

## Our Anti-money Laundering Work 2018/19

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## Our role

### ➤ What is money laundering?

Money laundering is when criminals 'clean' the proceeds (the financial gains) of crime. Criminals transform proceeds into assets, such as houses or companies, or other seemingly legitimate funds, for example, money in a bank account. In some cases, laundered money is used to fund terrorism.

### Around two-thirds of the firms we authorise fall within the scope of money laundering regulations

Money laundering makes these profits look like genuine sources of income, which criminals can then spend freely and without raising suspicion. Such criminals often make their money from serious crimes such as fraud, or people, wildlife and drug trafficking.

Organised crime costs the UK economy more than £37bn every year, and the National Crime Agency (NCA) believes there are 4,500 organised crime groups operating in the UK. This, along with a rise in terror attacks in recent years, is why combatting money laundering is an international and UK priority, with EU directives and UK legislation in place.

### Why it concerns us

Solicitors and law firms are attractive to criminals because they process large amounts of money, are trusted, and can make the transfer of money or assets appear legitimate. Most law firms work hard to prevent and to spot money laundering and take necessary action, but some get involved

unknowingly. A very small number may even knowingly cooperate or work with criminals.

### Our role in preventing money laundering

The Money laundering regulations we implement come from EU directives – such as the Fourth Money Laundering Directive and the Fifth Money Laundering Directive (5MLD). These directives are then brought into UK legislation. They became the [Money Laundering, Terrorist Financing and Transfer of Funds \(Information on the Payer\) Regulations 2017](#) and [The Money Laundering and Terrorist Financing \(Amendment\) Regulations 2019](#).

These regulations set out the business types which offer services that could, potentially, be targeted by money launders. They include banks, estate agents and some legal services. Around two-thirds of the firms we authorise fall within the scope of the money laundering regulations. As a professional body supervisor, we have a duty to make sure that the firms we supervise, and which could be targeted by money launderers, comply with the regulations and have appropriate controls in place.

We take money laundering extremely seriously. We work to raise awareness with solicitors and firms that they could be targeted by money launderers, for example, through our [warning notices](#). And, we publish [guidance](#), as well as thematic reviews (our latest being on firms offering [trust and company services](#)), that highlight best and poor practices when managing the risks money laundering poses.

We investigate concerns and take enforcement action where necessary. This will generally be if we find that a firm, solicitor or other individual we regulate has failed to follow the regulations, put in place relevant controls to combat money laundering, or to meet their obligations in another way. We will also take robust

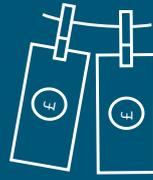
action if we find that a firm or someone we regulate has knowingly played a part in laundering money.

### Laundering money through the legal sector

Some ways in which firms and solicitors become involved with money laundering, either knowingly or unknowingly, are:

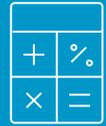
- **Conveyancing:** criminals use the proceeds of crime to buy houses to live in, rent or sell. Conveyancing is routine work for many solicitors and firms. The volume of such transactions, and the significant amounts of money involved, mean that great care must be taken to spot suspicious activity.
- **Setting up shell companies or trusts:** solicitors and law firms are integral to such transactions and they can add a veneer of respectability or legitimacy to them. Criminals often hide their money in the shell company or trust – disguising to whom the money belongs. Legal professionals need to be alive to this possibility.
- **Misusing client accounts:** law firms should only have money in their client account that relates to an underlying legal transaction or a service forming part of their normal regulated activities. Law firms should not be used to take in and pay out funds like banks. Sophisticated criminals will target firms with lax processes and systems, and it is important that firms do not allow this to happen.
- **Failing to carry out proper due diligence:** law firms and solicitors can, unwittingly, allow money laundering to take place if they do not carry out sufficient checks on a prospective, new, or existing, client's source of funds.
- **Handling unusual or high-risk transactions or offers:** for example, being approached with an investment proposition or a cash injection to support their practice.

## AML Fast Facts



How much money laundering costs the UK each year \*

**£100bn**



Number of firms we regulate that fall under scope of the money laundering regulations



**7,000**

**59**



Number of firms visited as part of our thematic review into law firms offering trust and company services

Reports we received in 2018/19 relating to money laundering



**197**

**21%**



Percentage of firms we regulate whose money laundering risk assessments were not up to scratch



Solicitors struck off or suspended by the SDT in money laundering related cases the past five years

**40**



## Our work in 2018/19

➤ We bolstered our internal resources in 2018/19 by setting up a dedicated Anti-money Laundering (AML) team. Three key areas the team worked on are set out below.

### Implementing the Fifth Money Laundering Directive

[The 5MLD](#) was transposed into law in England and Wales on 10 January 2020 and builds on the Fourth Money Laundering Directive. It aims to clamp down on money laundering

officers and managers (BOOMs) and BOOMs switching firms will need to carry out a Disclosure and Barring Service check and submit it to us when they propose to take on a new role. We decide whether this will be approved.

We have worked on [guidance](#) to help firms navigate the new regulations. We did this in partnership with the Legal Sector Affinity Group (LSAG), which is made up of all the legal sector supervisors named in the AML regulations.

processes do not attract money launderers and they help to bring focus and control to high-risk areas.

To monitor compliance with these regulations, we wrote to 400 firms in 2019, asking them to send us their risk assessments for review. We found that one-fifth were not meeting the regulations by not addressing the necessary risks, or the firms had sent us something other than an AML-specific risk assessment. We also found that the majority of firms, some 64%, were using templates. These were generally of a lower quality than the more targeted and bespoke assessments that other firms were using.

### For the legal sector, 5MLD means more transparency concerning the people who take up key roles within law firms

and terrorist financing and, among other things, introduced changes to the system for approval of beneficial owners, officers and managers. 2018/19 saw us preparing for these changes by making sure we have the appropriate systems and resources in place.

For the legal sector, 5MLD means more transparency concerning the people who take up key roles within law firms. From January 2020, new beneficial owners,

#### Risk assessment review

Around two-thirds of the firms we regulate, roughly 7,000, offer services that fall under the money laundering regulations.

Under the regulations, these firms must have a written, firm-wide risk assessment in place to enable them to consider and identify the risks they could face from money launderers and how significant the risks are. Risk assessments are essential in making sure poor

We recognise that templates can be helpful, but too many firms had taken a 'copy and paste' approach. It was clear they had not thought carefully about the specific money laundering risks their firms faced.

We took appropriate enforcement action where necessary (see more on page 7) and we published a [warning notice](#) to raise awareness about the poor quality of risk assessments and the threats they pose.

## #staySHARP



Making sure firms are aware of the new regulations, their obligations and how they should comply, is key to tackling money laundering. In 2018/19, our #staySHARP email campaign saw weekly emails sent to nearly 6,000 firms over a six-week period. It generated more than 1,700 'click throughs' to relevant AML content and more than 800 firms completed an online survey – helping us to develop our work.



Staying **SHARP** means solicitors **Should**:

- ✓ **Assess:** firms need to assess their risk – this means having an adequate firm-wide money laundering risk assessment.
- ✓ **Report:** if they suspect a client might be using the proceeds of crime or a transaction involves such funds, they must report this to the National Crime Agency by submitting a Suspicious Activity Report.
- ✓ **Protect:** make sure their staff understand the risk money laundering poses, are familiar with their risk assessment, and are actively working to keep their business safe.



## Taking action when things go wrong

➤ In 2018/19, we received 197 reports concerning money laundering or breaches of the money laundering regulations. This is a decrease when compared with 2017/18, when we received 235.

We believe this may in part be because of raised risk awareness, but we also changed the way in which we categorise reports when we receive them. This new

### £19,000

**Average fine issued by SDT in cases relating to money laundering**

approach means we are able to identify more accurately what is, potentially, money laundering or a possible breach of the regulations when reports reach us.

When we identify possible money laundering from what are often complex, multistrand reports and other information we see, our money laundering reporting officer submits a suspicious activity report to the NCA.

We also receive intelligence from the NCA and other law

enforcement bodies. Our dedicated AML team investigates any suspected breaches of the money laundering regulations and cases of suspected money laundering.

In 2018/19, we brought 15 money laundering-related cases to the Solicitors Disciplinary Tribunal (SDT), resulting in 11 fines, one suspension and six strike offs (one case can result in more than one outcome).

### Tackling poor-quality risk assessments

Following the concerns identified in our risk assessment review and to tackle the wider issue of poor-quality risk assessments in the sector, we provided additional support to firms to help them become compliant with the rules. We issued [guidance](#), [checklists](#) and, given that it was clear that firms were using them, we created our own [risk assessment template](#). We emphasised that firms using the template should tailor it to best reflect their practice.

We also issued a [warning notice](#) to caution the profession about the risks presented by having a poor-quality assessment in place. And, we engaged with firms that were not following the regulations to make sure they complied

promptly. Where appropriate, we made inquiries to satisfy ourselves that there was no need for further action.

Towards the end of 2019, and following our sample review of 400 law firm risk assessments, we wrote to all other firms carrying out services which fall under the money laundering regulations to ask if they had a risk assessment in place. If we find that the assessments are inadequate, we will engage with them to improve their processes. And, again, we will take enforcement action where necessary.

### What were the issues raised in money laundering reports?

- ✘ Failure to carry out checks on the source of funds
- ✘ Failure to identify clients
- ✘ Failure to carry out or complete initial customer due diligence
- ✘ Failure to have adequate AML procedures in place

## Case study



### Failing to comply with money laundering regulations

In 2019, we prosecuted a solicitor at the SDT because they failed to comply with money laundering regulations when carrying out property transactions.

We became concerned about possible breaches of the regulations from the monitoring we carry out of media reports. The reports involved alleged offshore money laundering. The solicitor also reported themselves to us when the media reports were published. The solicitor cooperated with us while we carried out our investigation, and we did not find evidence of money laundering.

The solicitor had, however, carried out a property transaction which raised several red flags that they should have considered, such as:

- the properties were worth several million pounds

- payment for the properties was coming from overseas
- the properties were being held by an intermediary company.

The solicitor was also acting for new clients that they had never met and for whom they had not previously acted. In these circumstances, the solicitor should have carried out enhanced due diligence to check the clients were who they said they were. This should also have included checking to see if they were politically exposed persons (PEPs). PEPs are individuals who have a high-profile political role, or who are relatives or close associates of someone who is, as this may make them vulnerable to bribery and corruption. In this case, the clients were PEPs.

The solicitor also took instructions relating to the transaction from a third party. This added an

additional risk. The SDT fined the solicitor £45,000. It noted that they held the role of money laundering reporting officer for their firm and that this should have heightened their sense of their obligations and awareness of the risks. It also noted that there had been significant harm to the profession, as the solicitor's failings 'had led to a risk of large amounts of money being laundered.' When determining the sanction, the tribunal also took into consideration the fact that the solicitors reported themselves and cooperated with the investigation and that no client had suffered loss as a result of their actions. The SDT ordered the solicitor to pay our costs of £40,000.



## Future work

### ➤ Further monitoring and support/guidance for firms

Towards the end of 2019, we commenced an extensive programme of targeted, in-depth visits to firms to better understand what systems, practices and processes they have in place to combat the risk of money laundering.

- insufficient checks on clients' source of funds or wealth
- a lack of independent audit of the firm's AML work, where necessary under the rules
- insufficient or lack of employee screening during recruitment and employment.

organisations, worked with the government to produce and support its [Economic Crime Plan, 2019 to 2022](#). The plan sets out seven priorities that represent the greatest barriers to tackling economic crime. The government is calling upon organisations to work collaboratively to improve their responses and approach in order to tackle these barriers.

### We will continue to scan the horizon for risks and constantly engage with and talk to the profession, consumers, other regulators and government.

The majority of the visits we have carried out so far have resulted in us taking some form of further action. This type of action includes engagement, to help firms better understand the requirements, as well as supervision, to bring non-compliant firms back into compliance, and, in some cases, enforcement action.

The key issues we have identified are:

- fee earners being unable to produce copies of due diligence checks they carried out on clients
- fee earners being unable to produce risk assessments on clients or matters

As mentioned earlier in this report, we will continue to take action where we see firms falling short of the standards we expect.

We have, of course, needed to adapt to the challenges posed by the Covid-19 pandemic and most of our 'visits' to firms are now done virtually and/or over the phone. We are also able to review most firms' systems, processes and files virtually.

We have published our [high-level findings](#) and what we consider to be good and bad practice and where there are areas for improvement.

### Economic crime plan

In late 2019, we, along with other private and public sector

The specific areas we are working on and the actions we need to take forward include:

- undertaking collective threat assessments with the other organisations involved on specific areas, for example, trust and company services
- improving how we share information with other AML supervisors and law enforcement agencies
- developing long-term solutions to funding economic crime reform (a proposed levy on regulated professionals to pay for a new way of processing SARs is already being considered)
- strengthening the consistency of AML professional body supervision.

## Our Corporate Strategy 2020—23

November 2020 marks the beginning of our new three-year Corporate Strategy. One of the three objectives we will be working towards is building our understanding of emerging opportunities and challenges for the users of legal services and the legal sector, and our role in effectively regulating it.

We need to anticipate and address emerging problems as swiftly and effectively as possible – particularly given the effect of the Covid-19 pandemic and impacts on the legal sector and wider economy. We know money launderers will continue to target law firms and will do this in increasingly sophisticated ways, potentially taking advantage of the new ways of working that are a result from the pandemic.

We, alongside LSAG, [published advice on risks relating to AML and homeworking](#) and how to continue identifying suspicious activity during a global pandemic.

We will continue to scan the horizon for risks and constantly engage with and talk to the profession, consumers, other regulators and government. And, we will work across sectors and jurisdictions, in partnership with a range of regulators, to ensure public protection.

We must accommodate and adapt to the changing environment and speak up when there are shortfalls or challenges to the delivery of safe and effective legal services within existing frameworks.



## Find out more

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### [Guidance and risk assessment template](#)

Aimed at helping firms comply with the money laundering regulations and check to see whether their risk assessment is up to scratch.



### [Thematic review](#)

Read our thematic review of trust and company services. It considers good and poor anti-money laundering practices in the sector.



### [Pandemic guidance](#)

Help with dealing with AML compliance during coronavirus

