Debevoise & Plimpton

The Debrief

UK Regulator Evaluates PE and Hedge Fund Anti-Money Laundering Controls

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In late July, the Financial Conduct Authority (the "FCA") published some insightful findings from its high-level review of financial crime controls at asset management and alternative investment (private equity and hedge funds) firms. The FCA surveyed 242 out of the approximately 2,500 regulated firms in this sector and held interviews with senior staff from a cross-section of these firms. Its findings focus on anti-money laundering ("AML") controls rather than other financial crime topics and on alternative investment firms rather than asset managers.

Below, we outline some key takeaways from the review.

- **Private markets firms are inherently likely to face greater AML risks**: The FCA considers that firms operating in private markets are more likely to be exposed to heightened financial crime risks compared to other types of firms. This is a consequence of them having a higher proportion of customers with complex ownership structures, customers that are politically exposed persons and customers based overseas which necessitate international funds transfers.

- **Some firms still lack basic AML controls**: The review found that a significant proportion of firms had not implemented at least one of the standard elements of an AML framework. The controls highlighted by the FCA include performing a business-wide risk assessment, undertaking customer risk assessments, verifying the ultimate beneficial owners of customers, overseeing customer due diligence checks that are outsourced to third parties, verifying the source of wealth for high-risk customers and monitoring customers' transactions.

- **An "informal approach" to AML risks is not sufficient**: Even where firms believed that they had implemented the controls referred to above, the FCA found that they had often done so inadequately. In particular, the FCA underlined the need for formal, documented processes that are tailored to the firm's business activities and reviewed regularly.

- **Firms should consider investing more in AML controls**: The FCA stated that larger firms should reassess whether their AML function has sufficient resources to ensure effective oversight and compliance. In addition, it found that half of firms reported no investment in the remediation or uplift of AML controls over the last two years, while only a third of firms discussed AML risk regularly at governance forums.

While there is nothing groundbreaking emerging from the review, it brings together various strands in the AML sphere that the FCA is concerned about and emphasises the increasing focus the FCA has been giving to risks in private markets in recent years. In February 2025, the FCA's "Dear CEO" letter to the asset management and alternatives sector also identified financial crime as a key supervisory priority, along with issues such as market abuse, valuation practices, conflicts of interest, operational resilience and risk management.

Private equity and hedge fund clients (especially Money Laundering Reporting Officers and other holders of FCA Senior Management Functions) should bear in mind the growing likelihood of active supervisory attention and enforcement activity by the FCA in these priority areas. While the FCA has historically directed the vast majority of its resources towards potential misconduct affecting groups of individual consumers, it has now clearly put alternative investment firms on notice that it is targeting them and will not tolerate any major deficiencies that it identifies in their AML controls.

Please do not hesitate to contact us with any questions.

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