



## Fund services business – unregulated funds

During the fourth quarter of 2023 we undertook thematic assessment visits to assess unregulated funds' compliance with statutory and regulatory requirements regarding financial crime in relation to fund investors. We've broken down our observations to good practice, areas of improvement and key considerations.

This feedback is relevant to all fund boards (e.g. public and private funds) and to fund services businesses or trust company businesses acting on behalf of funds in relation to a fund's compliance with financial crime statutory and regulatory requirements.

The three key areas of improvement show common trends with the findings identified during the Jersey Private Funds thematic assessment visits in 2023 in relation to fund investors.



### Good practice we observed

- ▶ Accessible and comprehensively detailed investors' customer business and risk profiles, allowing for active on-going monitoring, for example supporting effective trigger event and periodic review processes.
- ▶ The fund's systems and controls require customer risk assessments for investors to be reassessed and updated as part of periodic review and trigger event processes, ensuring risk information remains current and accurate.
- ▶ The fund's understanding of the ownership and control structures for investors is clearly documented, with well-articulated consideration of the three tier test, and customer due diligence applied on a risk-based approach.



### Areas of improvement we identified

- ▶ Funds did not have customer business and risk profiles for their investors, or the profiles were not comprehensive and/or kept up to date. Deficiencies included not recording expected activity, and inadequate records/corroborations of source of funds and wealth.
- ▶ Investor customer risk assessments were inadequate. For example, they did not consider the cumulative effect of risks, full jurisdictional exposure, complexity of investor structures, connections with charities/non-profit organisations and pooled investments.
- ▶ Periodic reviews of investors were not completed in a timely manner. In cases where the date of the next periodic review was calculated based on all action points being closed, a failure to monitor their timely closure caused the frequency of reviews to be misaligned with investor risk ratings.



### Key considerations

- ▶ Have you ensured the rationale for the use of exemptions under Articles 17B-D and 18 of the Money Laundering (Jersey) Order 2008 is adequately considered and clearly recorded? Has customer due diligence been obtained for third parties where the customer is a regulated nominee?
- ▶ Is your periodic review process for investors completed in a timely manner with remediation of the action points monitored separately by the fund board and the board of the relevant service provider to the fund?
- ▶ Was investors' source of funds and source of wealth information gathered at the onboarding stage sufficiently detailed to understand the nature and scope of the business activities generating the investors' funds/assets?