

Anti-money laundering - practical tips for managing AML risks

Colette Best

Director of Anti-money Laundering, SRA

Why is getting it right important?

- Stopping crime
- Reputational risk to your firm and sector
- Increasing checks
- Our first priority is to help firms get it right, but taking action in serious cases
- Lots of resources available to help

AML supervision



Firm wide risk assessment reviews



AML visits – assessing adequacy and effectiveness



Thematic tax advisers review



Desk based reviews of PCPs

What are the basics to get right?

2017 Money Laundering Regulations

- Are you in scope?
- Nominate a Money Laundering Compliance Officer (MLCO) and Reporting Officer (MLRO)
- Get your beneficial owners, officers and managers approved with the SRA
- Keep up to date with changing regulations

Scenario

Your client is purchasing a residential property. They advise that the funds are coming from savings they have accrued via their salary.

Q: What further steps would you take in regards to source of funds if any?

Scenario options

- A. Accept the client's explanation of where the funds are coming from
- B. Request bank statements to show funds exists
- C. Collect bank statements and any further information necessary to also satisfy on client's wealth

Anti-money laundering - practical tips for managing AML risks

Zoë Allen-Robinson

AML Proactive Supervision Manager,
SRA

Firm wide risk assessments

- A year on....
 - Seeing a general improvement
 - Better understanding of the purpose of a firm wide risk assessment
 - More tailored use of templates
- Areas firms as still struggling with:
 - Failing to consider all of the services they provide
 - Transactions
 - Delivery channels

AML visits



74 firms
involved



64% required follow up
engagement, **9 firms** referred
for investigation



Published useful
guidance



Further checks planned for the future

Areas that required improvement

- **Audit**
- **Screening**
- **Matter risk assessments**
- **Source of funds**



What we **are** looking for

- Most firms to have undertaken or planning an independent audit
- If internal audit, auditor is sufficiently removed from the compliance function so as to be independent
- Audit involves file reviews for compliance with AML policy and legislation
- Audit produces recommendations, which are then monitored



What isn't enough

- No audit undertaken, or plan to undertake one where size and nature of the firm warrants an audit
- Audit of policies, controls and procedures but no test of their effectiveness
- Failing to keep written records of previous audits
- Failure to implement recommendations in a timely way

Screening



What we **are** looking for

- Firms are screening staff at appointment and on an ongoing basis
- Firms taking a risk based approach on DBS checks
- Relying on independent sources
- Adopting a holistic approach, using existing measures such as annual appraisals and checking referees



What isn't enough

- Screening only at appointment
- Not maintaining records
- Reliance on fee earner declarations alone
- MLCO unfamiliar with screening processes
- Firms limiting screening to conveyancing staff

Matter risk assessments



What we **are** looking for

- Matter risk assessments on each file
- Assessment conducted at the outset and reviewed at appropriate intervals
- Process is clear when a matter is high under the regulations and firm's own policy



What isn't enough

- Not recording risk assessments
- Risk assessment does not account for mandatory EDD requirements
- Fee earners unable to access CDD and other information, making ongoing monitoring difficult if not impossible

Source of funds



What we **are** looking for

- Origin of funds being clearly evidenced
- Clear policies on when source of funds and wealth checks are required and what documentation should be obtained for individuals and companies



What isn't enough

- Source of funds checks routinely not completed
- Evidence such as bank statements not being read
- Assumptions about a client's source of funds and wealth based on anecdotes and perceptions rather than evidence

Help is available



Risk Outlook, national and sectoral risk assessments



Warning notices



Thematic review findings



Legal sector guidance



Professional Ethics helpline and webchat

sra.org.uk/staysharp

Scenario continued

- Your client is purchasing a residential property. They advise that the funds are coming from savings they have accrued via their salary. On obtaining bank statements you see a large payment from a third party. You ask the client about this and they advise it is a gift from their parents.
- Q: what further checks if any do you do?

Scenario 2 options

- A. Speak with the parents and accept their explanation of the source of funds
- B. Accept the parents explanation and obtain ID and verification
- C. Speak with the parents, obtain ID and verification and bank statements confirming the origin of the funds
- D. Speak with the parents and obtain bank statements confirming the funds