



Law Society of Northern Ireland



Supervisor's Annual Report Anti Money Laundering October 2024

Regulation 46A –
The Money Laundering, Terrorist Financing and Transfer of Funds
(Information on the Payer) Regulations 2017 (Amended)

Foreword



Solicitors in Northern Ireland continue to take their place at the forefront of advising and assisting members of the public in the provision of legal services. Whether you are purchasing a first home, forming a new company, seeking to resolve contentious legal matters or seeking advice on a recent accident, a solicitor remains the trusted point of contact in legal transactions.

Given the trusted position held by solicitors in our communities and the nature of the legal services that they provide, it is to be expected that, to some persons, a solicitor and their firm can be considered attractive targets to provide a level of distance from themselves and any illicit funds or proceeds of crime.

Money laundering is a global issue which also impacts local communities. Legal professionals are among the vital gatekeepers to the legitimate economy. The Society recognises that effective Anti-Money Laundering and Counter Terrorist Financing (AML/CTF) work undertaken by solicitor firms in Northern Ireland is essential to ensure that the proceeds of crime are not introduced into the wider economy.

The Society as the sole AML professional body supervisor for solicitors in Northern Ireland, is committed to fulfilling its statutory functions as an effective professional body supervisor and supervisory authority under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (Amended) (the MLRs) and to assist firms in meeting their obligations under the said regulations.

The most recent UK National Risk Assessment of Money Laundering and Terrorist Financing 2020 concluded that the risk of abuse of legal services for money laundering purposes remains **high** overall. It is imperative therefore that all solicitor firms are aware of and adhere to their AML obligations.

The legal services assessed to be most at risk of exploitation for money laundering purposes remain ‘conveyancing, trust and company services and [the misuse or exploitation] of client accounts’.

The Society has continued to play an active role in assisting our members to identify and manage risks related to money laundering and terrorist financing. The Society’s Sector Risk Assessment provides clear and practical advice to firms in the assessment, monitoring and management of AML risks.

A primary objective for the Society is to ensure the effective regulation of solicitors in Northern Ireland by adopting a risk-based approach to supervision. The Society, through its Professional Conduct Committee, oversees a robust monitoring and inspection regime to ensure compliance, to educate and to promote best AML practice.

In the reporting period the Society reviewed and updated its Methodology for the Society's Risk-Based Approach to Anti-Money Laundering and Counter Terrorist Financing (together AML) Supervision policy. This policy outlines the Society's risk assessment methodology, and the review was undertaken as part of the Society's AML/CTF Response Strategy.

Each of our 427 relevant Firms in scope of the MLRs has been provided with an individual risk profile. The risk rating is formulated from information received from the Society's AML/CTF Annual Return, as well as from cross departmental intelligence sharing informed by previous regulatory action, monitoring inspections, Solicitors' Disciplinary Tribunal (SDT) findings, and complaint referrals.

Outcomes from the Society's risk reviews have informed allocations of the Society's resources and its proactive AML/CTF and integrated supervision. The Society has continued standalone Desk Based Reviews (DBRs) and AML onsite inspections for Firms where monitors focus on AML governance and practice within a firm. During Desk Based Reviews (DBRs) and at onsite inspections, monitoring officers will review a number of the firm's case files (usually between 10-15, depending on the size of the Firm) and will further raise queries relating to the firm's client due diligence and source of funds/ source of wealth policies, controls and procedures.

At applicable DBRs and onsite inspections, firms are asked to provide their AML Firm Wide Risk Assessment & Policies, Controls and Procedures which are subject to further review and consideration by the AML Hub subgroup within the Professional Conduct Department as necessary. Where deficits are found the Society works with the firm to drive service improvements.

During the reporting period the Society continued to increase its AML supervisory resources. The Society recruited its first dedicated AML Compliance Officer in December 2023 and continued development of its AML Hub. The AML Compliance Officer leads on undertaking discrete AML/CTF supervisory assessments and their recruitment has increased capacity to exercise the formal action of escalating such inspections as a result of findings on previous supervisory assessment.

38% of all relevant Firms received at least one form of supervisory desk-based review or onsite inspection in the reporting period. The Society will continue to monitor levels of review in the next reporting period.

Overall, 82% of relevant Firms which received a DBR or onsite visit in the relevant period had a compliant or generally compliant rating. This continued high level of compliance

level demonstrates the effectiveness of the Society's supervisory approach and the commitment of the profession to addressing this area.

A number of the Society's other identified areas for focus within the reporting period were completed, including strengthening of its quality assurance work including risk reviews and decision-making measures, enhanced data capture and analysis and improvements to its AML/CTF Annual Return process. The Society has continued its active engagement with other professional body supervisors and supervisory authorities, including members of the Society's Professional Conduct Department meeting with colleagues in the Law Society of Scotland to share best practice and joint AML training. The Society's ongoing active participation in relevant AML groups and forums continues to provide invaluable channels for information and intelligence sharing.

The Society is committed to continuous improvement with new areas for focus also identified for the next reporting period.

The risks of money laundering are ever present, and the Society does not underestimate the challenges faced by firms. Nonetheless, members must actively continue to regularly review their firm-wide and client/matter risk assessments and corresponding AML policies, controls and procedures to ensure they are sufficiently robust to prevent their firm's services inadvertently being used to make illicit funds appear legitimate.

The Society continues to support its members to set their own risk management strategies, help them recognise and assess risk and assist them to put in place effective risk mitigations.



Darren Toombs
President
October 2024

1. Introduction:

The Law Society of Northern Ireland ('the Society') is the statutory regulator and professional body for the solicitors' profession in Northern Ireland. The Society is responsible for regulating professional standards and the propriety of solicitors' professional conduct in general, to maintain the independence, ethical standards, professional competence and quality of services offered to the public.

The Society's overriding principle in exercising its regulatory function is to regulate in the public interest, with the aim of protecting the public.

The Society is the professional body supervisor and sole designated supervisory authority under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (Amended) ('the MLRs') for the solicitors' profession in Northern Ireland.

The Society is committed to its role to support the overall policy objective of a balanced and effective AML/CTF (anti-money laundering and counter-terrorist financing) regime that protects the UK's reputation as one of the most transparent, safe and open places for business and protects the integrity of the financial system effectively and efficiently through a proportionate AML/CTF supervisory regime, mindful of the legal framework.

The Society also exercises other co-regulatory functions, with a remit across a total of approximately 440 solicitors' firms in Northern Ireland.

This is the Society's fourth published annual report as part of its responsibilities as an AML/CTF professional body supervisor (PBS) and its duty to report information to HM Treasury and the Office for Professional Body Anti-Money Laundering Supervision (OPBAS) under Regulation 46A of the MLRs. For this purpose, the Society is reporting on the period 6 April 2023 to 5 April 2024 ('the reporting period').

In common with all AML professional body supervisors, the Society is overseen in its AML supervision by the Office for Professional Body Anti-Money Laundering Supervision (OPBAS) and in preparing this Supervisor's Annual Report – AML for 2023/24, the Society has taken into account OPBAS feedback on previous reports.

2. Demographic of the Society's Supervised Population:

2.1 Firms

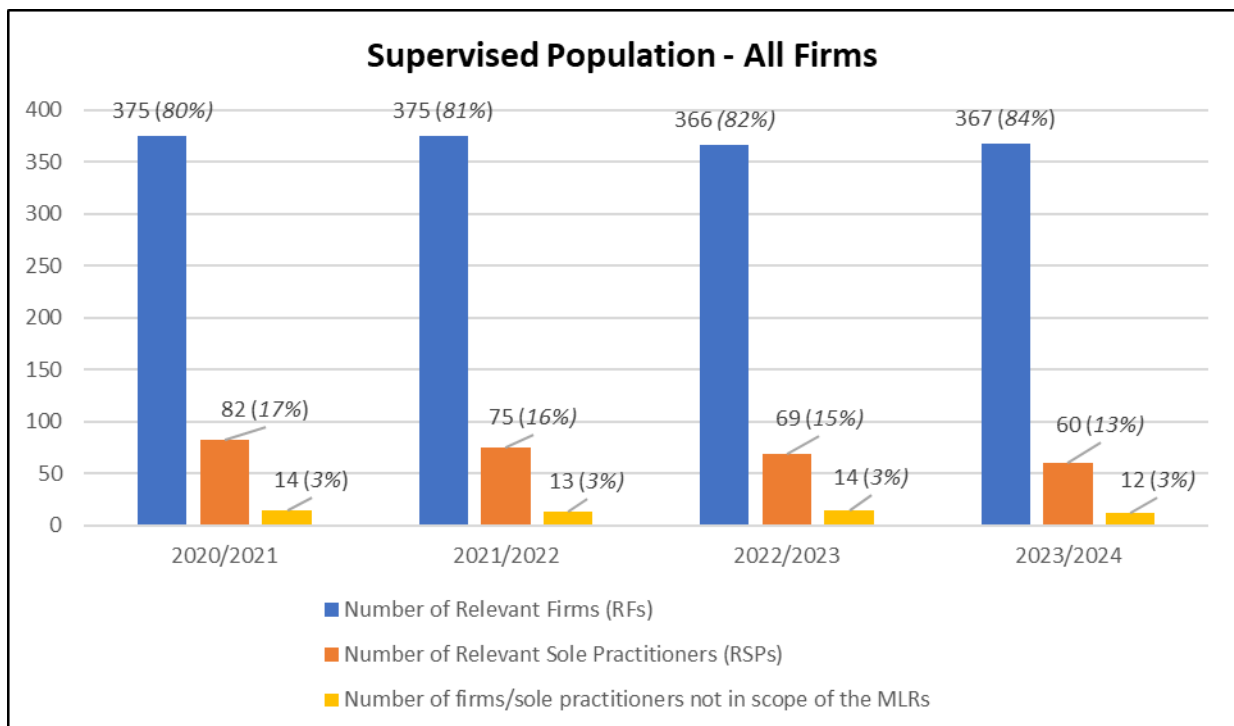
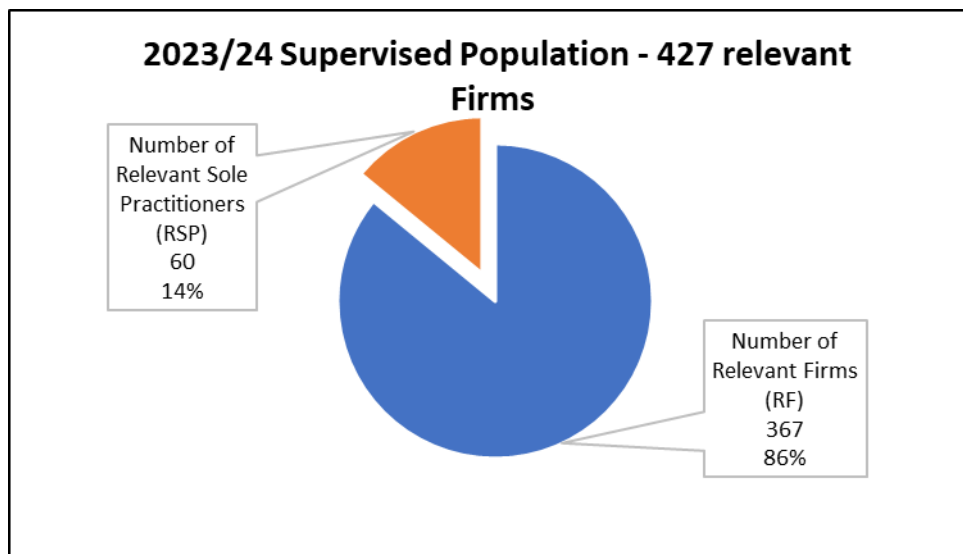
Most solicitor firms supervised by the Society provide legal services in scope of the MLRs. A smaller number of firms do not include such services in the legal services that they provide.

In the reporting period the total number of all solicitor firms supervised by the Society was 439 firms. Of these, 97% were in scope of the MLRs through providing the services

of an ‘independent legal professional’ (as defined in the MLRs) either as one of 367 ‘Relevant Firms’ or 60 ‘Relevant Sole Practitioners’ (as also defined).

This high percentage of Relevant Firms or Relevant Sole Practitioners (together referred to as ‘relevant Firms’ in this report) within the Society’s supervised population has consistently been the position since the Society’s first 2020/21 Supervisor’s Annual Report – AML Annual Report (October 2021).

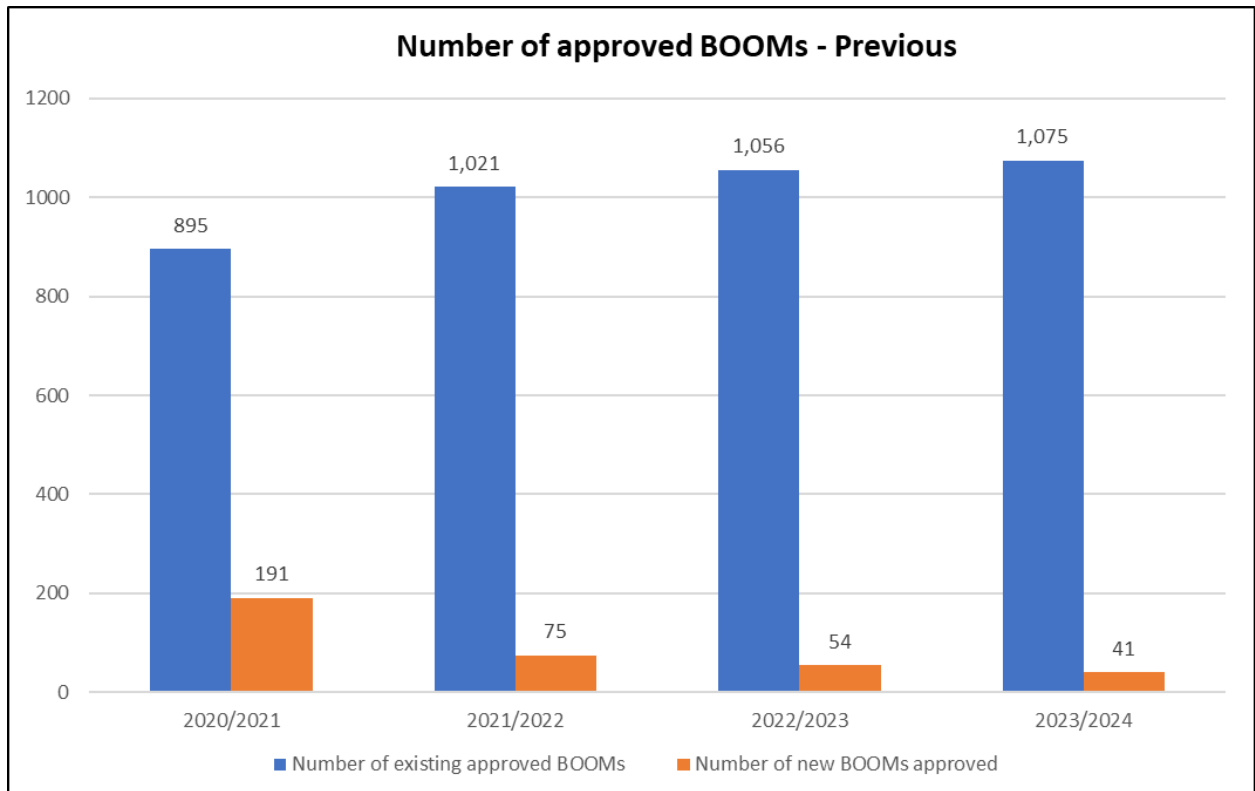
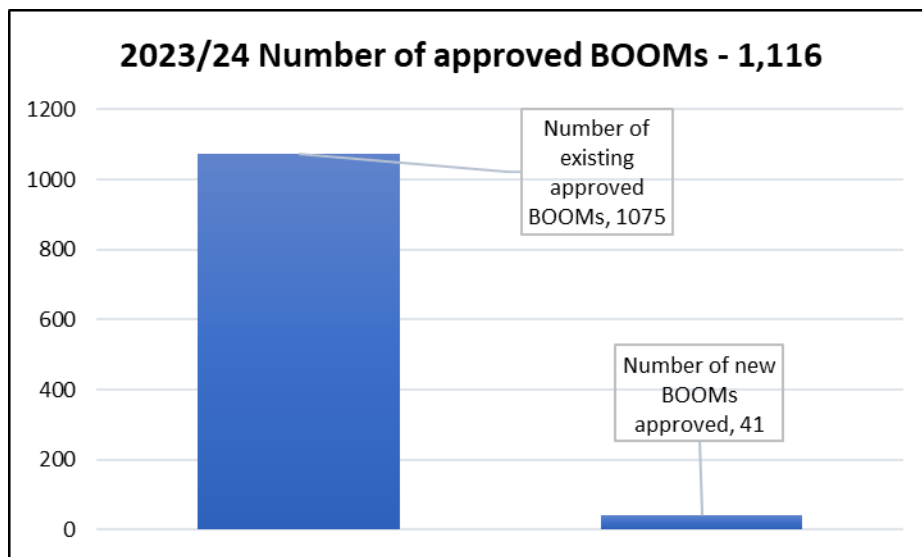
Graph 1 – The Society’s Supervised Population - Firms:



2.2 Beneficial Owners, Officers or Managers (BOOMs)

Regulation 26 of the MLRs requires all individual beneficial owners, officers or managers (BOOMs) (as defined) of relevant Firms to be approved prior to appointment by the Society. A criminal record check from AccessNI must be obtained as part of the Society's Regulation 26 approvals process. The number of approved BOOMs again increased in the reporting period to 1,116 and no new applications were refused.

Graph 2 – Beneficial Owners, Officers or Managers

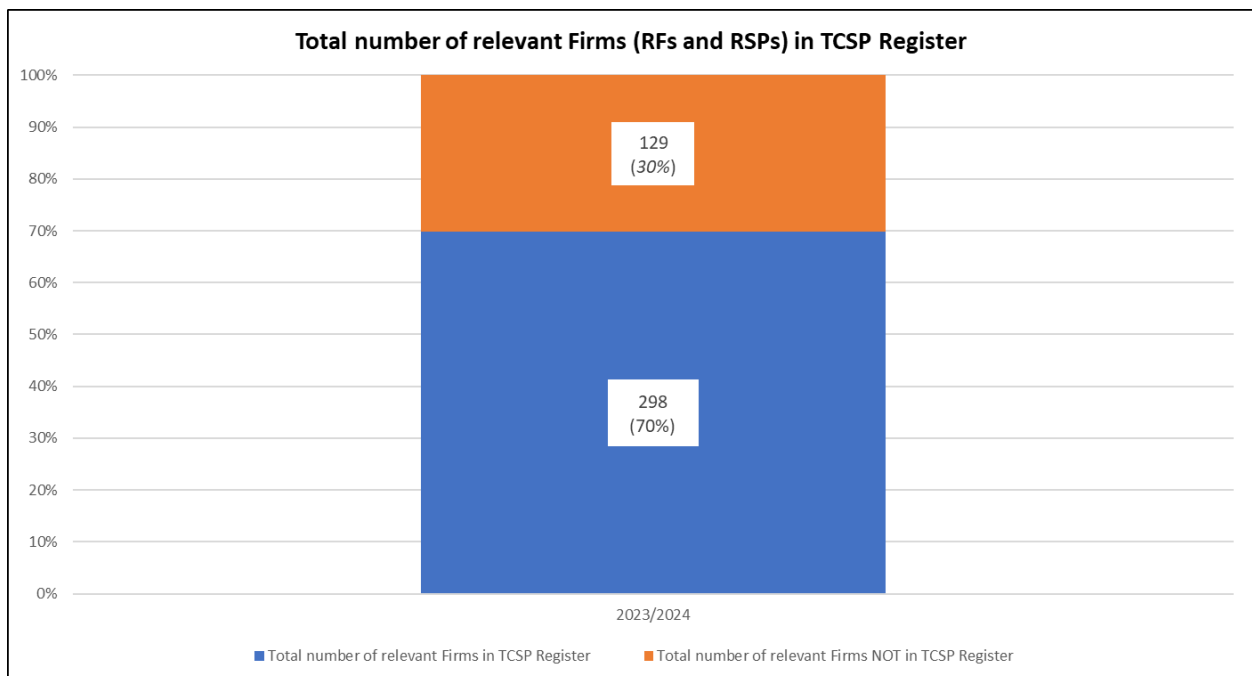


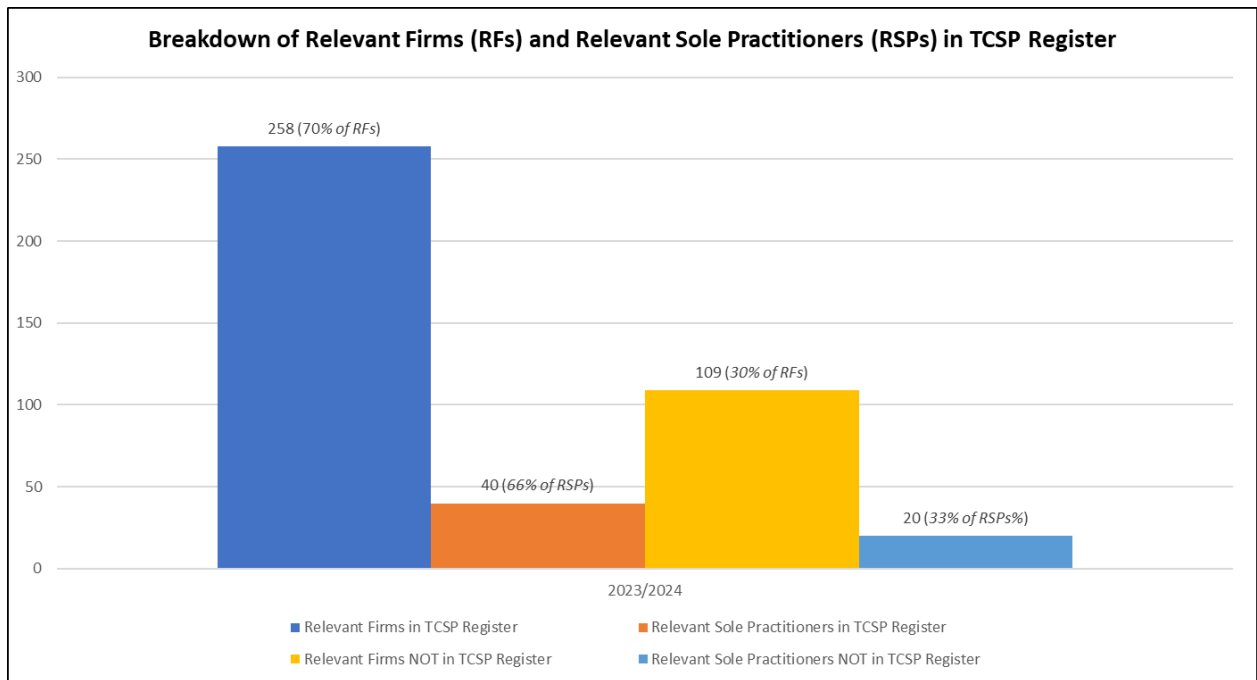
2.3 Trust or Company Service Providers (TCSPs)

Regulation 56 of the MLRs requires that firms providing any of the trust or company services set out in Regulation 12 of the MLRs must first be included in the Register of Trust or Company Service Providers (TCSPs) maintained by HMRC, on application through the Society. Such trust or company service provision is typically ancillary to the main legal services provided by firms in the Society’s sector.

In the reporting period 70% of all relevant Firms were also included in the Register of TCSPs maintained by HMRC and, therefore, were permitted to provide any of the trust or company services set out in Regulation 12 of the MLRs. This proportion is consistent with previous reporting periods.

Graph 3 – Trust or Company Service Providers (TCSPs)





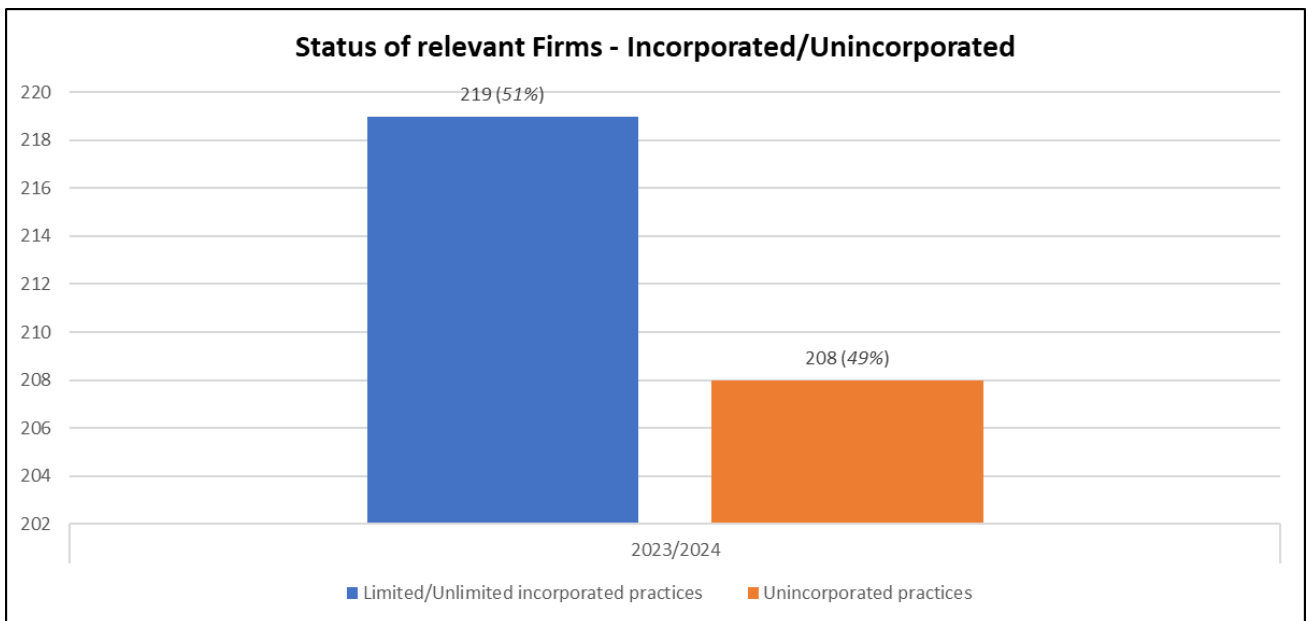
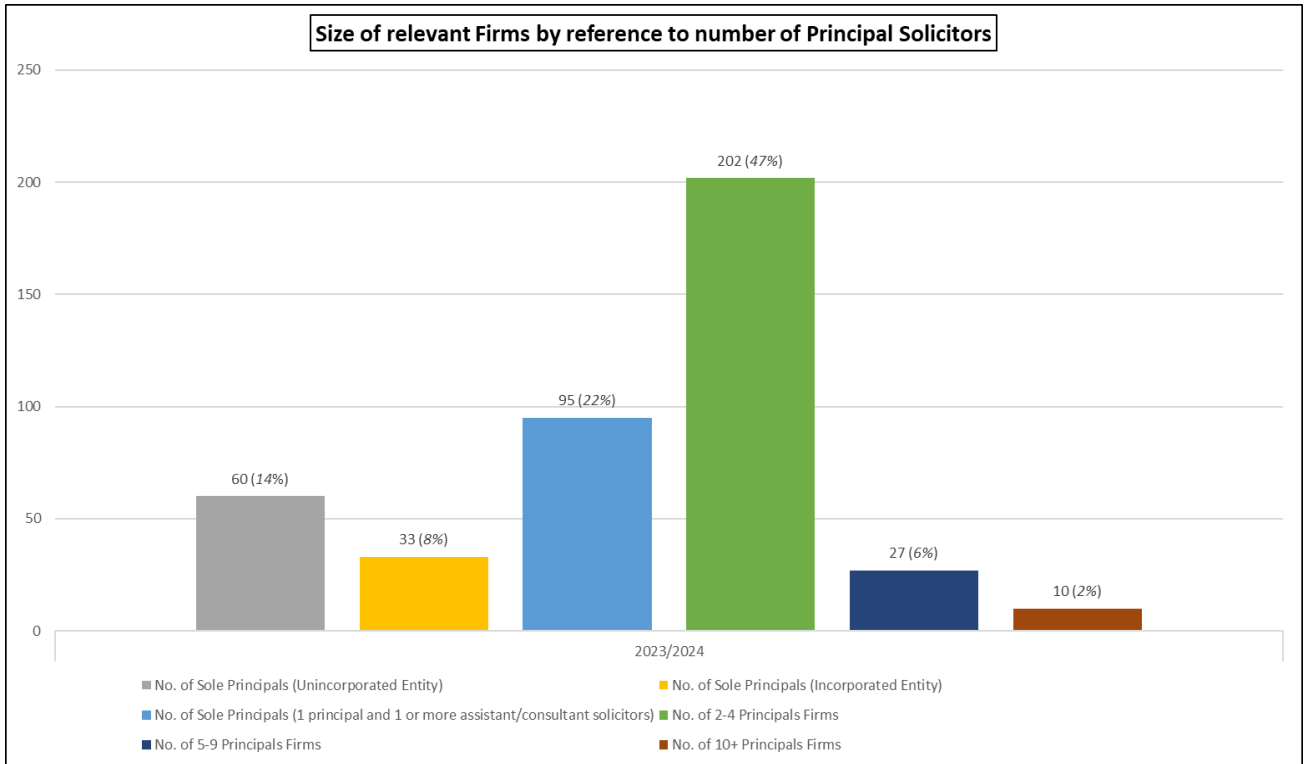
2.4 Size/Status of relevant Firms

Most firms in the Society’s relevant population are either sole principal firms (both unincorporated and incorporated) (22%), sole principal firms with 1 or more assistant/consultant solicitors (23%) or firms with 2 to 4 principal solicitors (46%).

In recent years there has been increasing trend by firms away from the traditional partnership model towards incorporation, with incorporation now the most popular business model for firms.

Incorporated practices must separately comply with the Society’s Solicitors’ (Incorporated Practice) Regulations 2007 and first obtain a certificate of recognition from the Society under those regulations.

Graph 4 – Size/Status of relevant Firms:



2.5 Types of Legal Services

All firms supervised by the Society provide a comprehensive range of legal services both in scope and outwith the MLRs. Firms use the Society’s Solicitors’ Directory on its website, available [here](#), to provide their contact details and list the legal services that they provide.

Further, AML information relating to relevant Firms was obtained through the Society’s AML/CTF Annual Return 2022/23 (the Society’s AML/CTF Annual Return) issued in the

reporting period to and required to be completed by all relevant Firms that provided relevant services throughout the Society's 2022/23 reporting period.

425 relevant Firms responded to the Society's AML/CTF Annual Return. Information obtained from these responses included:

- The geographical reach of the work of the Society's members is mainly local but extends to national and international.
- 99.5% reported providing legal services for UK individuals, 76% for UK private companies, 42% for UK partnerships and 17% for UK trusts.
- 42% reported providing legal services for Republic of Ireland (ROI) individuals, 16% for ROI private companies, 22% for other EU individuals, 5% for other EU private companies, 19% for international individuals and 5% for international companies.
- 81% reported that they did not provide legal services outside of the Northern Ireland jurisdiction.
- 8% reported providing legal services in England, Scotland & Wales, 15% in ROI, 1% to other countries in the EU and 1% outside the EU.
- Among the most reported legal services provided were Residential conveyancing (86%) and Commercial conveyancing (74%). Other main reported legal services provided included Personal injury/accident claims (90%), Wills, Probates & Intestacy (88%), Family Law – General (80%), Family Law – Children (67%) and Criminal Law (66%).
- 92% reported that returning/longstanding clients were very often or often included in their firm's client relationship profiles.
- 84% reported that remote/non face to face clients were never or rarely included in their client's relationship profiles.

An in-depth study of the solicitor profession in Northern Ireland was undertaken on behalf of the Society by specialist consultancy Hook Tangaza in 2022. Findings from this research included:

*'that [the Society's] sector remains predominantly a network of small businesses, spread throughout the province, focussed on **providing essential services to the communities** in which they are based. From house purchases and commercial transactions, to wills, probate and family matters, solicitors play a critical role in the functioning of life in Northern Ireland'.*

The full report - [The Solicitor Profession in Northern Ireland – A Research Report by the Hook Tangaza Consultancy](#) available on the Society's website [here](#).

3. Risk Assessment & Risk Profiles:

In the reporting period the Society reviewed and updated its Methodology for the Society's Risk-Based Approach to Anti-Money Laundering and Counter Terrorist Financing (together AML) Supervision policy. This policy outlines the Society's risk

assessment methodology, and the review was undertaken as part of the Society's AML/CTF Response Strategy for the reporting period.

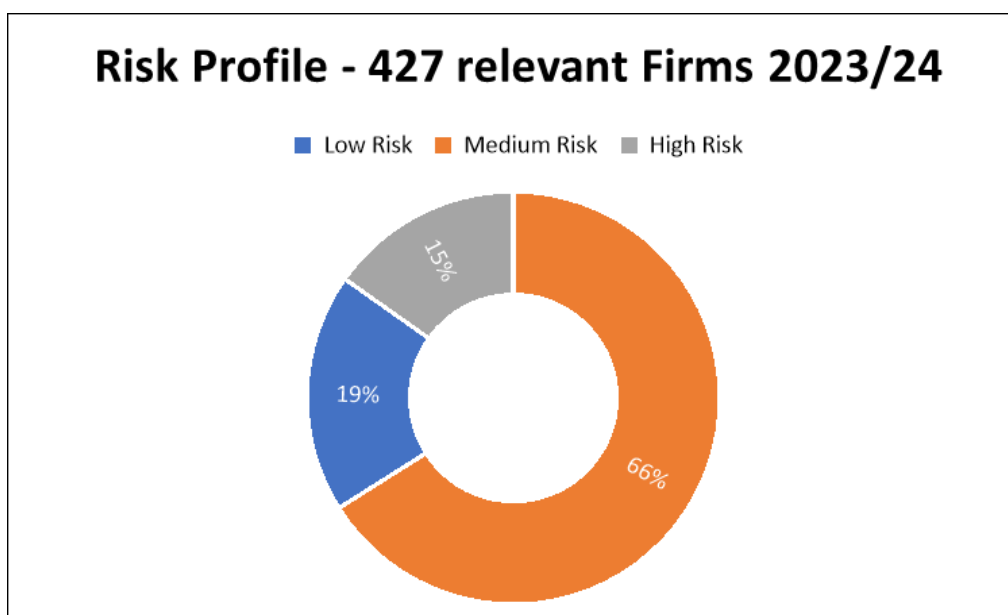
The Society continued to maintain individual written risk profiles for each of the 427 relevant Firms and these profiles are kept under continuous review. The risk profile is formulated, inter alia, by obtaining and risk scoring information from the Society's AML/CTF Annual Return, as well as from cross departmental intelligence sharing which is informed by: previous regulatory action, monitoring inspections, Solicitors' Disciplinary Tribunal (SDT) findings, and complaints referrals.

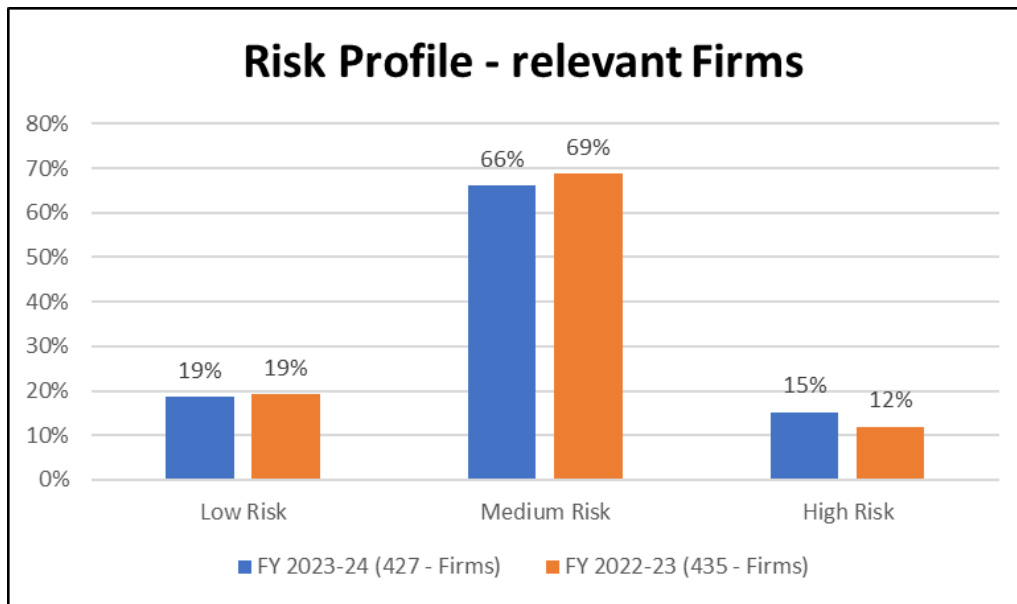
The individual risk profiles given to new firms include assessment of the information obtained from the prospective new firm during completion of the Society's application process. This profile is kept under review as appropriate inspections in relation to all aspects of the new firm's professional conduct – being supervisory activity to cover compliance with Accounts, Home Charter (Conveyancing) and AML/CTF matters - are completed within 12 months of their establishment in accordance with the Society's developed policy.

The assignment of a risk profile is a fluid exercise which is an ongoing process and is constantly under review. The Society continued to hold quarterly risk review meetings, bi-monthly regulatory review meetings and its annual risk overview exercise which also inform the risk review process.

In the reporting period there was an increase in the proportion of high risk firms assessed by the Society from 12% to 15% of relevant Firms.

Graph 5 – Risk Assessment & Risk Profiles





4. Monitoring and enforcement of compliance:

In accordance with the Society’s risk-based approach to its supervision, outcomes from the Society’s risk reviews informed allocation of the Society resources and its proactive AML/CTF and integrated supervision.

The Society has continued to deploy a range of supervisory measures in order to monitor and ensure compliance with the MLRs to include:

- Desk Based Reviews (DBRs) – to include standalone AML/CTF DBRs;
- Onsite inspections by the Society’s compliance officers – to include standalone AML/CTF onsite inspections;
- Accompanying DBR and pre-visit questionnaires issued at the outset;
- Information returns such as the Society’s enhanced AML/CTF Annual Return;
- Raising queries through correspondence;
- Reports to the Society’s Professional Conduct Committee;
- Issuing guidance and regulatory notices;
- Issuing directional warning letters to drive improvement.

Where deficits are identified, the Society engages with firms to enable them to meet best practice standards and propose remedial action(s) as necessary. Effective, proportionate and dissuasive enforcement action will also be taken by the Society as required.

Further, the Society continues to identify key AML/CTF themes and trends at bi-monthly meetings with the Professional Conduct Department’s monitoring team, and annual and quarterly risk review meetings. This assists in identifying emerging threats and trends. This information is reported to the Professional Conduct Committee and to the membership via regulatory notices.

This information also informs the Society's ongoing review of its Sector Risk Assessment of the international and domestic risks of money laundering (ML) and terrorist financing (TF) to which solicitors in the Society's sector are subject.

4.1 Desk-Based Reviews (DBRs) and Onsite inspections

The Society's programme of DBRs and onsite inspections involve AML/CTF supervision in conjunction with regulatory inspection. Every supervisory DBR or onsite inspection undertaken by the Society – being those taking account of solicitors' accounts, financial services, and Home Charter (conveyancing) compliance also reviews firms' AML/CTF compliance.

In addition, standalone AML/CTF DBRs and onsite inspections continue within the Society's supervisory approach. A subgroup within the Society's AML Hub also meets to consider relevant Firms' Firm Wide Risk Assessments and Policies, Controls and Procedures as appropriate.

DBRs and onsite inspections involve reviewing a variety of information, which is provided by the firm, together with the firm's responses to an extensive DBR or pre-visit questionnaire as appropriate. The Society's compliance officers then review the information and responses received and raise further queries as required. The resulting fact-based report is then referred to the Society's Professional Conduct Committee for consideration.

The Professional Conduct Committee considers matters referred to it at scheduled meetings which take place approximately every 6 weeks. There is a standing item on the meeting agenda to consider the results of monitoring inspections such as DBRs and onsite inspections, and also in relation to AML/CTF policy matters.

The Professional Conduct Committee operates under delegated authority from the Society's Council. It is the Society's main regulatory committee and is responsible for professional practice, conduct and discipline of solicitors and recognised bodies. It is also responsible for overseeing the Society's AML/CTF supervision and received reports on relevant Firms' compliance with their obligations under the MLRs.

During DBRs and at onsite inspections, compliance officers will review a sample of the firms' case files (usually between 10-15, depending on the size of the firm) and will further raise queries relating to the Firms' client due diligence (CDD) and source of funds/ source of wealth (SOF/SOW), record-keeping and policies, controls and procedures.

At applicable DBRs and onsite inspections, firms are asked to provide the compliance officers with their Firm Wide Risk Assessment & Policies, Controls and Procedures, which are subject to review and consideration as appropriate.

The Society also reviews the independent statutory Annual Accountants' Reports that are required to be delivered to the Society by every firm in Northern Ireland. The Society

continued to scrutinise all these Annual Accountants' Reports as part of its supervision. In the reporting period the Society reviewed 460 such Reports.

4.2 Reporting Breaches of the MLRs

In relation to requirements relating to reporting actual or suspected breaches of the MLRs, the Society has in place a Disclosure (Whistleblowing) Policy which is available on its website at <https://www.lawsoc-ni.org/reporting-concerns-disclosure-whistleblowing-policy>.

The policy explains how a member of the public, lawyers and other people working in the legal sector may raise a concern with the Society about a serious wrongdoing, risk to the public or professional misconduct of which they become aware, whether through their work in a firm or with a solicitor. This includes individuals under a contract of employment, trainees and agency staff, as well as external suppliers and clients.

As per the policy and the Society's website, the Society's Whistleblowing procedure is clearly differentiated from the Society's client and professional conduct complaints processes.

In addition, as per the policy, Regulation 25 of the Society's Solicitors Practice Regulations 1987 (as amended) provides that a solicitor shall notify relevant matters to the Society.

During the reporting period the Society continued with the use of a dedicated Regulation Department email address where members email in any concerns or queries they had.

5. Supervision

5.1 Completed DBRs/Onsite Inspections – Outcomes

The Society continued to undertake both DBRs and onsite inspections during the reporting period allocating resources under its risk-based approach and in accordance with the Society's Methodology for its Risk-Based Approach to AML Supervision policy.

The number of DBRs of relevant Firms completed in the reporting period was 53.

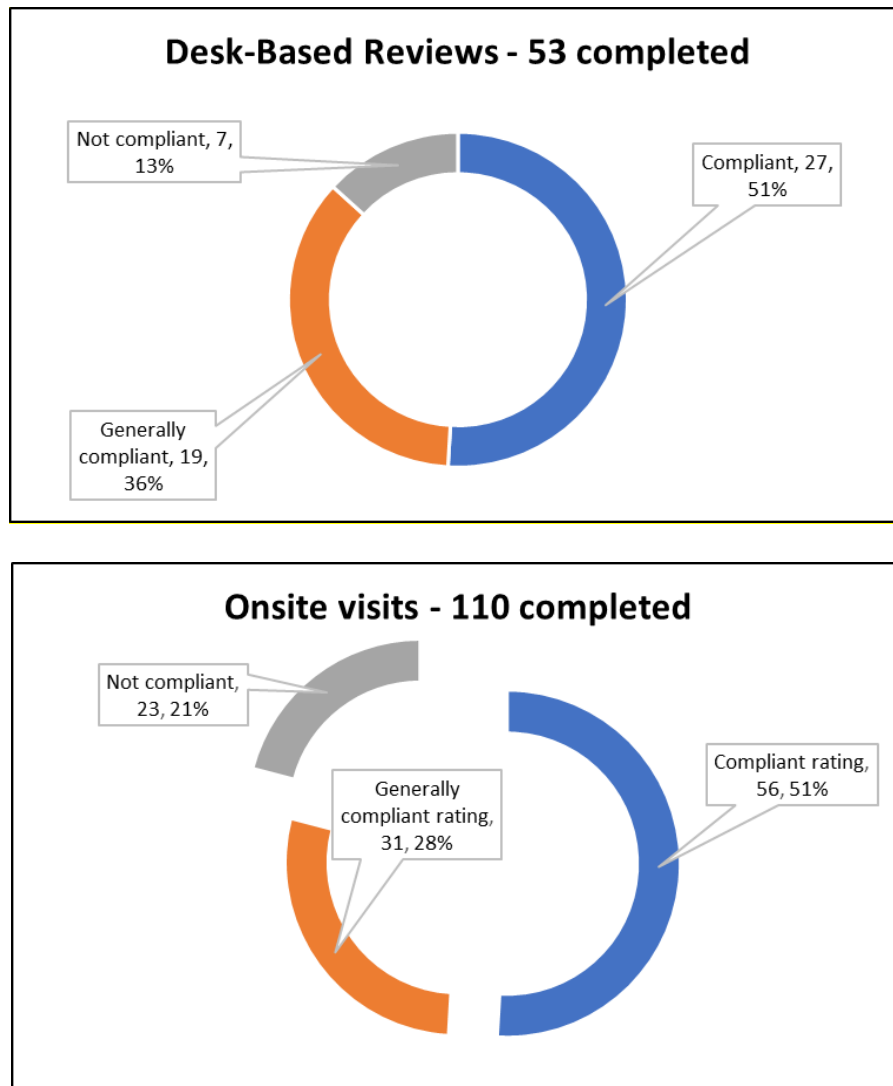
Of these completed DBRs, 27 (51%) of firms were found to be compliant, 19 (36%) generally compliant and 7 (13%) not compliant.

The number of onsite inspections of relevant Firms in the reporting period was 110.

Of these completed onsite inspections, 56 (51%) of firms were found to be compliant, 31 (28%) generally compliant and 23 (21%) not compliant.

The Society completed a further 4 DBRs and 3 onsite inspections of firms not in scope of the MLRs, providing appropriate touchpoints to confirm that ongoing assessment as a 'non-relevant' firm for the purposes of the MLRs remained applicable.

Graph 6 – Completed DBRs/Onsite inspections - Outcomes



Each supervisory assessment is dealt with on a case-by-case basis, subject to its facts and circumstance, and regarding the Society's risk-based approach. Factors considered in the categorisation of an assessment outcome, include:

- Regulations engaged.
- Nature and materiality of breach(es) noted.
- The impact of the breach(es) on the integrity of the AML/CTF regime.
- Frequency and intensity of breach(es).
- Speed of rectification.
- Compliance history.

Circumstances giving rise to a 'Not compliant' outcome in the reporting period included:

- AML/CTF queries having to be raised regarding both Client Due Diligence (CDD), and source of funds/wealth checks and lack of documentary evidence noted on a number of files
- Apparent reliance by a firm on source of funds declarations completed by clients without any further scrutiny/checks including for longstanding clients and corporate entities.
- Queries raised on review of matter ledger cards requesting CDD documentation on 6 matters and evidence of source of funds checks on 4 matters. The firm's replies demonstrated overreliance on personal knowledge of clients and little or no documentary evidence of further checks carried out.

5.2 Completed DBRs/Onsite Inspections – Actions Taken

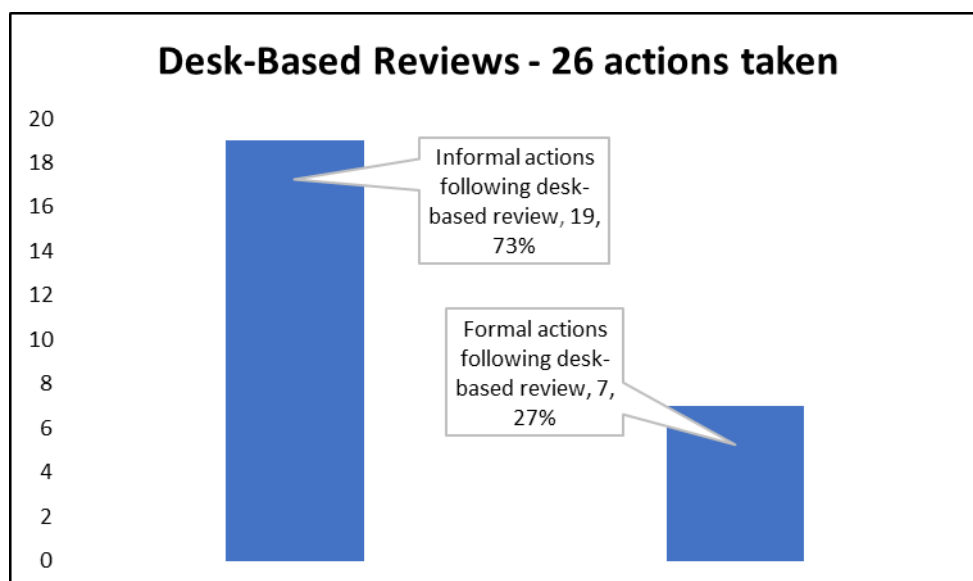
Of the 53 completed DBRs, 26 (49%) required further action to be taken as a result of a generally compliant or not compliant rating.

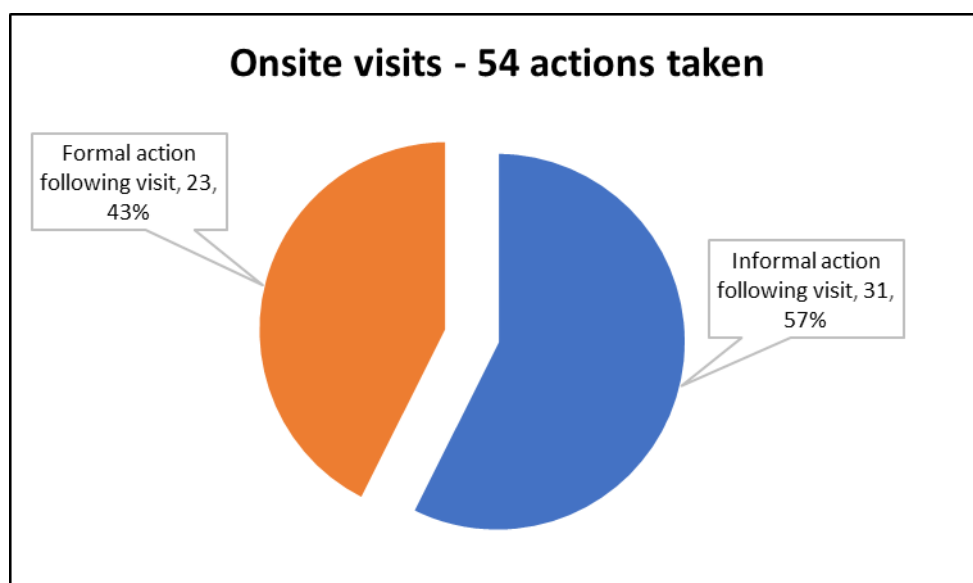
Of the 110 completed onsite inspections, 54 (49%) required further action to be taken as a result of a generally compliant or not compliant rating.

For both DBRs and onsite inspections the majority of further actions required to be taken were informal as opposed to formal actions. 'Informal actions' refer to guidance or reminder letters being issued to firms. 'Formal actions' include warning letters issued, directed specific follow-up DBR or onsite inspection, such as a standalone AML/CTF DBR or onsite inspections, directed revisits or referrals made to the Solicitors' Disciplinary Tribunal (SDT).

When undertaking DBRs the Society can avail of all its supervisory tools to achieve equivalent outcomes as for onsite inspections.

Graph 7 Completed DBRs/Onsite Inspections – Actions Taken





5.3 Completed DBRs/Onsite Inspections – Analysis

33% of completed supervisory assessments of relevant Firms during the relevant period comprised DBRs and 67% comprised onsite inspections.

Onsite inspections were predominantly, but not exclusively, used for high and medium risk firms. Low risk firms also received both DBRs and onsite inspections, ensuring that firms from all risk categories are included in the Society’s supervisory activity.

Proportionately the outcomes of onsite inspections gave rise to more formal actions being taken than DBRs.

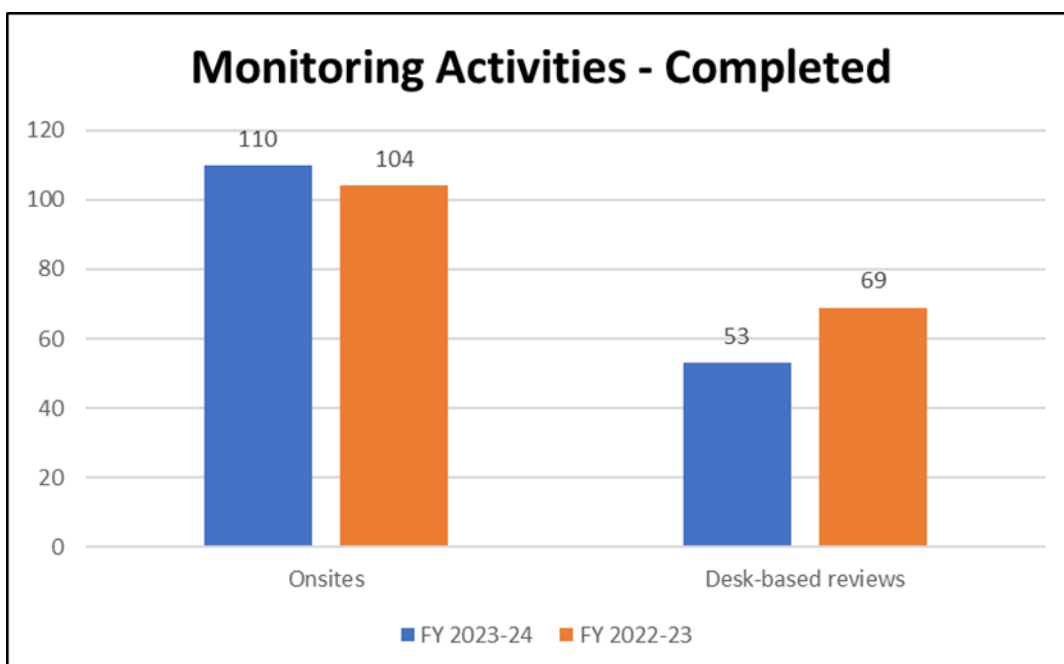
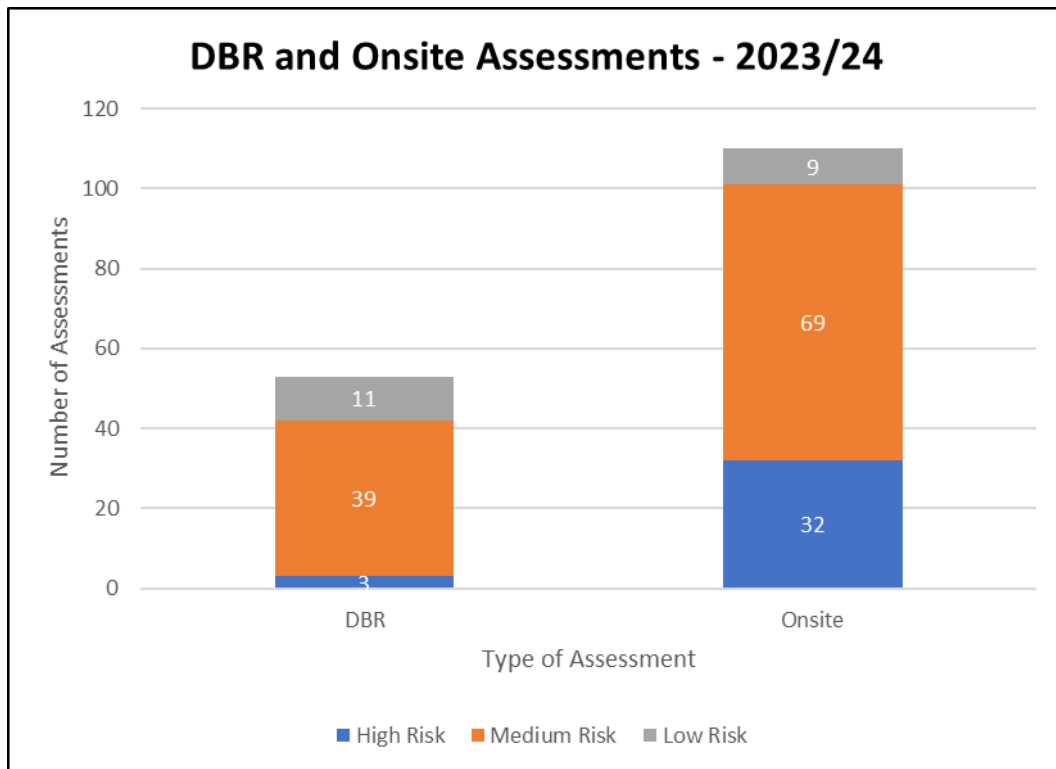
The total number of completed DBRs and onsite inspections of relevant Firms for the reporting period of 163, was less than for the previous 2022/23 reporting period of 173. However, on review by the Society, at the end of the reporting period a number of further DBRs and onsite inspections that had also been undertaken in the reporting period, were pending reports to the next meeting of the Professional Conduct Committee. Also, a further number of DBRs commenced in the reporting period but remained ongoing.

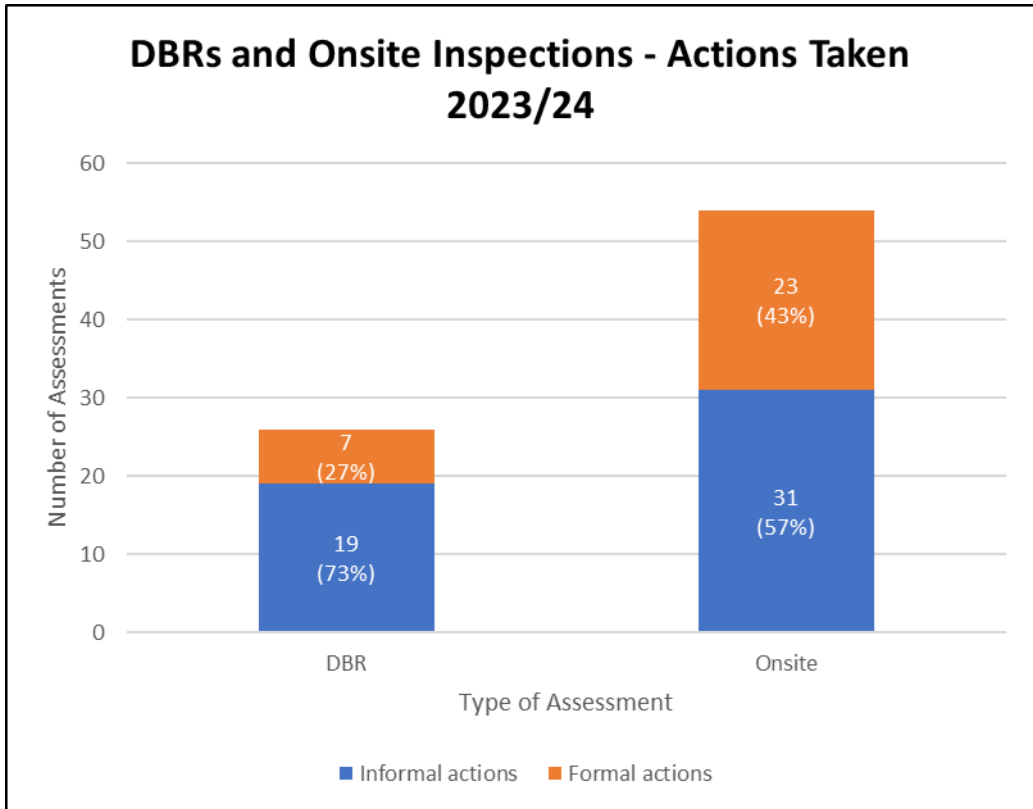
Taking these further live DBRs and onsite inspections into account, a total of 38% of all relevant Firms received at least one form of supervisory DBR or onsite inspection in the reporting period. This is an increase on the comparable figure of 35% of all relevant Firms for the previous 2022/23 reporting period. The Society will continue to monitor levels of review in the next reporting period.

Overall, 82% of relevant Firms which received a completed DBR or onsite inspection in the reporting period had a compliant or generally compliant rating. This continued high

percentage of high compliance level demonstrates the effectiveness of the Society’s supervisory approach.

Graph 8 Completed DBRs/Onsite Inspections – Analysis





5.4 Case Studies – Supervision

Case Study 1 Supervision action – Firm A

Summary:

In February 2023 a firm with a high individual risk profile received an integrated accounts inspection by the Society’s Compliance Officer. The outcome of the inspection was reported to the Society’s relevant regulatory Committee, the Professional Conduct Committee. The Committee noted a number of AML/CTF breaches in relation to client due diligence and source of funds checks.

The Committee directed that a follow up discrete onsite AML/CTF inspection be undertaken, and the firm was advised of this outcome.

At the subsequent discrete onsite AML/CTF inspection in March 2024 it was noted that the firm had since put in place an AML/CTF checklist for new and existing clients. Further, every file checked had client due diligence and source of funds information documented, with evidence recorded.

Details:

In February 2023, the Society’s Compliance Officer carried out an onsite accounts inspection of Firm A. On inspection it was noted that the firm’s AML/CTF measures were inadequate for the size and nature of the firm, with 1 file checked having no evidence of client due diligence and 3 files noted where the firm’s source of funds enquiries were not adequately documented.

The Compliance Officer’s Inspection Report together with the firm’s response to the queries raised were reported to and considered by the Society’s Professional Conduct Committee (the Committee).

It was noted by the Committee that the firm were not meeting their regulatory obligations with regards to client due diligence and source of funds checks, with reliance placed on personal knowledge of clients rather than making appropriate enquiries and obtaining documentary evidence. The Committee directed that a discrete onsite AML/CTF inspection take place in relation to the breaches noted.

An onsite AML/CTF inspection took place in March 2024, at which the firm engaged positively. The Society’s Compliance Officer met with the solicitor principal of the firm, who was also the firm’s MLRO, to discuss best practice. The solicitor advised that at the time of previous inspection they had had some issues with staff turnover, and this had contributed to a lapse in the firm’s standards at that time. The firm had since improved its policies, controls and procedures and put in place an AML/CTF checklist for each client matter to ensure that all areas are adequately covered. File reviews by the Compliance Officer during the follow up AML/CTF onsite inspection resulted in no AML/CTF queries being raised on any of the 12 case files reviewed.

Case Study 2

Supervision action – Firm B

Summary:

In the reporting a relevant sole practitioner firm was selected for AML/CTF Desk Based Review (DBR) by the Society's Compliance Officer under the Society's policy to inspect new firms in all relevant areas within their first year of opening.

The Compliance Officer noted that the content of the firm's AML/CTF Firm Wide Risk Assessment (FWRA) did not meet all the requirements of Regulation 18 of the MLRs. The firm's Policies, Controls & Procedures (PCPs) also required some updates to meet the requirements of Regulation 19 of the MLRs.

The firm was advised of this and then proceeded to engage proactively with the Society to review their FWRA & PCPs. The outcome of the AML/CTF DBR was referred to the Professional Conduct Committee (the Committee) and the firm's updated FWRA & PCPs were provided to the Committee who were pleased to note the positive engagement and the improved documentation.

The Committee directed that the firm should keep their FWRA and PCPs under regular review and were pleased to note the positive engagement during the DBR.

Details:

In September 2023, the Society's Compliance Officer carried out an AML/CTF Desk Based Review (DBR) of Firm A. It was noted that the firm's AML/CTF Firm Wide Risk Assessment (FWRA) did not meet all the requirements of Regulation 18 of the MLRs and same was based on a template document which had not been fully completed.

The template document required updating to tailor same to the firm to include a practice overview, to review the documentation relevant to a legal practice, to consider the specific risk factors mentioned in Regulation 18, and to add an overall conclusion and risk rating.

The firm's Policies, Controls & Procedures (PCPs) were found to be mostly proportionate to the size and nature of the firm, and only minor amendments to same were suggested to meet the requirements of Regulation 19 of the MLRs. At the time of the DBR the firm had not so far undertaken any AML/CTF regulated legal work or services since its opening. As such, case file reviews were not undertaken.

The Compliance Officer's DBR Report was considered by the Society's relevant regulatory Committee. It was noted by the Committee that the firm had engaged positively with the Society and provided an updated document for consideration, and this was placed before the Committee at their meeting in May 2024. The Committee noted the firm's positive engagement with the Society regarding the matter, together with the amended content of their FWRA and PCPs and the progress demonstrated in this regard.

6. Enforcement

Where, as a result of the supervisory measures above, the Society are aware that relevant Firms or solicitors have failed to comply with the MLRs, it can take enforcement action.

These enforcement powers range from:

Informal:

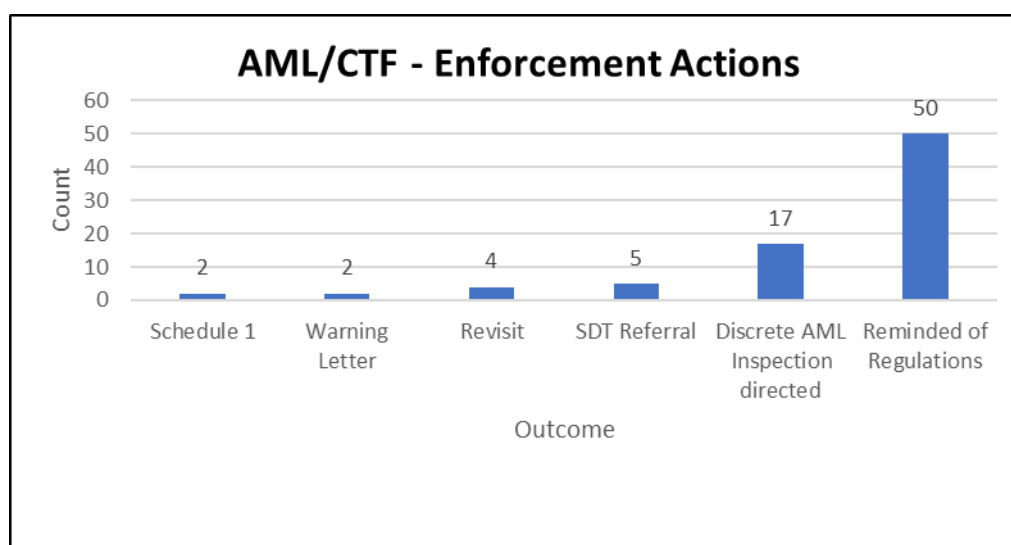
- Advice/guidance being provided.
- Letters issuing which remind solicitors of their AML/CTF obligations.

Formal:

- Warning letters being issued
- Directed specific follow-up DBRs or onsite inspections or revisits
- Or in more serious cases,
 - Intervention by the Society in a firm, including taking control of all client monies through application by the Society of Schedule 1 of the Solicitors (Northern Ireland) Order 1976
 - referring the solicitor and/or Firm to the Solicitors' Disciplinary Tribunal (SDT)

In the reporting period the Society, through its Professional Conduct Committee, applied a number of enforcement actions both informal and formal as set out in the following graph.

Graph 9 – AML/CTF – Enforcement Actions



The SDT is a statutory tribunal that adjudicates complaints against solicitors in Northern Ireland. It is wholly independent of the Society.

The SDT currently has twenty-seven Members, all appointed by the Chief Justice of Northern Ireland. Tribunal Members are not appointed by or employed by the SDT.

There are currently twelve Solicitor Members and fifteen Lay Members drawn from a wide range of backgrounds to reflect the makeup of the profession and, as far as possible, the public.

Solicitor Members are independent of the Council of the Society. Solicitor Members of the Tribunal must be a practising solicitor of not less than ten years' standing. Lay Members must not be either solicitors or members of the Bar of Northern Ireland.

The SDT has powers to admonish and impose fines as set out in legislation (up to £3,000.00), suspend or place conditions on practising certificates or remove solicitors from the Roll.

In the reporting period one admonishment and one fine of £500 were ordered by the SDT as a result of breaches which were related to AML/CTF and/or contravention of the MLRs.

6.1 Case Study - Enforcement

Case Study 2 Enforcement action – Firm C

Summary:

Referral was made to independent Solicitors Disciplinary Tribunal (the Tribunal) for non-compliance with obligations under Regulation 28 (Customer Due Diligence (CDD) measures) & Regulation 40 (Record-keeping) of the MLRs despite a previous warning letter being issued to the firm, and a similar referral to the Tribunal for similar breaches which was dealt with in 2020.

Details:

In October 2022, the Society's accountant carried out an onsite integrated Accounts inspection of Firm C. On inspection seven client files were reviewed and, on those files, there was no evidence that AML/CTF checks had been carried out in relation to the source of funds received from the client. Enquiries and documentation in relation to the source of funds were made after the monies had been transacted through the client account. Bank statements relied on did not show the name of the account holder.

The Society's accountant's Inspection Report together with the solicitor's response to the queries raised were considered by the Society's Professional Conduct Committee. The Committee noted that the solicitor had previously been reminded of their obligations to comply with the MLRs following previous inspections and had previously appeared before the Tribunal in similar circumstances and an order made against them in 2020.

The Tribunal held an inquiry on 12 April 2024 (shortly after the reporting period) into allegations against the solicitor. It was alleged the solicitor had breached Regulations 8(1) and 12 of the Solicitors Practice Regulations 1987 (as amended) in that they failed to carry out their work and conduct their practice to the highest professional standards; failed to carry out appropriate CDD measures in accordance with Regulation 28 of the MLRs; and failed to demonstrate documentary evidence of compliance as required by Regulation 40 of the MLRs.

The solicitor admitted the allegations. This was the second referral to the Tribunal, and the previous referral related to similar breaches of the AML regime.

The Tribunal noted that the Society had, subsequent to the present referral, re-inspected the firm in 2023 and there were no significant issues arising. There had been no further referrals to the Tribunal since.

The Tribunal upheld both allegations against the solicitor and ordered they be admonished and pay total fines of £2,000. The solicitor was also ordered to pay the Tribunal's costs together with the costs of the Society.

7. Key themes:

The Professional Conduct Department continues to host bi-monthly monitoring meetings to identify trends and themes which emerge from the Society's supervision activity. These meetings are attended by the Head of Professional Conduct, the Head of AML Policy, the Monitoring Manager and the Society's Compliance Officers. Through that forum, and through matters heard by the Professional Conduct Committee, common types of non-compliance with AML/CTF obligations are identified.

7.1 Types of non-compliance:

The most common types of non-compliance identified remain in client due diligence (CDD) measures, including ongoing monitoring, with 60% of breaches identified by the Society concerning lack of evidence of both source of funds and CDD checks; a further 32% arose solely from lack of evidence of source of funds checks.

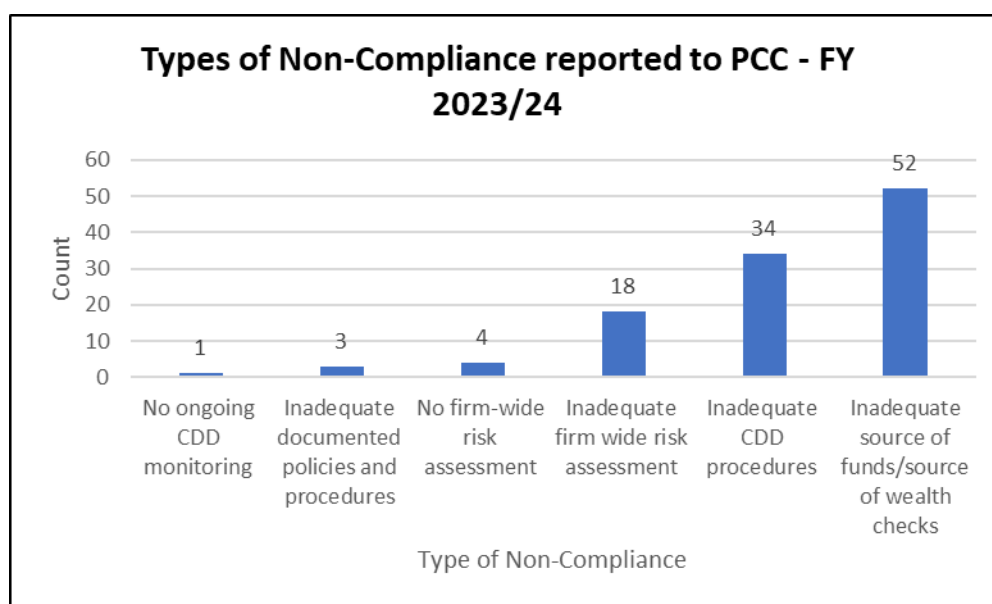
Within CDD, non-compliance issues regarding source of funds checks are most frequently encountered, including from most common to least:

- Checks made but not documented/recorded on files and only divulged on further enquiry (by the Society) during DBR/onsite inspection.
- Identity checks and checks on source of funds/wealth not fully understood or carried out.
- Overfamiliarity with (longstanding) client resulting in lack of, or incomplete, CDD, including source of funds/wealth checks.
- Relying on bank statements as a source of funds/wealth check without further enquiry.
- Accepting funds to complete transactions without making or documenting the requisite checks on the source of funds/wealth re same.
- Issues with adequacy of money laundering and terrorist financing Firm Wide Risk Assessments (FWRAs) including use of templates for FWRAs which have not been adequately tailored or updated to reflect the relevant risk areas of the firm.

The Society was also concerned to note the rise in number of non-compliant cases due to inadequate FWRAs.

Breaches that are more serious in nature are reported to the Professional Conduct Committee. A review of such breaches reported to the Committee in the reporting period identified the types of non-compliance set out in the following graph.

Graph 10 – Types of Non-Compliance Reported to the Professional Conduct Committee



7.2 Common Themes Behind Non-Compliance

Common themes behind where non-compliance with AML/CTF obligations was found included that:

- Provision of conveyancing services remains the most common service area for non-compliance.
- Over familiarity/complacency regarding local client base and services provided, contributing to non-compliance with AML/CTF obligations, leading to insufficient checks and record-keeping.
- Lack of knowledge/understanding of regulations
- Use of third-party policies that are not adequately tailored to the individual firm.
- Non-compliance with AML/CTF obligations was found across all sizes of Firms.

7.3 Good practice

As has already been noted, 82% of relevant Firms that received a completed DBR or onsite inspection in the reporting were found to be compliant or generally compliant. The continued high compliance level demonstrates the effectiveness of the Society's supervisory approach.

Further, the Society through the Professional Conduct Committee was pleased to be able to commend several firms for their AML/CTF improvements on re-inspection during the reporting period.

Evidence of good practice found on supervisory assessment included:

- Client and matter risk assessment checklists on files – completed and reviewed throughout a transaction
- CDD evident either on file or on a central register – which is certified, dated and kept up to date
- Firms’ policies, controls and procedures include source of funds/source of wealth questionnaires/checklists which are completed and retained on case files together with relevant documentary evidence
- Assessment of client/matter risk demonstrates an assessment of whether the client’s financial circumstances, main business activities, and source of wealth and source of funds align with the background and wider profile of the client.
- Firm wide risk assessments which demonstrate consideration of all risk factors including clients, geographic, products/services provided, transaction and delivery channels and consider all relevant sources including the Society’s Sector Risk Assessment.
- A tailored firm wide risk assessment which is proportionate to the firm and kept updated/under review.
- Record-keeping includes keeping a copy of any documents and information obtained to satisfy the CDD requirements and accurate and comprehensive records of decisions made and reasoning.

91% of relevant Firms that responded to the Society’s AML/CTF Annual Return in the reporting period reported appointing a Money Laundering Compliance Officer (MLCO). This maintained high percentage figure is considered by the Society to be indicative of relevant Firms’ continued focus on the importance of compliance with their obligations under the MLRs.

The primary professional focus of the MLCO falls on the internal systems and controls that their firm puts in place to help detect, monitor and report money laundering activities. Not all firms are required to appoint an MLCO. Sole practitioners are not required to do so, and other firms are only required to appoint an MLCO where it is appropriate having regard to the size and nature of the business.

8. Actions taken in response

The Society has continued outreach work across its sector through education programmes and various communication channels.

This included:

- Education of relevant Firms directly during inspection.
- Guidance through correspondence, including directing Firms to relevant available AML/CTF resources and CPD recordings on the Society’s website.
- Response to AML/CTF queries received from the Society’s supervised population.
- Continuing Professional Development (CPD) in AML/CTF (making use of technology to provide online access).
- Including AML/CTF topics within the Society’s Compulsory Risk Management CPD required to be completed by all solicitors in private practice.

- Guidance/training materials relating to ML and TF risk and compliance with the MLRs shared via the Society's weekly E-former e-zing issued to members and AML/CTF updates in the Society's Writ magazine.
- Provision of resources such as the guidance card - AML Aide-Memoire - developed by the Society, in conjunction with Willis Towers Watson & ABL Group made available previously to firms and remains available for download from the Society's website.
- AML/CTF Podcasts.
- Other AML/CTF articles, communications and material on the Members' section of the Society's website.

The Society provided CPD seminars and events in the reporting period including the following:

- A series of AML webinars were arranged in April & October 2023 and April 2024 which covered a range of AML topics including key areas of compliance to cover how to undertake Firm Wide Risk Assessments (FWRAs) and what they should contain, and the updated LSAG Guidance 2023. Separately, the second session focussed on AML updates in 2023 and beyond.
- In conjunction with Willis Towers Watson (the Society's insurance broker) the Society hosted a bespoke Risk Management webinar in January 2024 to cover the compulsory 2024 Risk Management requirements which included the topics of the impact of AML and CTF on Risk Management and consequences of operating outside the AML framework.
- In May 2024, a further seminar was provided by the Society in relation to 'Monitoring and Inspection – an overview of how to ensure compliance and common regulatory themes arising' which covered AML/CTF DBRs and onsite inspections.

In September 2023, the Society launched its inaugural 'Risk Awareness Month', providing members with important and timely advice from a team of experts on the growing risks facing the solicitor profession and the measures needed to manage them. As part of this initiative a themed 'Risk Issue' of the Society's e-zine 'The Writ' (available [here](#)) was produced and the Professional Conduct Department took this opportunity to include an AML/CTF focussed article on '[A Risk Management Approach to Professional Conduct](#)'.

Highlighting a recent media report of criminality involving a local professional service provider from another sector, the article emphasised to members the prevalence of money laundering risks at a local level and the necessity of ensuring that their risk assessments and resulting AML/CTF policies, controls and procedures are sufficiently robust. It also reiterated the Society's risk-based approach to its supervision and signposted information and guidance available to support members.

This article is available on the Society's website [here](#).

The Society continued with its delivery of the Practice Management Course which is required to be undertaken by all newly appointed Principals. Solicitors are required to

complete the course within 6 months of becoming a Principal in a firm. Topics covered include an overview of the role of the Society including Regulation, Risk Management, Client Communications, AML/CTF and Solicitor Accounts.

9. Staff training

The Professional Conduct team are subject to continuous training.

As well as accessing the Society's CPD seminars (referred to above) the team are kept apprised of relevant developments in the area at appropriate team meetings. Relevant staff have been surveyed regarding the AML/CTF training in the reporting period.

Staff also attend relevant fora in the area of ML/TF, for example, the Legal Regulators AML forum, Legal Sector Affinity Group (LSAG), AML Supervisors' Forum, main Legal Intelligence Sharing Expert Working Groups (ISEWG) and regional ISEWG meetings and the Cyber Crime Engagement Group. Updates and learnings from these forums/groups are cascaded to team members including at the regular risk review meetings, bi-monthly meetings and AML Hub meetings as appropriate. AML Updates are also shared at biannual Professional Conduct Departmental Meetings.

The Society also arranges for in house AML/CTF training to staff as appropriate. During the reporting period the Society introduced new AML Information Sessions provided by the Head of AML Policy, for new staff members joining the Professional Conduct Department.

Also, during the reporting period members of the Professional Conduct Department met in person with colleagues from the Law Society of Scotland (LSS)'s AML Team for the purpose of sharing information, supervisory approaches and good practice. They also attended by invitation a session of the LSS's AML Refresher Training Course (October 2023) for PBS staff. Topics covered included updates on UK and international AML landscape, PBSs' supervisory responsibilities and the risk-based approach.

10. Suspicious Activity Reporting

The Society continued to report suspicious activity to the National Crime Agency (NCA) during the reporting period in accordance with its obligations under the MLRs.

If the Society in the course of carrying out any of its supervisory functions, or otherwise, knows or suspects, or has reasonable grounds for knowing or suspecting, that a person is or has engaged in money laundering or terrorist financing, the Society will submit a Suspicious Activity Report (SAR) to the UK Financial Intelligence Unit (UKFIU) positioned within the NCA.

The Society maintains an Internal SARs Policy. Each member of staff is responsible for submitting suspicious reports directly to the Society's Money Laundering Reporting Officer (the MLRO). The Society maintains an internal reporting procedure to ensure a

formal and secure method by which members of staff will submit internal suspicion reports to the MLRO, which will be acknowledged and recorded.

During the reporting period the Society's Head of Professional Conduct was its appointed MLRO. In the event that they were unavailable, the nominated Deputy MLRO was contactable by staff.

The Society also continued to monitor levels of suspicious activity reporting by relevant Firms through comprehensive data obtained from the Society's AML/CTF Annual Return.

Analysis of responses received and collated within the reporting period and compared with the last reporting period shows that:

- The percentage of relevant Firms submitting one or more SARs to the NCA was unchanged at 8% in this reporting period.
- The total number of internal SARs reported to firms' MLROs was 88 compared with 86 for 2021/22. However, the number of external SARs in turn submitted to UKFIU by relevant Firms MLROs was 57 compared to 73 for the previous reporting period.
- 70% of external SARs submitted to the NCA by relevant Firms were reported to be Defence Against Money Laundering (DAML) SARs compared to 67% for the previous reporting period.
- 30% of external SARs submitted to UKFIU by relevant Firms were reported to be information SARs compared to 32% in the last reporting period.

In addition, the Society continues to monitor firms SARs' reporting through its AML integrated supervision including selection of case files for review from responses to pre-visit questionnaires.

Such SARs data obtained by the Society also informs its supervision strategy and allocation of its supervisory resources. Amendments to the MLRs provide AML supervisory authorities with the power to require their sector to supply them with a copy of any SAR submitted to the NCA as part of their supervisory assessments, should it serve their supervisory functions.

During the reporting period, the Society continued to support relevant Firms in the submission of and improving quality of SARs.

The Society continued to share and signpost SARs guidance resources from UKFIU Engagement such as updates to the NCA publications, SAR Glossary Codes and Reporting Routes, Guidance on Submitting Better Quality SARs and SARs In Action magazine. In the reporting period a total of 34 guidance/training materials relating to SARs were made available by the Society. These included 16 e-zings by the Society to all members in its supervised populations signposting and forwarding UKFIU/NCA publications and 6 updates to the existing publications on the dedicated SARs Regime resource section on the members' section of the Society's website.

The Society informed members of the new SAR Portal launched during the reporting period and associated reminders to review supporting materials and guides.

Noting the reported decrease in numbers of external SARs submitted by relevant Firms, the Society has arranged for a Senior Engagement Officer within UKFIU at NCA to deliver an online webinar presentation primarily aimed at relevant Firms' MLROs in June 2024. In addition to its general CPD communications, the Society has contacted all firms' MLROs individually to notify them regarding this event.

11. Sanctions Work

During the reporting period the Society has continued its work related to the constantly evolving UK sanctions regimes, including those relating to the invasion of Ukraine by Russia.

This has included:

- Reviewing existing data from information returns submitted by firms and relevant information available to the Society from appropriate supervisory activity.
- Obtaining and reviewing relevant information and data regarding financial sanctions compliance in its information returns as part of its supervisory activity such as its pre-visit questionnaires and in the Society's AML/CTF Annual Return.
- Incorporating this enhanced information and data obtained into its existing ongoing quarterly risk reviews of individual risk profiles of firms in its supervised population.
- Highlighting to its supervised population the imposition of financial sanctions on Russian nationals (and others) as a potential area of risk for practitioners.
- Signposting the importance of the ongoing regular communications from the HM Treasury Office of Financial Sanctions Implementation (OFSI) and guidance issued by OFSI.
- Issuing appropriate communications and e-zings to its members with relevant available OFSI guidance and resources including OFSI communications such as relevant OFSI updates on additions and amendments to the Consolidated List and General Licence.
- Extending to its supervised population the invitation from the Ministry of Justice to a webinar hosted by HMG officials (July 2023) detailing the new UK legal advisory services sanction placed on Russia which entered into force on 30 June 2023 and the OFSI introductory webinar on financial sanctions (November 2023).
- Including guidance on sanctions related risks in the Society's AML/CTF Continuing Professional Development (CPD) programme for its supervised population in the reporting period.

- Maintaining a dedicated Financial Sanctions section on the members' area of its website which includes information and links to relevant OFSI guidance and resources.

12. Analysis and Continuous Improvement

The Society has continued to use both DBRs and onsite inspections in its supervisory assessments. A continued return to pre-pandemic practices has seen a corresponding continued increase in the use of onsite inspections. The Society has noted slight reduction in the numbers of completed DBRs and onsite inspections when compared with previous reporting period. However overall, taking into account live supervisory assessments ongoing at the end of the reporting period, the percentage of relevant Firms that received either form of supervisory assessment again increased.

During the reporting period the Society also continued standalone AML/CTF DBRs and onsite inspections. It has increased its resource in its AML Hub following the previously reported appointment of a Head of AML Policy and, in the reporting period, the recruitment its first dedicated AML Compliance Officer. Recruitment of the AML Compliance Officer facilitates increased capacity to exercise the formal action of escalation to discrete AML/CTF DBRs and onsite inspections as, for example, in Case Study 1 above.

The AML Hub subgroup continued to meet to consider Firms' Firm Wide Risk Assessments (FWRAs) and Policies, Controls and Procedures. As issues with FWRAs has been the predominant area emerging, the Society has in the reporting period commenced a FWRA project to include dip sampling of firms' FWRAs within certain parameters. The AML Hub subgroup is also progressing appropriate further guidance/materials on FWRAs.

The Society has kept under review the changes to risk ratings of the individual risk profiles of relevant Firms subject to supervisory activity during the reporting period. Analysis shows that only 3.1% of existing risk ratings were increased on review following supervisory activity - 2.3% medium to high, 0.3% low to high and 0.5% low to medium.

The Society considers that this demonstrates continued improvement in the effectiveness of the Society's risk review process, with an increased majority of existing risk ratings unchanged following supervisory activity including onsite inspections and DBRs.

Also, where changes to risk ratings did occur, relatively speaking the largest number of changes occurred in the increase from medium to high risk ratings. Previously the largest number of changes had occurred in the increase from low to medium risk ratings.

Further, as noted above, the Society has reviewed and updated its Methodology for the Society's Risk-Based Approach to Anti-Money Laundering and Counter Terrorist Financing (together AML) Supervision policy.

The Society will continue to review and enhance its methodology for its risk-based approach to AML Supervision including appropriate use of additional supervisory tools such as dip sampling. Continuous risk review also ensures that the Society's supervision strategy remains agile and retains sufficient flexibility to respond to circumstances and events.

13. Progress on Areas of Focus in the Reporting Period

The Society continues to dedicate increasing resources to its AML supervision. Areas of focus previously identified by the Society for the reporting period and corresponding completed actions have included:

The Society recruited, for the first time, a dedicated AML Compliance Officer in December 2023, increasing the capacity of its AML supervisory resources and development of the Society's AML Hub. The AML Compliance Officer undertakes standalone AML supervisory assessments.

The Society has reviewed and updated its consolidated Risk assessment methodology.

The Society has strengthened its quality assurance work including risk reviews and decision-making measures with introduction of quality control sampling including after annual and quarterly risk review meetings.

In the reporting period the Society enhanced its data capture and analysis. It further developed its AML/CTF Annual Return process through software investment to automate data transfer of annual return data to existing firm records on the Society's CRM members' data base. This resulted in a faster and more efficient process, allowing for immediate triage of information received on a risk based approach against the information on firms already held by the Society.

The Society also trialled direct communication with relevant Firms' MLROs for its AML/CTF Annual Return process through dedicated emails and unique firm links for completion and submission of Returns. This led to an improvement in initial response rates. Potential enhancements have also been identified from feedback received for the next Return process.

The Society also introduced a new Abbreviated Return and Self-Declaration process for firms not in scope of the MLRs. This streamlined the process for such firms and making the process bespoke to the Society's relevant and non-relevant supervised population.

The Society has continued to provide guidance for relevant Firms through the Society's CPD programme of webinars which focus on risk and AML/CTF as per above.

The Society has utilised direct engagement with relevant Firms' MLROs in relation to the above noted SARs CPD event.

The Society has continued:

- To provide AML/CTF staff training to the Society's regulatory team;
- To monitor emerging areas of risk and trends, and respond as required;
- To bring enforcement action as required;
- Its active participation in AML information sharing groups and forums with other AML supervisory authorities.

14. Relevant resources:

The Society's relevant AML/CTF resources are available to the Society's members, on logging into the Members' Area of the Society's website at: <https://www.lawsoc-ni.org/antimoney-laundering>.

These include:

- The Society's AML/CTF Sector Risk Assessment (September 2021).
- HM Treasury approved Legal Sector Affinity Group AML Guidance for the Legal Sector 2023 (the LSAG Guidance).
- AML Aide-Memoire: Knowing your client and understanding where their money comes from.
- CPD recordings from AML series 2022, 2023 & 2024.
- AML Podcasts.

From HM Treasury

- The National Risk Assessment of Money Laundering and Terrorist Financing 2020 (December 2020) (The Report prepared by HM Treasury and the Home Office under regulation 16(6) of the MLRs)
<https://www.gov.uk/government/publications/national-risk-assessment-of-money-laundering-and-terrorist-financing-2020>
- The National Risk Assessment of Proliferation Financing 2021
<https://www.gov.uk/government/publications/national-risk-assessment-of-proliferation-financing>
- Money Laundering Advisory Notice: High Risk Third Countries
<https://www.gov.uk/government/publications/money-laundering-advisory-notice-high-risk-third-countries--2>
- HM Treasury – Anti-Money Laundering and Countering the Financing of Terrorism: Supervision Report 2022-23 (May 2024)

<https://www.gov.uk/government/publications/anti-money-laundering-and-counteracting-the-financing-of-terrorism-supervision-report-2022-23>

From Office for Professional Body Anti-Money Laundering Supervision (OPBAS)

- OPBAS website.
<https://www.fca.org.uk/about/how-we-operate/who-work-with/opbas>
- OPBAS Report – Anti-Money Laundering Supervision by the Legal and Accountancy Professional Body Supervisors: Progress and themes from our 2023/24 supervisory work
<https://www.fca.org.uk/publication/opbas/opbas-report-progress-themes-supervisory-work-2023-24.pdf>
- Regulation 46A Reports
<https://www.fca.org.uk/about/how-we-operate/who-work-with/opbas#section-reg-46a-reports>

From the National Crime Agency (NCA)

- The NCA SAR Portal
<https://sarsreporting.nationalcrimeagency.gov.uk/>
- NCA dedicated homepage for Suspicious Activity Reports which contains links to further guidance documents, Frequently Asked Questions and the ‘SARs in Action’ magazine - detailing the good work which is brought about as result of submitted SARs, including by those by solicitors.
<https://www.nationalcrimeagency.gov.uk/what-we-do/crime-threats/money-laundering-and-illicit-finance/suspicious-activity-reports>
- SARs Reporter Booklet (August 2024)
<https://www.nationalcrimeagency.gov.uk/who-we-are/publications/727-sars-reporter-booklet-august-2024/file>
- UKFIU SARs Annual Statistical Report 2023 (April 2022 – March 2023)
<https://www.nationalcrimeagency.gov.uk/who-we-are/publications/710-sars-annual-statistical-report/file>
- Guidance on submitting better quality SARs (June 2023 v9.0)
<https://nationalcrimeagency.gov.uk/who-we-are/publications/650-guidance-on-submitting-better-quality-suspicious-activity-reports-sars-v9-0/file>
- SAR Glossary Codes and Reporting Routes (April 2023 v3.0)
<https://nationalcrimeagency.gov.uk/who-we-are/publications/648-glossary-codes-and-reporting-routes-april-2023/file>
- Submitting a SAR within the Regulated Sector (January 2023 v11.0)

<https://nationalcrimeagency.gov.uk/who-we-are/publications/633-submitting-a-suspicious-activity-report-sar-within-the-regulated-sector-1/file>

- NCA Publications Library
https://www.nationalcrimeagency.gov.uk/who-we-are/publications?limit=100&sort=created_on&direction=desc

From the Office of Financial Sanctions Implementation

- Guide to the current consolidated list of asset freeze targets and list of persons named in relation to financials and investment restrictions
<https://www.gov.uk/government/publications/financial-sanctions-consolidated-list-of-targets>
- UK Sanctions
<https://www.gov.uk/guidance/uk-sanctions>
- UK Financial Sanctions Guidance
<https://www.gov.uk/government/publications/financial-sanctions-faqs>
- OFSI General Licences
<https://www.gov.uk/government/collections/ofsi-general-licences>

From the Financial Action Task Force (FATF)

- FATF Guidance for a Risk-Based Approach – Legal Professionals (June 2019);
<https://www.fatf-gafi.org/publications/fatfrecommendations/documents/rba-legal-professionals.html>
- FATF Guidance for a Risk Based Approach - Trust and Company Service Providers (June 2019) <https://www.fatf-gafi.org/media/fatf/documents/reports/RBA-Trust-Company-Service-Providers.pdf>

15. Emerging areas of risk/trends:

The Society keeps under review emerging areas of risk and trends.

The Society uses information and data gathered from its supervisory work to review improvements in understanding of risk by its supervised population. The Society has regular meetings with the Police Service of Northern Ireland and actively participates in the Legal Sector Intelligence Sharing Expert Working Group and Northern Ireland regional Intelligence Sharing Expert Working Group. These Groups are facilitated by OPBAS and their memberships' comprise other relevant professional body supervisors (PBSs), AML supervisory authorities and law enforcement.

The Society is also a member of the inter-organisational sharing platforms Shared Intelligence Services (SIS) and Financial Crime Information Network (FIN-NET).

The Society has contributed to the OPBAS multi-PBS project work on trust or company service provider risk and conveyancing risk.

Active participation in such information and intelligence sharing channels enables the Society to identify and assess emerging areas of risk.

- ***Post-Brexit***

Northern Ireland has a unique status in the EU Customs Union and the UK. The land border with the EU represents a particular risk for solicitors.

Solicitors may be undertaking new and/or different work areas depending on their client's needs, and changes made relating to their clients' businesses as new trading arrangements continue to be implemented.

Separately, there is potential for an increased risk of criminal activity such as smuggling – of both goods and persons.

Solicitors should ensure that their AML onboarding processes address the key requirements of AML Risk Assessments (both firm wide and client/matter, CDD and record-keeping).

- ***Cyber security and Technology***

The Society regularly warns members of ongoing cyber scams, which continue to increase in frequency. 26 Scam Alert communications were issued by the Society in 2023 alone. Cyber security breaches could assist criminals to gain access to firms' systems and information, which may leave them vulnerable to reputational, legal and financial loss as well as being used for money laundering.

With more solicitor firms providing online digital services the risk of cyber-attacks is becoming more prevalent. Firms should be aware of the risks their IT and other systems may pose and mitigate these risks where possible. Firms should also consider the risk of compromise of IT systems of digital service providers to their business.

Firms are reminded of the importance to CALL, CHECK and CONFIRM as necessary by way of mitigation see - <https://www.lawsoc-ni.org/society-launches-updated-call-check-and-confirm-leaflet>. Firms are also referred to the various support tools that are available to help solicitor firms protect against scams as signposted in the Society's communications.

- ***Financial Sanctions***

The UK sanctions regime continues to expand and evolve. While mainly related to the ongoing conflict in Ukraine, it is important to remember that there are many thematic and geographic sanctions regimes beyond Russia and Belarus.

Information and data available to the Society during to the reporting period continues to indicate that the actual numbers of Northern Ireland firms/practitioners directly involved/affected by sanctions work is a very small proportion of the firms in this jurisdiction. However, there are, for example, a significant number of British nationals subject to sanctions. Firms should not assume that sanctions are not relevant to them.

Sanctions remains a fast-moving practice area, and the sanctions list is updated on a very regular basis. Solicitors should avail themselves of the guidance resources issued by OFSI, refer regularly to the [UK's consolidated list](#) and subscribe to [OFSI's e-alert](#) to stay up-to-date on financial sanctions

- ***Sham litigation***

The NRA 2020 identified sham litigation as an emerging area of risk whilst further noting recent research which suggests the UK court system is vulnerable to being exploited for money laundering.

Money could be laundered when criminals agree to sue each other in court with the payment of damages being used to launder their funds. They can also arrange to bring cases against themselves using sham companies. This further underlines the importance of robust CDD processes within solicitor firms.

- ***Cryptocurrency***

The NRA 2020 increased the risk scores for both money laundering and terrorist financing for crypto assets from low to medium.

Crypto assets can also act as a method for payments between criminals, are used for the purchase of illicit tools and services online and are exploited for other criminal activity such as fraud. Crypto assets also remain a key tool in cybercrime. While use of crypto assets alone is not necessarily suspicious, crypto assets can be used to disguise the origin of funds more easily than other payment methods.

It remains the case that the Society has not so far received many reports of transactions involving crypto assets. Nonetheless firms should continue to ensure that their risk assessments and policies, controls and procedures effectively mitigate against this risk, including assessment of whether the client's financial circumstances, main business activities, and source of wealth and source of funds align with the background and wider profile of the client.

- ***Proliferation Financing***

Firms are reminded that following amendments to the MLRs relevant Firms must now also take appropriate steps to identify and assess the risks of proliferation financing to which their businesses are subject.

It is important to remember that these requirements regarding the written PF risk assessment are mandatory. Therefore, even if the risks of proliferation financing may be assessed as low by a firm, it is not possible to take a risk-based decision to not comply with these requirements.

Proliferation financing is defined by the 2022 Amendment Regulations as meaning:

The act of providing funds or financial services for use, in whole or in part, in the manufacture, acquisition, development, export, trans-shipment, brokering, transport, transfer, stockpiling of, or otherwise in connection with the possession or use of, chemical, biological, radiological or nuclear weapons, including the provision of funds or financial services in connection with the means of delivery of such weapons and other CBRN-related goods and technology, in contravention of a relevant financial sanctions obligation.

A relevant Firm must keep an up-to-date record in writing of all the steps it has taken, and provide the risk assessment, the information on which it is based and written records to its supervisor on request.

The current HM Treasury National Risk Assessment of Proliferation Finance is available at:

<https://www.gov.uk/government/publications/national-risk-assessment-of-proliferation-financing>

It is possible for a firm to satisfy this separate requirement to have a PF risk assessment by including it either as part of the firm's existing firm-wide money laundering and terrorist financing risk assessment or as a standalone document.

The updated LSAG Guidance addresses the new requirements regarding proliferation financing and the PF risk assessment in Section 5.3.1; includes guidance on how to assess proliferation financing risk in Section 5.4.1; and includes an additional list of proliferation financing risk factors in Section 18.10.

Some of the service areas listed in the LSAG Guidance at heightened risk of exposure to proliferation financing as including:

- Trade finance
- Commercial contracts
- Manufacturing particularly in relation to “dual-use” goods
- Commodities – particularly mined metals and chemicals
- Shipping/maritime

- Military/defence
- Aviation

The updated LSAG Guidance also flags relevant jurisdictions when considering geographic risk, including Iran, North Korea, Syria and Russia.

16. Areas of Focus

Under the overall objective of continuous development and improvement of the Society's risk-based approach to AML/CTF supervision under the MLRs and OPBAS Sourcebook for Professional Body Supervisors, in the next reporting period the Society intends to focus on:

- Reviewing implementation of the Society's updated Methodology for its Risk-Based Approach to AML Supervision policy and impact on the Society's supervision strategy;
- Delivering key guidance/training materials relating to ML/TF risk and compliance with the MLRs responding to the main types of non-compliance and themes behind such non-compliance including updates to the Society's website resources;
- Progressing the AML Hub project work on Firm Wide Risk Assessments including dip sampling;
- Keeping under review the Society's Sector Wide Risk Assessment, taking into account recently commenced review of the National Risk Assessment;
- Reviewing the Society's Regulation 26 approvals process;
- Continuing engagement with firms' MLROs regarding their obligations under the suspicious activity reporting regime;
- Continuing to bring enforcement action as required;
- Continuing enhancement of data capture and analysis, taking into account the recent development of HM Treasury's Effectiveness Framework for AML Supervisors;
- Continuing to provide appropriate AML/CTF staff training;
- Monitoring emerging areas of risk and trends, and responding as required;
- Continuing the Society's active involvement in AML information sharing groups and forums with other AML supervisory authorities.



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