

Anti-money laundering (AML) compliance: latest updates and trends

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To cover

- Overview of AML supervision in the last year
- Trends in AML supervision and AML enforcement
- Our next thematic! 
- The importance of AML controls in preventing money laundering

AML supervision in the last year...

We have increased our AML oversight year on year:

2020/21	2021/22	2022/23	2023/24	2024/25
253	273	273	545	864

864 proactive engagements consisting:

- inspections
- desk-based reviews
- independent audit review

Levels of compliance

	Compliant	Partially compliant	Not compliant
Desk-based reviews	63	279	174
Inspections	49	172	96
Total	112	451	270

- 317 inspections
- 516 desk-based reviews
- We helped 394 firms

Financial sanctions

Sanctions Inspections	Sanctions controls checks during AML inspection	Sanctions controls checks – forensic investigation
47	309	77

- In total we had **432 proactive engagements**. An increase from 398 last year
- Watch our published webinar
- Next steps on sanctions

- Number of reports:

2020/21	2021/22	2022/23	2023/24	2024/25
273	252	249	227	426

- Reports from: intelligence, public and largest number of reports from proactive supervision team.

Most common reasons for referral

Failure to perform risk assessment on client/matter	162
Failure to carry out a source of funds check	101
Failure to have adequate/ effective PCPs	99
Failure to have any firm-wide risk assessment	65

Firm-wide risk assessments (FWRA)



Solicitors
Regulation
Authority

- Important control – everything else flows from this document
- Reason why a FWRA would to be rated ‘not compliant’:
 - templates were not tailored
 - One or more of the five mandatory risks missing
 - 19 firms did not have one in place
- 385 had compliant FWRAAs

Client and matter risk assessments (CMRAs)

- 50% of firms that were referred for investigation were referred for a lack of CMRAs on files.
- 39% of CMRAs were ineffective. Eg did not assess AML risks.
- **Of the 135 referred for this reason - 111 of those firms (82%) had a process in place.**
- How do you know if money laundering risk has been considered?

Policies, controls and procedures

- On going trend for last few years
- We reviewed over 800 policies
 - 10 did not have a policy – requirement since 2003.
 - 382 were partially complaint
 - 130 were not compliant
- Disconnect between AML Policies and what is happening on the ground
- Themes – missing mandatory factors, not tailored or not being followed

Policies, controls and procedures – monitoring compliance

- You are required to monitor and manage compliance with your policies, controls and procedures
- 77% of firms we inspected were carrying out file reviews
- A third of the reviews did not consider source of funds as part of the review process

Policies, controls and procedures – monitoring compliance

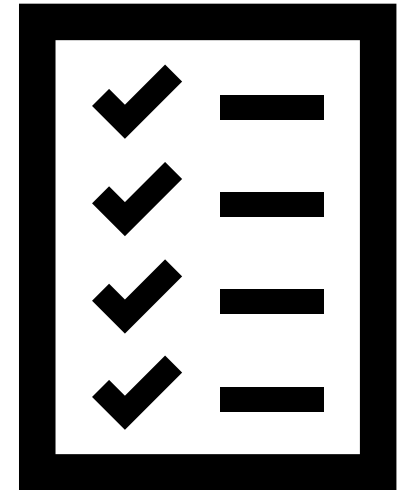
- Some file reviews, focused on other factors and did not consider AML
- We observed a higher proportion of compliant files for firms who were carrying out regular file reviews

Our next thematic...



Regulation 19 – Policies, Controls and Procedures

- Including firm's monitoring and management of compliance with policies, controls and procedures
- Disconnect between policies and what is happening on the ground

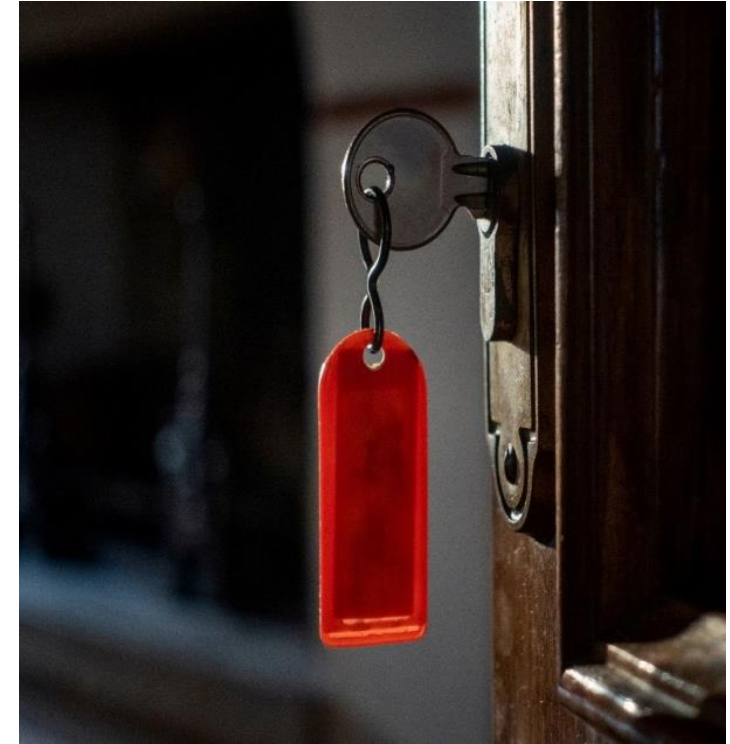


Importance of AML controls

- Live issue – conveyancing is still high risk
- We submitted 19 SARs involving more than £148 million
- We reviewed 177 SARs submitted by 89 firms.

Importance of AML controls

- Don't leave the door open! Collecting documents vs understanding them
- **Remember! Scrutinising the documents is important, the controls are there to assist you, if used well they are a really good way of preventing money laundering**



Final things to note

- AML reports are available on our website: sra.org.uk/aml
- Our source of funds thematic includes:
 - Guidance
 - FAQs
 - Case studies
 - Form to obtain information from clients
 - Record keeping form
- Client information sheet – published!



Legal Eye

AML & SARs

Paul Saunders



SARs



The National Crime Agency

“SARs are a **critical intelligence** resource for law enforcement – they provide information like phone numbers, addresses, company details, investment activity, bank accounts and details of other assets. They have been instrumental in identifying sex offenders, fraud victims, murder suspects, missing persons, people traffickers, fugitives and terrorist financing.”

Vince O'Brien, Head of the UKFIU

Case Studies



Customer A was an airline pilot, whose remortgage completed, and surplus funds were sent to their bank account as normal. They didn't receive the money, and they were extremely persistent in calling chasing the whereabouts of the funds a few times per day.

Customer A's bank subsequently contacted us to say they had rejected the funds into the customer's account 'in accordance with their internal policy' and because of 'an extremely sensitive manner'. This coincided with Customer A's phone calls to Optima suddenly stopping.

Note:

- **A suspicion doesn't just have to be about source of funds**
- **Sudden change in behaviour**
- **Bank's wording suggests potential criminal activity**
- **Customer's occupation would make them high risk for criminal activity**

Case Studies



Customer B's balance due to their existing lender suddenly reduced by £40k between redemption statements, which resulted in the creation of a surplus to be paid to the customer upon completion (where previously there hadn't been one).

When asked about this, the customer said that their brother owed them some money and had paid £40k directly to the EXL to clear the debt. The customer refused to provide any further information or any proof of the payment.



NOTE:

- **It was only after we requested source of funds evidence that the shortfall suddenly disappeared**
- **Payment made by a third party**
- **Customer refusing to co-operate and answer questions/provide evidence.**

Case Studies



Customer E provided bank statements to evidence the source of funds for a shortfall payment of £20k. The bank statements showed that the £20k was entirely comprised of 28 different incoming payments from different people into their bank account.

The customer explained that they often loaned money to friends, and they had recalled any unpaid debts in order to pay the shortfall. It was noted that Customer E's occupation was a machine operator and that their salary was £20k per annum with no secondary income.

NOTE:

- **Customer's salary was low for someone in a position to offer multiple loans to so many people**
- **Potentially acting as a loan shark illegally**
- **No paperwork to back-up the loans**

Case Studies



Case - Unable to verify client bank details. Took client nearly 3 months to get info in and we have not been able to verify the account to client name.

Client has now moved the money to another account which he verified on Armalytix.

We still need original account verified. The account has been open less than 12 months and there is no reason the client's other account should not go through Armalytix.

We declined to act further as not being able to complete our regulatory checks.

NOTE:

- **Declining to act on a commercial basis**
- **Submitted SAR first and gained approval.**
- **Just because approval granted it is still ok to decline to act.**

Standards & Regulations

You have a suspicion if you think there is a possibility, which is more than fanciful, that the relevant facts exist.

A vague feeling of unease **would not suffice**.

You do not automatically have a suspicion because a concern is raised by an employee.

The High Court confirmed in [Shah v HSBC \[2012\] EWHC 1283 \(QB\)](#) that, where concerns are raised by an employee, **you should form your own view about whether you have a suspicion**.

- ✓ Ask questions about those concerns.
- ✓ Review information held on the client.
- ✓ No requirement for you to carry out extensive investigations to form or test a suspicion.

Standards & Regulations



What to do while waiting for a response

Don't do nothing... submitting a SAR does not mean you stop all action on the file that could appear suspicious

You should consider:

- ✓ Is it a Prohibited act.
- ✓ Continue to correspond and progress
- ✓ After 7 days you may consider you have deemed consent.

Standards & Regulations



Matter Risk Assessments

- Ensure the risk assessment is both factual and sufficiently detailed to enable the reader to understand what is taking place.
- In a conveyancing transaction for eg, it should briefly record (1) how we have identified and verified the client – in essence a clear EID search or if flags have been raised – what and what we have done to satisfy ourselves. (2) what we are buying (address & freehold/leasehold), at what price (£300k), how it is being funded mortgage of £250k (Nationwide offer seen, residual £50k from related sale we are acting and confirm estimated equity to cover).
- Invariably where we have a list of pre-formatted prompts or questions to indicate how the fee earner has conducted their assessment, it will require some additional notes recording or it could briefly be summarised at the end in explaining why the risk rating was attributed.

Standards & Regulations



What may be ahead

HMT's response to their consultation and their draft SI published

Customer Due Diligence ("CDD") & Establishing a Business Relationship

CDD & Source of Funds ("SoF") & Ongoing Monitoring

- For each of the above CDD, establishing a Business Relationship, Source of Funds and ongoing monitoring, HMT is asking supervisors and industry bodies to consider areas where guidance on the concept of "business relationship" source of funds checks and requirements for individuals purporting to act on behalf of a customer may be useful and helpful.
- The client and matter risk assessment has to tell the story of the client and matter, together with any identified risks. With Conveyancing remaining high risk, its unlikely many firms will want to reduce the level of checks currently being completed. Detailed KYC makes it easier to understand their financial profile, so firms should ensure that risk assessments are briefly recording the factual elements of the client and transaction sufficient to justify the risk rating recorded



Legal Eye

Thank you AML & SARs

Paul Saunders

