affects Scotland at a national and international level.

Sector-specific seminars

Seminars held by the UKFIU for Money Laundering Reporting Officers and other staff in the reporting sector.

Serious Fraud Office

Aims to investigate and prosecute serious and complex fraud and so deter fraud and maintain confidence in the probity of business and financial services in the United Kingdom.

Scottish Money Laundering Unit (SMLU)

Aims to target the assets of criminals and criminal organisations who engage in drug trafficking and other serious and organised crime in Scotland.

Vetted Group

A SOCA 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.

Third EU Money Laundering Directive

Updates previous Money Laundering Directives. It places requirements on regulated firms in Member States in regards to anti-money laundering and counter-terrorist financing. In the UK, the Money Laundering Regulations 2007, which come into force on 15 December 2007 and replace the Money Laundering Regulations 2003, will be the vehicle which the Directive will be implemented.

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.

