



"Solicitors and law firms are in a position of privilege and act as gatekeepers to assets and markets that are tempting to criminals, so we expect the profession to take proactive action to avoid enabling financial crime."

Solicitors Regulation Authority – October 2019

Financial Crime Risk Assessments at Law Firms

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Following a report issued by the Office of Professional Body Anti-Money Laundering Supervision (OPBAS) in March 2019 regarding the standard of supervision across the UK's professional bodies, we have seen a marked increase in the level of scrutiny placed on Designated Non-Financial Businesses and Professions (DNFBPs) in relation to their compliance with the Money Laundering Regulations 2017. By example, the Solicitors Regulation Authority (SRA) published the results of a review conducted across 59 law firms on the 7th May 2019 which concluded "that a significant minority of law firms are not doing enough to prevent money laundering, with some falling seriously short". As a result of the review the SRA put 26 firms into its disciplinary processes.

In a further display of increased focus on law firms' financial crime control frameworks, in October 2019, the SRA released a warning notice regarding the extent of compliance with the Money Laundering Regulations 2017 through an assessment of the quality of Anti-Money Laundering (AML) firm-wide risk assessments performed by firms operating under its supervision.

DNFBPs – Key Facts

- Considered high risk of money laundering in the UK's National Risk Assessment of Money Laundering and Terrorist Financing 2017
- Traditionally involved in 'high end' money laundering
- Key risks include complicit professionals facilitating money laundering, coerced professionals targeted by criminals, creation of structures and vehicles that enable money laundering, and the misuse of client accounts by complicit or negligent professionals

Key Points of the Warning Notice

The SRA reviewed 400 risk assessments submitted by law firms, and has taken follow-up action on around 20% of the firms involved in the review, who were found not to have met the required standards. It was noted that an unacceptably high number of law firms had no AML risk assessment in place at all, which is against the law (as firms are required to create and maintain their own written risk assessment per Regulation 18(1) of the Money Laundering Regulations 2017) and places the firm at greater risk of being used to launder money.

Areas of particular concern highlighted by the SRA in its notice include:

- Lack of consideration of the minimum risk factors the regulations require – in particular, factors relating to (i) doing business with clients from high-risk jurisdictions; (ii) transactions; and (iii) the delivery method of their services.
- Incomplete risk assessments, failing to cover areas required in the Money Laundering Regulations 2017 (for example, firms failing to understand their responsibilities when dealing with Politically Exposed Persons and their close associates and family members).
- The use of templates for firm-wide risk assessments, some with prepopulated specimen text (in some cases near-identical risk assessments were submitted for different firms).

What Guidance Is Available For Law Firms?

In June 2019 the Financial Action Task Force (FATF), an inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction, published its 'Guidance For A Risk-Based Approach For Legal Professionals'. The guidance provides detailed steps regarding risk assessments, among other key components of a law firm's financial crime framework.

In the UK, the Legal Sector Affinity Group (a collective of AML regulators across the legal sector) has published guidance on compliance with the Money Laundering Regulations 2017; the SRA itself has also issued a sectoral risk assessment, highlighting areas it considers to be of elevated financial crime risk, across the following risk factors:

- Product and services risk;
- Client risk;
- Transaction risk;
- Delivery channel risk; and,
- Geographical risk.

The SRA expects its sectoral risk assessment to form the basis for law firms' own risk assessments "along with the national risk assessment [of money laundering and terrorist financing] and a comprehensive knowledge of their services, clients and delivery channels."

Several law firms had no AML risk assessment in place at all, in breach of the Money Laundering Regulations 2017

Of those that had been performed, many were incomplete or did not consider the minimum risk factors

Some law firms submitted near-identical templates

Substantial guidance is available for law firms

What Guidance Is Available For Law Firms?

In order to ensure compliance with the Money Laundering Regulations 2017, law firms and other DNFBPs must ensure that they have a robust financial crime control framework in place, including an approach and methodology to undertake practice-wide money laundering and terrorist financing risk assessments, considering the risks posed at a minimum by the firm's clients, geographic areas of operation, products and services, transactions, and delivery channels.

Plenitude Risk Assessment Capability

Plenitude has extensive experience in the design and execution of financial crime risk assessments for financial institutions and DNFBPs. Our approach to design is grounded in deep knowledge of applicable laws, regulation and guidance across the UK and other mature markets.

Our financial crime risk assessment methodology can be tailored to individual organisations, and covers all risk factors required by law as well as additional risk factors (such as organisation and employee risk).

Plenitude Capability

Plenitude's 'AML Framework for DNFBPs' is a proprietary set of AML framework components that can be leveraged to accelerate the design, enhancement and implementation of a DNFBP's AML framework. It has been developed taking into consideration the requirements set out in the Money Laundering Regulations 2017 and European Union Fourth and Fifth Money Laundering Directives, as well as Anti-Money Laundering Guidance for the Legal Sector (LSAG) and Anti-Money Laundering Guidance for the Accountancy Sector (CCAB).

Our services include:

- Current state assessment of a client's financial crime control framework against regulatory requirements, with advice and recommendations on how to address any gaps;
- Definition of risk appetite statements with supporting metrics and Key Risk Indicators;
- Design and execution of AML and other financial crime risk assessments;
- Assessments of key financial crime systems and controls, including sanctions screening and transaction monitoring tools;
- Review and enhancement of policies and procedures;
- Provision of robust, objective consideration of geographical risk through Plenitude's **Compass subscription service**;
- Provision of financial crime regulatory obligations for DNFBPs with monthly 'Horizon Scanning' updates through Plenitude's **Obligations Register subscription service**; and
- Provision and delivery of bespoke financial crime training.

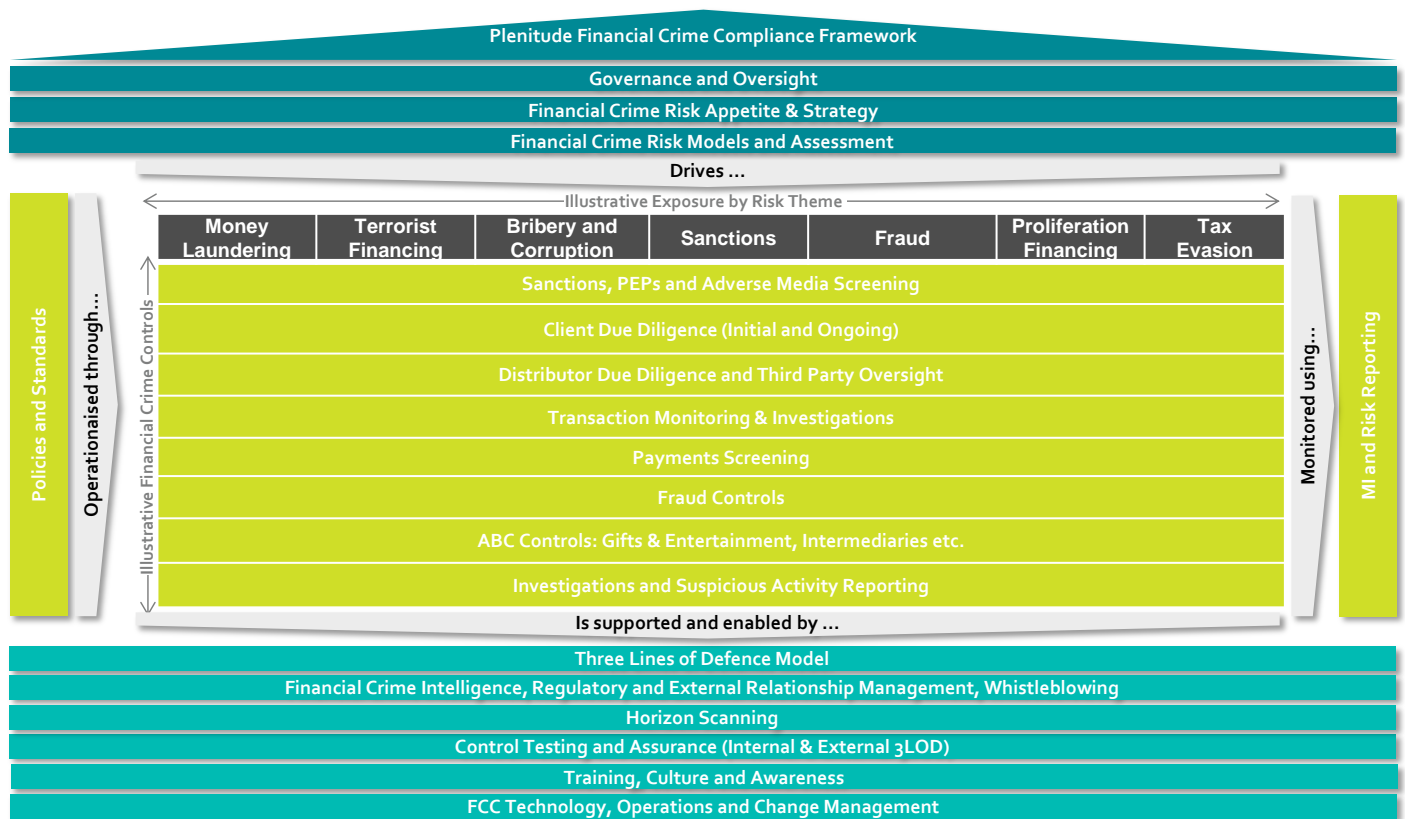
About Plenitude

Plenitude is a niche consultancy, specialising in Financial Crime Risk and Compliance. Our focus is firmly on addressing the legal, regulatory, reputational and social imperative for financial institutions and DNFBPs to take diligent and rigorous steps to mitigate financial crime risks.

We help our clients meet their regulatory obligations and reduce their financial crime risk exposure by providing deep subject matter expertise, advisory and transformation services. Our services are augmented with subscription products that gives our clients enhanced insight into the vast array of Financial Crime Compliance ("FCC") laws, regulations, guidance and risk indicators, to more effectively manage financial crime risk while reducing overall costs.

Our consultants come from a variety of backgrounds and disciplines across consulting, in-house financial crime compliance, regulators and law enforcement. This blend of skills and perspectives guarantees a practical and proven approach based on deep industry expertise.

Our capabilities address the full spectrum of financial crime risks. We have extensive experience our assisting our clients assess the effectiveness of their financial crime framework and implement strategic changes to ensure more effective financial crime risk management.



Plenitude Financial Crime Framework and Capabilities

Please contact us for more information about our services to arrange an introductory meeting.

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