

Technical factsheet

Identifying client risk

Introduction

This technical factsheet is designed to raise awareness of accountancy firms' obligations and offer practical, regulatory-aligned guidance on identifying and assessing client risk.

Prior to reviewing this, it is essential that you refer to the relevant sections of the [Money Laundering Regulations 2017 \(MLR 2017\)](#) and the CCAB's [Anti-Money Laundering, Counter-Terrorist and Counter-Terrorist Financing Guidance for the Accountancy Sector 2023](#). You should also consider other relevant guidance, such as [HM Treasury's national risk assessment of money laundering and terrorist financing](#) and The Financial Action Task Force's [Guidance for a risk-based approach: accounting profession](#), to establish what risk factors need to be considered.

The money laundering reporting officer (MLRO) should also keep up to date with current risks and trends.

This factsheet should be read in conjunction with [ACCA's technical factsheet: client due diligence](#).

Overview

Client risk is the money laundering, terrorist financing and other financial crime risks potentially posed by a client – to which your firm may be exposed to. It is vital that the firm understands the risk posed by its clients in order to implement an appropriate risk-based approach, as required under the MLR 2017.

A firm must begin by identifying the inherent risk, which is the level of money laundering risk present in the absence of any controls. Inherent risk is the starting point for a risk-based approach and determines how robust the mitigating controls need to be. An understanding of inherent risk ensures that firms design and apply policies, procedures and controls that are proportionate to the threats identified.

Firstly, a firm must have a consistent process in place to identify the risks of clients before establishing a client relationship or accepting an engagement. The firm must also review the client risk on an ongoing basis, eg periodically or where a significant change occurs that may impact the risk profile. The firm's procedures for identifying client risk should be clearly articulated within the firm's anti-money laundering (AML) policies and procedures document.

A firm must implement appropriate systems and controls to consistently identify and manage risks posed by its clients. All clients must be risk categorised so that the appropriate level of due diligence can be applied.

When considering the client risk, the firm must assess a range of factors, including:

- the nature of the client's **services and/or products** (including where dual-use goods may give rise to proliferation financing risk)
- the **geographic** exposure of the client, including the location of key stakeholders such as beneficial owners, customers and suppliers, and any links to jurisdictions presenting sanctions, corruption or proliferation financing risk
- the **sector** in which the client operates
- the nature and purpose of **transactions**, especially where the firm provides services such as client account services, nominee director services or acts as a signatory on client bank accounts, and where transactions lack clear economic rationale
- **delivery channel** risk factors that may be associated with the client and its stakeholders.

Your firm should have different client risk categories such as low, normal/medium and high. Typically, most clients would be classified as medium/normal. Low risk should be a rare exception, since such clients are typically subject to simplified due diligence (SDD).

It is expected that firms will have some high-risk clients. This is not disreputable; rather, it demonstrates that the firm recognises and assesses the inherent risks present in its client base and applies the risk-based approach appropriately. A higher risk rating does not mean that a client is involved in money laundering; it reflects the presence of high-risk factors and the need to take appropriate steps to manage and mitigate these risks. A firm must complete enhanced due diligence (EDD) on higher risk clients. The EDD measures implemented should specifically address the risk factors identified.

Identifying client risk

Identifying client risk requires a clear and documented understanding of the client's business model and activities, including the nature of its products and/or services, how it generates revenue, its customers and suppliers, the expected volume and nature of transactions, and its geographic footprint. Without this foundation, a firm cannot assess whether activity is consistent with expectations or identify unusual or suspicious behaviour.

The objective of AML is not to predict risk with certainty, but to identify and report suspicious activity; a suspicious activity report (SAR) must be submitted where there is knowledge or suspicion of money laundering or terrorist financing, regardless of the perceived likelihood of recurrence or any potential reputational impact on the firm. Given that the impact of a single money laundering transaction is inherently high and the likelihood of such activity is difficult to determine due to its concealed and unpredictable nature, firms are encouraged to prioritise identifying inherent risk factors and red flags rather than attempting to quantify likelihood.

Below are some examples of high-, medium- and low-risk clients.

High-risk client:

- the business relationship is conducted in unusual circumstances
- the client is a resident or transacts with a geographical area of [high risk](#)
- cash-intensive businesses (eg restaurants, retail outlets)
- the corporate structure of the customer is unusual or excessively complex
- high-net-worth individual
- foreign politically exposed person (PEP), including their close relatives and associates
- high-value businesses (eg jewellers, car dealerships)
- non-face-to-face business relationships

- the type of industry/business of the firm is at high risk of money laundering and terrorist financing, eg money services business, import/export, charities, gambling, precious metals, dual use goods, oil and gas.

Low-risk client:

- is a public administration or a publicly owned enterprise
- is a company whose securities are listed on a regulated market, and the location of the regulated market.

Medium-risk client:

- any client who does not have any high- or low-risk factors.

The risk assessment of a client should be signed off by a partner, senior manager or MLRO within the firm. It is important that the rationale for a client's risk rating is clearly documented within the client file. This includes documenting that the risk assessment has been reviewed periodically, even where there has been no change. It is also important to review the risk-assessment process and the risk factors used (including those within checklists) on a regular basis to ensure that they remain relevant and up to date, and reflect any emerging issues or regulatory changes.

In a separate document we have provided a basic [know your client \(KYC\) form and client risk-assessment template](#), which can be used as a starting point. The questions included are indicative only and may not apply to all clients. They are non-exhaustive and should be used as a guide; additional risk factors may need to be considered and documented based on the specific circumstances of each client.

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