

Policy for Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF)

Policy Purpose

This policy forms an outline of the work done by Khan Thornton to both identify and prevent the risk of ML/TF (Money Laundering and Terrorist Financing) to the firm. The different steps identified within this policy act in combination with each other and form an integral part of all aspects of Khan Thornton's work.

Consequently, individual sections of the policy should not be read or considered in isolation.

Similarly, Khan Thornton is conscious that for it to have an effective and compliant AML/CTF (Anti-Money Laundering/Counter Terrorist Financing) approach it must follow its own policies and procedures diligently and be clear to document both in any occasions of variation from its policies and procedures and reasons for such variation. Such controls over the implementation of its policy are crucial.

Following on from this, Khan Thornton has a strict policy of not varying from its own policies and procedures without the documented approval of senior management.

Through documentation of robust compliance with a comprehensive and effective set of policies and procedures Khan Thornton will make every effort possible to be compliant with law and guidance in the areas of ML/TF and to play its part in both the prevention and identification of both money laundering and terrorist financing.

Khan Thornton recognises that the aims of the funding of terrorism is different to those seeking to launder money but is aware that there are many similarities between how the two distinct goals are sought to be achieved. It is however clear that this policy when applied to both its own Firm Risk Assessment and policies and controls will be the same policies, procedures and controls to achieve the ability to identify and report relevant activity under TACT (Terrorism Act 2000) and POCA (Proceeds of Crime Act 2002).

Regulated Firm Under MLR 2017

Khan Thornton provides services that fall within one or more of the definitions of categories of services which are regulated services within the definitions under Regulation 11 and 12 of The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017) as enacted on the 26/06/2017. <http://www.legislation.gov.uk/uksi/2017/692/made>

External Accountant

Tax Adviser

Trust or Company Service Provider

Schedule of Firm Services

- Bookkeeping
- Payroll
- Auto-Enrolment Administration
- Indirect Tax (Including VAT returns)

- Indirect Tax Advisory (including VAT registration)
- Research and Development of Tax Relief
- Tax advisory (direct taxes)
- Tax planning (tax payable to UK tax authorities)
- Accounts preparation - management/cashflow/budgeting
- Accounts preparation - financial statements (Annual Accounts and Reports)
- Filing submission to HMRC / Companies House
- Assurance Services:
 - 3. Mortgage Income Certification
- Investigations
- Business Advice (General)
- Trust or Company Services Provision
- Types of Trust or Company Services Provided (R.12(2) MLR 2017):
 - Forming companies or other legal persons;
 - Acting, or arranging for another person to act as any of the following:
 - As a director or secretary of a company;
 - Providing a registered office, business address, correspondence or administrative address or other related services for a company, partnership or any other legal person or legal arrangement;

Khan Thornton Approach to AML/CTF

Khan Thornton is aware that it is obliged to comply with the legislation, guidance and best practice that is in force from time to time in relation to AML/CTF that is relevant to services offered by Khan Thornton.

Khan Thornton is aware of the damage done to people and property through Money Laundering (ML) and Terrorist Financing (TF) and recognises that it has a part to play in both preventing and identifying ML and TF. Laundered money has been described as the oxygen to crime, terrorism and tax avoidance. To cut off the support of oxygen is seen as a key goal of all of those within the regulated sector.

However, Khan Thornton is aware that it is not empowered as a law enforcement agency and must be careful not to overstep its role as set out in the legislation and guidance.

Khan Thornton is committed to a high level of compliance through a robust and wide-ranging approach to AML/CTF compliance that touches on all aspects of Khan Thornton's service provision.

Khan Thornton understands that the principal money laundering offences are laid out in POCA (Proceeds of Crime Act 2002). POCA explains what constitutes both criminal conduct and criminal property. In simple terms, criminal property is the proceeds of criminal conduct (committing a crime).

Khan Thornton is clear that it is what becomes of the criminal property that POCA details as the main money laundering offences. The Firm is also clear that POCA does not just apply to the author of the crime that created the proceeds but to any other persons involved in dealing with those proceeds. It is what happens to the proceeds of crime that is money laundering.

Khan Thornton understands that the Proceeds of Crime Act (2002) (POCA) is very broad in its definitions of money laundering. Part 7 of POCA S.327 (concealing), S.328 (arrangements) and S.329 (acquisition, use and possession) explains the offences that constitutes money laundering in relation to Criminal Property. Here is a link to POCA: <https://www.legislation.gov.uk/ukpga/2002/29/contents>

Criminal Property is defined in POCA as well as Criminal Conduct.

Criminal Property, in summary, is a person's benefit from Criminal Conduct which in summary is conduct that constitutes an offence in the UK.

POCA 2002 s.340 contains the following:

2) Criminal conduct is conduct which–

- a) constitutes an offence in any part of the United Kingdom, or
- b) would constitute an offence in any part of the United Kingdom if it occurred there.

3) Property is criminal property if–

- a) it constitutes a person's benefit from criminal conduct or it represents such a benefit (in whole or part and whether directly or indirectly), and
- b) the alleged offender knows or suspects that it constitutes or represents such a benefit.

From these open definitions it can be seen that there is an all crimes approach to what constitutes relevant criminal conduct in relation to money laundering in UK law, also included are offences that took place elsewhere and had they taken place in the UK would have been an offence.

For ease of reference the main money laundering offences under POCA 2002 are listed below:

s 327: An offence is committed if a person conceals, disguises, converts, transfers or removes from the jurisdiction property which is, or represents, the benefit of criminal conduct (i.e. the proceeds of crime) and the person knows or suspects represents such a benefit

s 328: An offence is committed when a person enters into or becomes concerned in an arrangement which he knows or suspects will facilitate another person to acquire, retain, use or control benefit from criminal conduct and the person knows or suspects that the property is benefit from criminal conduct

s 329: An offence is committed when a person acquires, uses or has possession of property which he knows or suspects represents benefit from criminal conduct

Khan Thornton is also aware that it is POCA and TACT that place an obligation on it to identify and make Suspicious Activity Reports (SARs) to the National Crime Agency (NCA).

Khan Thornton recognises that there is no de minimus level for reporting of ML/TF to the NCA.

Khan Thornton is aware that there is no de minimus level for its reporting obligations under POCA and TA. The Firm's commitment to its reporting obligations is detailed later in this policy document.

The Firm understands that its robust approach to AML/CTF is part of its own defence against being drawn into laundering the proceeds of another person's crime and therefore potentially being guilty of an offence under POCA itself.

Khan Thornton is not an expert in criminal law relevant in the UK or globally and, as such, realises the flexibility that is introduced by POCA which includes "suspicion" and "grounds for suspicion" as reportable matters alongside "knowledge" or "grounds for knowledge". Khan Thornton, therefore, recognises matters to be reported include matters where there is a suspicion that conduct has taken place that is known to be a crime and something that has taken place that there is a suspicion is criminal conduct.

What is Risk?

The UK National Risk Assessment of Money Laundering and Terrorist Financing (NRA) was issued in October 2015. The NRA 2015 was the first in the UK and provided useful insight to how the UK HM Treasury and the UK Home Office viewed the state of money laundering and terrorist financing in the UK at the time.

Khan Thornton awaits the release of the next National Risk Assessment and will review its Risk Assessment in the light of the information contained within the National Risk Assessment.

Listed below is an extract from the NRA 2015 which includes a breakdown of how risk is recognised along with some key definitions used within the document, these definitions are very useful in highlighting the interaction of key terms used within our Firms approach to risk assessments.

1 Methodology

1.1 In establishing the methodology for this assessment, the government took into account the models developed by others, including the World Bank and IMF, the approach taken by other countries, the FATF guidance and views expressed in consultation with key stakeholders of the UK's AML/CFT regime. The assessment followed the three key stages identified in FATF guidance, of identification, assessment and evaluation.

1.2 A number of key terms used throughout the assessment are defined below:

- **Threat** -
Is a person or group of people, object or activity with the potential to cause harm to, for example, the state, society, the economy etc. Threat is one of the factors relating to risk; typically it serves as the starting point in developing an understanding of money laundering/terrorist financing risk.
- **Vulnerability** -
When used in a risk assessment, vulnerability is a concept encompassing **things that can be exploited by the threat** or that may support or even facilitate its activities. Distinct from threat, vulnerabilities are factors that represent weaknesses in the AML/CFT systems.
- **Consequence** -
Refers to the impact or harm that money laundering or terrorist financing may cause and includes the effect of the underlying criminal and terrorist activity on financial systems and institutions.
- **Risk** -
Can be seen as a function, or combination, of threat, vulnerability and consequence. For a risk assessment to be distinct from other assessments, for example, a threat assessment, **a measure of judgement** on the threats, vulnerabilities and consequence/impact should ideally be included.

1.3 There is a significant overlap between money laundering and terrorist financing in the methods used by criminals and terrorists to raise, store and move funds. However, the motive of the perpetrators, and so the threat to the UK, from terrorist financing is different. For this reason, this document includes a chapter specifically focusing on the financing of terrorism (chapter 11). Those in the regulated sector should be aware that the vulnerabilities set out in rest of the document can apply equally to facilitating money laundering and aiding the financing of terrorism.

Accountancy Service Providers (ASPs) is the title given to those who are regulated for AML/CTF in the sector within which Khan Thornton operates.

The NRA 2015 lists the ASP sector as the sector with the second highest risk in the UK of money laundering and in particular had the highest risk of all sectors for the likelihood of money laundering taking place.

Khan Thornton is aware that the risk assessment of the sector within which it works is not static and it is

recognised that steps to stay up to date with the changing risk profile and relevant risk to this sector.

Risks Relevant to the Accountancy Service Providers (ASPs) Sector

Accountancy Service Providers (ASP)

This includes auditors, insolvency practitioners, external accountants and tax advisors.

The UK National Risk Assessment of money laundering and terrorist financing 2015 (NRA 2015) summaries the sector as follows:

Accountancy service providers

Sector

6.27 The Money Laundering Regulations 2007 ('the regulations') place requirements on accountancy service providers (ASPs), including auditors, insolvency practitioners, external accountants and tax advisors, and reflects the requirements of the Third EU Money Laundering Directive. This includes 'statutory auditors' as defined under Part 42 of the Companies Act 2006; 'insolvency practitioners' as defined under section 388 of the Insolvency Act 1986; as well as any firm or practitioner who provides accountancy services or tax advice to other persons by way of business.

6.28 This assessment focuses on professionals providing the services covered by the regulations. This includes not only accountancy firms, but also firms which offer a range of services including accountancy services, such as large financial institutions. Businesses providing accountancy services may also offer trust or company services, or other services covered under the regulations.

6.29 At the start of 2014 there were over 23,000 businesses in the UK carrying out accounting, bookkeeping and auditing activities, and tax consultancy, more than 87% of which were micro- businesses, employing less than 10 employees. The combined annual turnover of businesses carrying out accounting, bookkeeping and auditing activities, and tax consultancy, was over £22 billion.

6.30 Accountancy, auditing, bookkeeping and tax consulting services are a net export for the UK. In 2013 UK exports of these services were estimated to be worth over £1.4 billion. It should be noted that many professional accountants fall outside of the regulations, as they operate in industry, commerce or the public sector. These activities present different risks to those undertaken by accountants offering services by way of business.

6.31 The regulations specify 13 accountancy professional bodies as AML/CFT supervisors. Those firms and individuals that are not supervised by a professional body must be supervised by HMRC.

Threats and vulnerabilities

6.32 Criminals can use accountants to conceal the origins of criminal funds and/or legitimise accounts in a variety of ways, such as the creation of companies, trusts and offshore corporate structures; providing false accounts; preparation or audit of businesses' annual accounts; insolvency malpractice; and providing advice. Many of the vulnerabilities set out below also leave accountants open to being used, wittingly or unwittingly, to assist the financing of terrorism.

6.33 The key threats and vulnerabilities within this sector identified through this assessment are:

- complicit professionals facilitating money laundering
- collusion with other elements of the regulated sector

- coerced professionals targeted by criminals
- creation of structures and vehicles that enable money laundering
- the provision of false accounts
- failure to identify suspicion and submit SARs
- low barriers to entry and mixed standards of compliance with the regulators across the sector
- ASPs not registered under the regulations facilitating money laundering or terrorist financing (wittingly or unwittingly)
- inconsistencies in the supervisory framework, and the potential for poor communication between supervisors

Risks Relevant the Trust or Company Service Providers (TCSPs) Sector

Extract from National Risk Assessment 2015:

Threats and Vulnerabilities

6.34 The nature of services provided by the sector, such as the creation of companies, trusts and offshore corporate structures, can be attractive to criminals seeking to conceal the origins of criminal funds or move criminal proceeds overseas.

The vulnerabilities set out below can also leave TCSPs open to being used, wittingly or unwittingly, to assist the financing of terrorism.

6.35 Threats and vulnerabilities in the TCSP sector are:

- negligent or complicit TCSP facilitating money laundering
- criminal abuse of companies and trusts set up by TCSPs
- supervisory framework likely to lead to inconsistencies in approach
- the standard of implementation of the regulations across the sector is mixed

Areas identified to be of particularly high risk are acting a nominee director, poor Customer Due Diligence (CDD) procedures, one-off trust or company formation work with no follow-on services and providing services to overseas-based clients.

More specifically the risk of creating front companies and complex corporate structures for ML/TF is well documented.

Risk Assessments

Khan Thornton uses risk assessments to help direct its resources to the areas and clients that present the highest risk to the Firm of ML/TF. This is part of the Risk Based Approach adopted by Khan Thornton, an approach which is endorsed by the UK AML/CTF legislation and guidance.

The risk assessments will influence the level of Customer Due Diligence required by Khan Thornton.

Firm Risk Assessment

Khan Thornton is aware of both its obligation to undertake a Firm Risk Assessment under R.18 MLR2017 and the value of undertaking such a Risk Assessment.

Khan Thornton is conscious of the link between its own approach to risk and AML/CTF compliance will have an impact on Khan Thornton's own AML/CTF Risk Assessment.

Khan Thornton will consider the risk associated with the sector within which it operates and those that are connected to Khan Thornton's size and nature of operations.

Khan Thornton will review, update and communicate any consequential amendments to its staff and senior management on an on-going basis.

Sector

Khan Thornton is aware of the need to review, discuss and amend its Firm Risk Assessment in accordance with guidance issued that is relevant to its sector. Such guidance may be issued by, amongst others, Khan Thornton's Anti Money Laundering Supervisor, other UK AML Supervisors, European Supervisory Authorities, EU guidance under the Fourth Money Laundering Directive (4MLD), FATF (Financial Action Task Force) guidance and HM Treasury and Home Office.

Khan Thornton is also aware of the CCAB guidance which is the only HM Treasury approved guidance for the sector and the PCRT (Professional Conduct in Relation to Taxation).

Khan Thornton has specifically addressed the issues relevant to its sector raised and discussed within the first UK National Risk Assessment of Money Laundering and Terrorist Financing and will review its Firm Risk Assessment in the light of subsequent National Risk Assessments.

The Firm as an Accountancy Service Provider

Khan Thornton is not knowingly involved in any ML/TF activities. Khan Thornton is therefore not complicit with ML/TF.

Khan Thornton does not work in collusion with any other element of the regulated sector or the unregulated sector to undertake ML/TF activities.

Khan Thornton is alive to the risk of being coerced into assisting with ML/TF by criminals.

Khan Thornton is conscious that criminals may seek to use Khan Thornton' skills and knowledge to distance the proceeds of crime from the beneficiaries of such proceeds by creating structures and vehicles that may disguise beneficial ownership of such structures and vehicles.

Khan Thornton is aware that criminals may wish to use Khan Thornton's services to try to add legitimacy to financial accounts or financial affairs of a person, entity or business in that those accounts could be used for criminal conduct.

The risk that Khan Thornton could not only add legitimacy through preparation of financial accounts but also by providing audit and assurance services.

Khan Thornton is alive to the risk that if it does not report a matter to the National Crime Agency (NCA) that it is legally obliged to report.

This Khan Thornton is aware that it undertakes regulated work under the money laundering regulations and as such is required to be registered with a relevant AML supervisor.

Mitigation Steps

Khan Thornton adheres to its AML/CTF policy and procedures closely to ensure that it does all that it is able to do to prevent and detect ML/TF. Systems and controls are applied to confirm that Khan Thornton does comply with its policies and procedures. Monitoring of its own adherence to these policies and procedures and reporting to the MLRO (Money Laundering Reporting Officer) of any variation from these policies and procedures will minimise the risk that Khan Thornton is complicit in ML/TF.

Khan Thornton carefully chooses any other service providers within the regulated sector that it works with. It does this by identifying and verifying the professional qualifications and authority to carry out such services of such service providers with any relevant regulators, register holders or professional bodies.

Khan Thornton is careful to keep relations with third-party regulated service providers transparent and not to make undisclosed agreements that if discovered could suggest inappropriate collusion between firms. Identification of such a collusion would be reported to Khan Thornton's MLRO.

Khan Thornton keeps a record of any improper comments or conduct by clients that might suggest that such conduct is an inducement or pressure to undertake a certain course of action that would be contrary to Khan Thornton's AML/CTF policy and procedures. Such conduct or comments will be reported to Khan Thornton's MLRO.

Khan Thornton is clear that it needs to follow its own AML/CTF policy and procedures, to minimise the risk that its services are used to create structures and vehicles that may aid ML/TF. Any suspicion of such activity will be reported to Khan Thornton's MLRO.

Khan Thornton takes an approach of seeking to review as much original third-party information as possible when producing a set of accounts for a client. Any transactions that raise a suspicion of ML/TF will be reported to Khan Thornton's MLRO.

Khan Thornton is conscious of its obligations under POCA (Proceeds of Crime Act 2002) () and TACT (Terrorism Act 2000) with regards to making SAR (Suspicious Activity Reports) to the NCA (National Crime Agency)). Khan Thornton believes that by following Khan Thornton's AML/CTF policy, procedures and controls will minimise the risk that a matter that should be the subject of a SAR to the NCA is not identified.

The Firm as a Trust or Company Service Provider

Khan Thornton undertakes some of the following work for clients that are classified as TCSP as follows:

- (a) forming companies or other legal persons
- (b) acting or arranging for another person to act
 - (i) as a director or secretary of a company, or
 - (ii) as a partner of a partnership, or
 - (iii) in a similar position in relation to other legal persons
- (c) providing a registered office, business address, correspondence or administrative address or other related services for a company, partnership or any other legal person or arrangement
- (d) acting or arranging for another person to act as
 - (i) a trustee of an express trust or similar legal arrangement, or
 - (ii) a nominee shareholder for another person other than a company listed on a regulated market which is subject to disclosure requirements consistent with Community legislation or equivalent international standards.

Khan Thornton is conscious of the overall approach to AML/CTF is crucial to having controls in place to prevent the misuse of its services by criminals.

Khan Thornton is not complicit in assisting criminals and has safeguards in place to minimise the risk of being used to negligently assist criminals.

Khan Thornton understands that criminals may wish to try to use its services for money laundering. This policy includes a review of the risks associated with the types of services that Khan Thornton offers.

Khan Thornton undertakes an individual risk assessment on every client that Khan Thornton works with to assess the risks of ML/TF associated with that client.

Khan Thornton is mindful that it has a duty to both seek to prevent and identify the use of its services for money laundering or terrorist financing.

Sector

Khan Thornton is conscious that by providing TCSP services it may be making itself attractive to criminals who may be looking to disguise the origin of proceeds of crime or who may be looking to move those proceeds outside of the UK.

Mitigation

Khan Thornton is not complicit in assisting clients to disguise ownership of corporate vehicles or to provide further layers of anonymity through the services that it provides.

Khan Thornton performs a detailed risk assessment on every client that it acts for both before making a decision to take a client on as well as an on-going process while a client continues to retain Khan Thornton's services.

Khan Thornton takes steps to mitigate the risks identified in a client risk assessment and if it feels that these risks cannot be sufficiently mitigated the client is disengaged.

Client Risk Assessment

Khan Thornton understands the importance of identifying and assessing the risk of a client being involved in ML/TF. In order for Khan Thornton to assess this, it is crucially important that it understands every client.

Khan Thornton is aware of guidance set out in r.18 MLR 2017 on its duty to identify and assess the risks of that its business is subject to. The Firm's own risk assessment will need to be extended by the need to identify and assess the risks of ML/TF associated with each of its clients. Any high risk clients will require the Firm to undertake its Enhanced Due Diligence policy and procedures.

Khan Thornton undertakes a detailed Client Risk Assessment using the AMLCC online risk assessment tool.

Such risk assessments are updated every year or as soon as circumstances change.

Khan Thornton considers its own Firm Risk Assessment when considering the risk level associated with every client.

The level of the risk posed of ML/TF by each client will also drive the extent of Customer Due Diligence work undertaken on the client and will dictate if the Firm needs to follow its Enhanced Due Diligence policies and

procedures. The risk assessment of the a client that leads to a high risk outcome will lead to the Firm undertaking its Enhanced Due Diligence policies and procedures.

The Firm's client risk assessments must cover as a minimum:

- Customer risk factors
- Product, service, transaction or delivery channel risk factors
- Geographical risk factors

Customer Due Diligence

Customer Due Diligence: Introduction

Khan Thornton understands the influence that the risk assessment for ML/TF undertaken for every client has upon the level of CDD and on-going monitoring undertaken on that client

Khan Thornton understands the need to both identify and verify all Beneficial Owners of every client who fall within the requirements of R.5 and R.6 of MLR 2017 which explains who is a beneficial owner, the Firm also understands the requirement to identify and verify clients who are not corporate clients. Khan Thornton is further aware of the requirement to identify, verify and confirm their authority to act for anyone who purports to act on behalf of a client.

Khan Thornton will also carry out CDD in accordance with R.27,28 and 29 MLR 2017 being mindful that the identification and verification of clients is part of Khan Thornton's CDD and not the full extent of it. Khan Thornton understands that it needs to know the type of business and the transactions the client is likely to undertake along with the expected nature and volume of transactions.

Khan Thornton is mindful of r.28(18) which explains what verify means in the context of CDD.

- Verify means on the basis of documents or information either obtained from a reliable source which is independent of the individual whose identity is being verified.
- Documents issued or made available to by an official body are to be regarded as independent even if provided or made available to the Firm by or on behalf of that person.

Ultimate Beneficial Owners

Khan Thornton understands the importance of being clear on who the Ultimate Beneficial Owner(s) (UBO) is of every corporate client that it works with. Khan Thornton is clear that the UBO of a body corporate may not be the legal owner recorded on the company's records or on the relevant national company registers.

FAFT (Financial Action Task Force) Recommendations (June 2017 update) refers in its glossary to a Beneficial Owner as:

Beneficial owner refers to the natural person(s) who ultimately (Reference to "ultimately owns or controls" and "ultimate effective control" refer to situations in which ownership/control is exercised through a chain of ownership or by means of control other than direct control.) owns or controls a customer (This definition should also apply to a beneficial owner of a beneficiary under a life or other investment linked insurance policy.) and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement

R.5 MLR 2017 includes an individual who exercises ultimate control over the management of the body corporate. It is noted that the introduction of "ultimate" is a change from the MLR 2007.

Khan Thornton is committed to taking all steps to identify and verify the UBO of its clients which are corporate bodies.

R.28(7) and (8) confirms the importance that the Firm has exhausted all possible means of identifying the beneficial owner of a body corporate. If after exhausting all possible means the Firm has not succeeded in identifying the beneficial owner or is not satisfied that the individual identified

is in fact the beneficial owner, then: The Firm may treat the senior person responsible for managing the body corporate as the beneficial owner.

The Firm understands the need to record in writing all of the actions it has taken to identify the beneficial owner where it has chosen to rely on R.28(7) & (8).

The FAFT Guidance On Transparency and Beneficial Ownership (October 2014) offers the example (9) of formal nominee shareholders and directors as a method of obscuring beneficial ownership information. The FATF guidance goes on to explain the risks of not being clear of who the ultimate beneficial owners of a corporate body are.

Purpose and Intended Nature

Khan Thornton also understands the needs to obtain information on the purpose and intended nature of the business relationship or occasional transaction with a client.

Client Not Met Face to Face

Khan Thornton is aware of the additional difficulty that arises in identifying and verifying a client that has not been met face-to-face.

Khan Thornton is clear that having documents certified by a person of good standing is a key part of the identification and verification procedures.

Khan Thornton will seek to use electronic signatures, where possible, to help manage the associated increased risk of working with a client that Khan Thornton has not met.

Enhanced Due Diligence

Khan Thornton is particularly conscious of the need to undertake Enhanced Due Diligence (EDD) steps and monitoring in the circumstances where the client risk assessment dictates. Khan Thornton uses R.33 MLR 2017 as part of its role in establishing when EDD is required and is mindful of R.33(4) and (5) when considering what steps to take to perform its EDD and to establish the appropriate on-going monitoring.

Khan Thornton will not take on a high-risk client without undertaking EDD and being satisfied that the client is not involved in ML/TF.

Khan Thornton is clear that the following measures should be included within its EDD R.33(4) and (5) MLR 2017:

- Examining the background and purpose of the transaction; so far as reasonably possible

- Increasing the degree and nature of monitoring of the business relationship to determine if the relationship is suspicious

The Firm's EDD may also include:

- Seeking additional independent, reliable sources to verify information provided or made available to the Firm
- Additional measures to understand better the back ground, ownership and financial situation of the customers, and other parties to the transaction
- Taking further steps to be satisfied that the transaction is consistent with the purpose and intended nature of the business relationship;

Increasing the monitoring of the business relationship, including greater scrutiny of transactions

Changes to Clients Identification and Verification Documents

Khan Thornton will seek updated documents from clients when the client details change or when documents held become out of date.

Use of Online Electronic Verifications

Khan Thornton is aware of the availability of Online Electronic Verifications which can be purchased to assist with verification of a client's identification.

Khan Thornton recognises that unless such verifications contain certified photo ID then sight of original or suitably certified independent and reliable photo ID will be sought alongside any electronic verifications used.

Online Verification Searches

Khan Thornton will use searches using reputable online search engines to help with gathering information on clients. This may be useful in a number of areas including identification of PEPs, understanding what work a client undertakes and considering any media comment in relation to the client.

Khan Thornton may use such information or an update services as part of its on-going client monitoring. Khan Thornton may use google alerts as part of its monitoring of clients.

Politically Exposed Persons

Khan Thornton is aware of its obligations to have systems and procedures in place to determine if a client or its beneficial owner is a PEP or a family member or close associate of a PEP.

Khan Thornton is aware of the definition of a PEP within R.35(12) and (14) of MLR 2017 which defines a PEP. R.35 MLR 2017 is also considered in relation to what EDD step to undertake if a PEP is planned to be taken on as a client of Khan Thornton.

Khan Thornton is also conscious of guidance within R.36 of MLR 2017 and guidance on PEPs issued by the FCA.

Khan Thornton will not accept a PEP as a client without senior management approval.

Timing of Verification

R.27(1) sets out the when the Firm should apply due diligence measures. These are:

- When the Firm establishes a business relationship (which is further defined in R.4 MLR 2017)
- When the Firm carries out an occasional transaction that exceeds 1,000 euros and amounts to a transfer of funds under Article 3.9 of the funds' transfer regulation
- When the Firm suspects ML/TF
- When the Firm doubts the veracity or adequacy of documents or information previously obtained for the purposes of identification and verification.

Khan Thornton is conscious of R.30 MLR 2017 which relates to the timing of when identification and verification when taking on a new client.

Khan Thornton understands that it must comply with the requirement to identify and verify all beneficial owners or person purporting act on the client before establishing a business relationship or the carrying out of an occasional transaction.

R.30(3) goes on to explain that the Firm may as soon as practicable after first contact with a client may undertake its client verification steps during the course of the establishment of business relationship provided that the following apply:

- That the verification during the establishment of the business relationship is necessary not to interrupt the normal course of business
- There is little risk of ML/TF

Khan Thornton is committed to identifying and verifying clients as soon as possible and before undertaking any work on behalf of a client.

The Firm is further aware that under R.33 MLR 2017 that it must undertake it enhanced due diligence measures if it discovers that a client has provided it with false or stolen identification documentation or information.

The Firm is aware of its obligations under R.28(11) MLR 2017 to conduct on-going monitoring of a business relationship to ensure:

- That the transactions undertaken through the course of the relationship with the client are consistent with the Firm's knowledge of the customer, the customer's business and risk profile
- Reviewing existing records and keeping documents or information obtained for CDD up-to-date

Requirement to Cease Transactions

Khan Thornton is aware of R.31 MLR 2017 and will not establish a business relationship, carry out a transaction or continue to act for an existing customer where Khan Thornton has been unable to apply its CDD measures.

CDD/EDD Record Keeping

Khan Thornton keeps copies of documents and information used to perform its identification and verification.

This is recognised as helpful to evidence the steps that Khan Thornton has taken and also provide useful information to law enforcement should a client be subject to an investigation.

The Firm has a commitment to keep records necessary to demonstrate its compliance with AML/CTF

commitments and obligations and these are explained later in the policy.

Impersonation Risk

Khan Thornton is mindful of the risk of someone trying to impersonate someone else. Khan Thornton's policy on seeing original or certified verification of identification of individuals who are clients or beneficial owners of clients will help to confirm that the person that Khan Thornton is dealing with is the person that they claim to be.

Khan Thornton is mindful of the possibility that an individual may seek to use fake identity documents; this is a further reason that copies of documents provided as evidence are copied and stored.

Internal Controls

Khan Thornton is aware that it is important that it monitors the implementation of its AML/CTF policies and procedures to ensure that such policies and procedures are correctly followed or if any variation occurs is approved by senior management of Khan Thornton.

R.21 MLR 2017 reflects the reality that the AML/CTF compliance structure of a sole practitioner firm will vary to that of a multi-person firm.

R.21(6) refers to an individual who neither employs or acts in association with another person as needing a different control AML/CTF control structure.

MLR 2017 also introduces the impact of a Firm's AML/CTF systems and controls of the size and nature of the Firm. It should not be implied that a sole practitioner Firm is not at risk of being exposed to ML/TF.

Khan Thornton is conscious it will need to consider its resources as to whether it is sufficiently resourced with senior management with the appropriate skills, knowledge and expertise to appoint deputies to the roles discussed below, in particular, the Nominated Officer (NO) and/or the Money Laundering Compliance Principal (MLCP).

There is a requirement for a Firm which is not a sole practitioner to inform its AML supervisor within 14 days of the appointment of both of the following:

- Who is the Nominated Officer (NO) for the Firm
- Who is the person responsible for the Firm's compliance with MLR 2017 (The Money Laundering Compliance Principal (MLCP))

There is a requirement for the Firm to have a NO and MLCP unless it is a sole practitioner as defined above.

The Nominated Officer of Khan Thornton is (automatically inserted, may need to show a deputy).

The Money Laundering Compliance Principal of Khan Thornton is (automatically inserted, may need to show a deputy).

The appointment of a NO (Nominated Officer) is a requirement under both MLR 2017 and POCA 2002 and is the person responsible for receiving Suspicious Activity Reports (SARs) from staff within the Firm and for determining from such internal SAR reports whether a SAR should be made to the National Crime Agency (NCA) and if required making SAR reports to the NCA.

The Money Laundering Compliance Principal is a requirement of MLR 2017 and is the person within the Firm who is responsible for Firm's compliance with MLR 2017. The MLCP should be an officer of the Firm (or

equivalent if there is no board) or a member of the Firm's senior management.

It is clear then, that for a sole practitioner firm the individual who is the sole practitioner undertakes both the roles of the NO and the MLCP as there is no one else to undertake these roles. Being a sole practitioner does not mean that the roles of the NO and MLCP do not need to be undertaken only that the titles of the role are not required as it can only be the sole practitioner who undertakes this role.

The Firm must also consider whether it will benefit from the appointment of an individual to be responsible for the role of Independent Audit Function (IAF). Whether the Firm has chosen to introduce an Independent Audit Function will depend on its size and nature.

Though not specifically defined the size and nature of the Firm is both factual by the size of the firm by for example employee number or turnover and risk based, for example, the geographical reach of the Firm and the scope of work undertaken by the Firm. From this, the Firm will have to have regard to the outcome of both its own Firm Risk Assessment and the Risk Assessment undertaken on behalf of its clients.

R.19 (5) MLR 2017 that a regulated firm should consider both guidance issued by the FCA or any supervisory authority or appropriate body approved by the HM Treasury when considering what is appropriate and proportionate with regard to the size and nature of its business.

If established the Independent Audit Function's duty include:

- (i) to examine and evaluate the adequacy and effectiveness of the policies, controls and procedures adopted by the relevant person to comply with the requirements of these Regulations;
- (ii) to make recommendations in relation to those policies, controls and procedures; and
- (iii) to monitor the relevant person's compliance with those recommendations.

Khan Thornton **has/has not** decided to set up an Independent Audit Function

The Firm is aware that it would not be unusual that the same individual may be the both the NO and MLCP for the Firm. This combined role is also known as the Money Laundering Reporting Officer (MLRO) which is the title that many within the regulated sector may be familiar with.

Whilst it is not a requirement of MLR 2017 or POCA 2002 to have an MLRO it may be sensible to continue with this title for ease of reference of employees of the Firm.

Employee Screening

Khan Thornton carries out screening of relevant employees in accordance with r.21(1)(b) MLR 2017 both before the appointment is made and during the course of employment.

Khan Thornton is aware that where the Firm is a strict sole practitioner as explained within the Internal Controls section of this policy that it will be unable to and not obliged to carry out Employee Screening steps.

Khan Thornton acknowledges that screening means r.21(2)(a) means an assessment of:

- (i) the skills, knowledge and expertise of the individual to carry out their functions effectively;
- (ii) the conduct and integrity of the individual;

Khan Thornton also acknowledges that relevant employees r.21(2)(b) are employees whose work is:

- (i) relevant to the relevant person's compliance with any requirement in these Regulations, or
- (ii) otherwise capable of contributing to the–
 - (aa) identification or mitigation of the risks of money laundering and terrorist financing to which the relevant person's business is subject, or
 - (bb) prevention or detection of money laundering and terrorist financing in relation to the relevant person's business.

Records

Khan Thornton recognises that the records that are kept in relation to all aspects of our AML/CTF compliance are very important. Khan Thornton recognises that such records will form evidence of its compliance to its AML supervisor and interested law enforcement agencies.

Khan Thornton recognises that its AML/CTF records will be its defence against any criticism or prosecution. Deficiencies in its records will prima facie indicate that such compliance work has not been undertaken by the Firm.

Khan Thornton is aware that the MLR 2017 R.40 sets out the requirements for AML records that Khan Thornton must retain in relation to the following:

- Copies documents and information obtained to satisfy CDD requirements
- Sufficient supporting records of any transaction that is the subject of CDD or ongoing monitoring to enable the transaction to be reconstructed

Khan Thornton is aware of the requirements of R.40 MLR 2017 with regards to retaining the records required under (R.40 MLR 2017) as described above for a period of at least five years after the following events occur R.40(3) MLR 2017:

- a) that the transaction is complete, for records relating to an occasional transaction; or
- b) that the business relationship has come to an end for records relating to–
 - (i) any transaction which occurs as part of a business relationship, or
 - (ii) customer due diligence measures taken in connection with that relationship.

Khan Thornton will usually issue a client dis-engagement letter at the point that events laid out in R.40(3) above have occurred. The Firm uses the issuing of the dis-engagement letter as the start of the five year period.

Khan Thornton is aware of the requirements of R.40 MLR 2017 to delete any personal data of a client after a period of five years unless (R.40 (5)(a)):

- (i) by or under any enactment, or
- (ii) for the purposes of any court proceedings;
- (b) the data subject has given consent to the retention of that data; or

(c) the relevant person has reasonable grounds for believing that records containing the personal data need to be retained for the purpose of legal proceedings.

Khan Thornton is aware that for a continuing client that it is not required to keep records listed in R.40(3)(b)(i) for more than ten years; which are records relating to:

(i) any transaction which occurs as part of a business relationship,

Khan Thornton is also aware of R.19 MLR 2017 which requires that Khan Thornton must maintain a record in writing of:

- The policies, controls and procedures
- Any changes as a result of updates or reviews
- The steps taken to communicate these and any changes within Khan Thornton's business

The AML/CTF records held may include

- AML/CTF Policy document
- AML/CTF Procedures document
- Sector Risk Assessment
- Firm Risk Assessment
- Evidence of compliance with the policies and procedures
- New Client Information forms
- Evidence of identification and verification work undertaken on clients' beneficial owners for CDD purposes
- Records to support any transactions subject to CDD or ongoing monitoring (sufficient to reconstruct the transaction)
- Client Risk Assessment forms
- Evidence of Risk Assessment updates
- Technical Reference Documents
- Training undertaken by any senior members of Khan Thornton
- Training undertaken by any staff of Khan Thornton
- Record of communication to staff of any review or changes to policies, controls and procedures

Where Khan Thornton structure requires:

- Senior management approval for any cash received by Khan Thornton
- Senior management approval of Khan Thornton accepting a PEP or their family members or close associates as a client

These documents are held in one or more of the following formats:

- AMLCC Online AML/CTF Compliance Tool
- Hard Copy Documents
- Electronic Documents

The Firm is aware of the term "size and nature" of the Firm that is referred to within MLR 2017 with regards to the extent of policies, controls and procedures of any firm. Reference to some suggested records that might be considered to be kept by a larger or more risk exposed firm are listed within the draft sourcebook issued by OPBAS (Office of Professional Body Anti-Money Laundering Supervisors) is as follows:

- organisation chart;
- legal entity chart;
- job descriptions of senior management;
- composition of committees;
- documents setting out internal procedures and controls;
- internal audits of compliance with internal procedures and controls;
- external auditor's reports;
- compliance reports;
- data on suspicious activity reports and other engagement with law enforcement
- agencies;
- breach logs;
- review of information from other sources: information and alerts could come from
- law enforcement, other supervisors, employees, other businesses, or the public.

Data Protection

In accordance with R.41 MLR 2017, any personal data obtained by Khan Thornton for the purposes of its AML/CTF compliance will only be processed for preventing ML or TF.

Khan Thornton provides information to new clients relating to data protection before establishing a business relationship or undertaking an occasional transaction.

Khan Thornton will not, without due reason, retain personal data obtained for purposes of AML/CTF beyond a period of five years from the end of a business relationship or completion of an occasional transaction. Further details are covered in the Records section of this policy.

Reliance on Third Parties

It is not the intention of Khan Thornton to rely upon information held by Third-Parties to assist with its AML/CTF other than through information placed on the AMLCC online compliance platform.

Should Khan Thornton consider placing reliance on a third party to apply its Customer Due Diligence (CDD) measures then it is aware that it is the Firm that remains liable for any failure to apply its CDD measures.

Khan Thornton will review and amend its AML/CTF policy should it vary from its current policy on Reliance on Third Parties.

Training and Internal Communication

Khan Thornton recognises that it has the best chance of preventing and identifying ML/TF using an "all eyes" approach. This means training everyone within Khan Thornton to understand what activities or transactions might be identified as suspicious. This is to ensure that all staff understand the obligation to report suspicious activity or transactions to Khan Thornton's Nominated Officer (NO) for the purposes of reporting to the NCA under POCA 2002.

Khan Thornton further recognises its responsibility for ensuring that all staff are both aware of and understand how to apply Khan Thornton's own policies controls and procedures. Khan Thornton will communicate to staff any updates to any changes to its systems, policies, controls and procedures.

Khan Thornton is conscious that by training all staff they are minimising the risk that ML/TF would go undetected by Khan Thornton. This approach to training supports the view that all staff are relevant staff for R.21(2)(b) MLR 2017 and that such training forms part of the screening process required for both new and existing staff under R.21(1)(b).

If Khan Thornton is using the services of individuals or entities to assist with the provision of its own client services then this will ensure that such non-employees are given or have received training on both AML/CTF its policies controls and procedures to the same standard Khan Thornton's employees.

A record of all AML/CTF related training is kept.

Further training is given after a maximum period of twelve months or as updates are required, whichever is sooner.

Reporting

Khan Thornton is aware that it has a role to play in preventing and identifying ML/TF. A key role in this is passing information to the NCA and where appropriate seeking authority from the NCA to continue with a transaction. Khan Thornton will use the Suspicious Activity Reporting facility to make reports to the NCA when activity or transactions required reporting to the NCA.

All reports to the NCA will be made by Khan Thornton's Nominated Officer (NO) or its Deputy NO if one has been appointed. The Suspicious Activity Reports (SAR reports) made or considered by the NO are likely to have come from internal SARs made by employees of the Firm to the NO.

Evidence is held with Khan Thornton's AMLCC online compliance tool that relevant members of Khan Thornton have been trained in both the law and guidance relevant to AML/TF that is relevant to the services provided by Khan Thornton and Khan Thornton own internal policies and procedures relevant to AML/CTF.

Why Report?

Khan Thornton is aware that its obligation to report to the National Crime Agency (NCA) is set out in Part 7 Proceeds of Crime Act 2002 (POCA) and Part 3 of the Terrorism Act 2000 TACT.

All employees of the Firm are obliged to report to the Nominated Officer any activity that they consider may be money laundering or terrorist financing. Further details of what to report are within the What to Report section of this policy.

All employees of the Firm are aware that their best defence under both POCA and TACT is to make a report to the Firm's NO.

All employees of the Firm are also aware that they must not disclose to any party that is the subject of a SAR (tipping off) that a SAR has been made or that an investigation by law enforcement is ongoing (prejudicing an investigation).

What to Report?

Khan Thornton is aware of the details laid out in the Khan Thornton Approach to AML/CTF section of this policy, which lays out the principle money laundering offences that are reportable.

Any uncertainty on whether to report or not by employees of the Firm should be discussed with NO of the Firm.

Any uncertainty on behalf of the Firm's NO should be discussed with the Firm's senior management, the Firm's AML supervisor or independent legal advice sought.

It is often wise for the Firm if seeking independent advice on a SAR not to disclose the client details, this will minimise the risk of a tipping off offence under POCA.

Cash Handling

Khan Thornton is aware of the difficulty of tracing the source and movement of cash.

Khan Thornton has considered the risk of handling the proceeds of crime by accepting cash from any client either in payment for fees already incurred or expected to be incurred in the future or for payment of any liabilities on behalf of the client and has taken a view that it will only accept any cash from a client provided the client can evidence with independent records or information the source of the cash.

Any such acceptance of cash by Khan Thornton will require senior management approval.

Client Account

Khan Thornton has a policy of operating a client account to hold any funds that belong to clients of the Firm.

The client account is used only for the receipt of refunds on from HMRC on behalf of clients.

The Firm is careful to be sure that any payments from the client account are only made to accounts of the named client and are not paid to any third-parties.

Khan Thornton is conscious that funds paid out if its client account will often be seen as "clean" funds and the Firm is therefore aware of the risk the clients with criminal intent may seek to use the Firm's client account as a way of demonstrating "clean" funds to a third-party.

The client account will be reconciled on a monthly basis and discrepancies investigated and resolved. Such reconciliations will be checked by a senior member of the Firm and evidence of such a check recorded.

Khan Thornton will be clear to have documented authority from a client before drawing funds from the client account to cover invoiced fees of the Firm incurred for work on the client.

The Firm is also aware that a client being prepared to deposit funds in advance of work being undertaken by the Firm and then seeking to recover the deposit by cancelling the instructions to the Firm is a route that could be used to "clean" funds through the Firm's client account.

AML Supervision

Khan Thornton can confirm that it is registered with a relevant AML supervisor.

Khan Thornton is supervised for AML by

Khan Thornton is also aware that if it undertakes work that is classified as TCSP work that it will need to be

registered on the TCSP register held by HMRC. This register of TCSP service providers is a requirement placed on HMRC by MLR 2017. Being listed on such a register is not a substitute for the Firm being supervised for AML for any services that it provides that are regulated services under MLR 2017.

If your Firm is supervised for AML by a professional body AML supervisor, then it is likely that the professional body has submitted your details to HMRC to be placed on the register. For this to happen your Firm will have needed to notify the professional body that it undertakes TCSP work. It should be confirmed with the Firm's professional body AML supervisor that the Firm's details have been submitted to HMRC to be placed on the register.

If your Firm is supervised for AML by HMRC as a TCSP then the Firm should have been included on the register automatically by HMRC. The Firm should confirm this.

Khan Thornton is aware of the requirement that on or before 26th June 2018 that it will need to have authority from its AML supervisor to continue to operate Khan Thornton. Such authority will be subject to Khan Thornton confirming that none of its beneficial owners, officers or senior managers have an unspent conviction which is a relevant conviction on Schedule 3 of MLR 2017.

Khan Thornton does not have any of its beneficial owners, officers or senior managers that have a current conviction which is a relevant conviction for Schedule 3 MLR 2017.

Khan Thornton is also aware of the its obligations to appoint (where appropriate) and to inform its AML supervisor of the appointment of any person responsible for the compliance of Khan Thornton with MLR 2017 and the Nominated officer and any subsequent changes to these positions.

Prohibitions and Approvals - (firm must be authorised in relation to relevant criminal convictions)

Khan Thornton is aware of the requirement not to have anyone who has been convicted of a relevant criminal conviction (listed in Schedule 3 MLR 2017) as beneficial owner of Khan Thornton or as an officer or manager of Khan Thornton.

Confirmation of this will be provided to Khan Thornton's AML supervisor(s) once the format for such authorisation applications have been set out by Khan Thornton's supervisor(s). Authorisation will be requested prior to 26 June 2018.

Khan Thornton will update its authorising body within 30 days of any relevant convictions being made to the relevant parties of Khan Thornton.

Financial Sanctions and Proscribed Terrorist Organisations

Khan Thornton is aware of guidance issued by the Office of Financial Sanctions Implementation (OFSI) which is available online at: <https://www.gov.uk/government/publications/financial-sanctions-faqs> and the OFSI guidance on the associated monetary penalties at:

https://www.gov.uk/government/uploads/.../Monetary_penalties_for_breaches_of_financial_sanctions.pdf

Khan Thornton is aware of the consolidated list of financial sanctions target issued by OFSI and is conscious that this is regularly updated.

An extract from the OFSI Financial Sanctions Guidance is included below:

3.1.2 What must you do?

If you know or have 'reasonable cause to suspect' that you are in possession or control of, or are otherwise dealing with, the funds or economic resources of a designated person you must:

- freeze them
- not deal with them or make them available to, or for the benefit of, the designated person, unless:
 - there is an exemption in the legislation that you can rely on
 - you have a licence from OFSI
- report them to OFSI

Reasonable cause to suspect refers to an objective test that asks whether there were factual circumstances from which an honest and reasonable person should have inferred knowledge or formed the suspicion.

A breach of these requirements may result in a criminal prosecution or a monetary penalty.

The Firm will be reviewing the OFSI consolidated periodically to be sure that clients of the Firm do not appear on this list. Should a client show on the list the Firm is aware of its obligation to notify OFSI immediately. A link to the OFSI consolidated list is here: <https://www.gov.uk/government/publications/financial-sanctions-consolidated-list-of-targets>

Khan Thornton is aware of the Proscribed Terrorist Organisations list of banned organisations under UK law. A link to the list is here: <https://www.gov.uk/government/publications/proscribed-terror-groups-or-organisations--2>

The Firm is conscious of the sense in reviewing this list periodically to be sure that clients of the Firm do not appear on this list.