

Completing your firm wide risk assessment

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What we are going to cover

- AML firm wide risk assessment requirements
- Risk factors
- What we are seeing
- Good and bad practice

Our template

Firm-wide risk assessment template

Regulation 18 of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017)

Firm name:

Money Laundering Compliance Officer:

Money Laundering Reporting Officer:

Number of fee-earners:

Percentage of work in scope of the MLR 2017:

Before you begin, you need to read the following and take them into account when drafting your risk assessment.

- SRA sectoral risk assessment
- Legal Sector Affinity Group Guidance
- HM Treasury National Risk Assessment

Customer risks

- Types of clients
- Usual patterns of business
- High risk clients
- Links to high-risk jurisdictions
- Designated persons

Customer risk

- Most of our clients are individuals, with a few UK corporate entities. These are limited companies and financial institutions that are authorised by the FCA:
 - Individuals – 92%
 - Companies – 8%
- We have a high client turnover given our areas of work.
- We have a referral agreement with Smith and Co estate agents who regularly refer work to us, otherwise, clients are recommended to us by current or former clients, 8% are repeat clients, 5% have found us through our website, with occasional walk-ins.
- Typical funding for property is by mortgage and savings, several of our clients (property investors) are cash buyers.

Controls in place to mitigate

- We have determined that all work areas are in scope of the money laundering regulations.
- We carry out ID and verification checks on all clients of the firm.
- We recognise that there is a greater risk of money laundering/terrorist financing associated with a high client turnover than with a stable client base.
- We carry out appropriate CDD (including PEP searches and sanctions list checks) including electronic verification checks with our online provider on each client.

Controls in place to mitigate

- All staff receive training on AML law and regulation, recognising and dealing with transactions vulnerable to money laundering, and how to make a report to the MLRO.
- We undertake focused risk assessments on each client and each matter.
- Staff work hard to develop very close relationships with all clients which provides staff with the ability to identify any warning signs.
- Where the firm receives instructions which relate to a transaction, investigations are undertaken into the source of the client's wealth/funds.

Customer risks

- Politically exposed persons
- Several clients are high net worth individuals, with 2% owning cash intensive businesses
- Clients with multiple layers of complex ownerships
- We occasionally act for clients who cannot prove their identity
- Individuals or entities subject to sanctions
- We act for four individuals who are property investors with links to high-risk jurisdiction - these are based in Gibraltar, UAE and EU

Geographic risk

- Office locations
- Where you offer services
- Locations of clients, transactions and assets
- Spotting unusual practice
- High-risk third countries
- Other sources: transparency international, Basel, FATF, own experience

Geographic risk

- We provide services out of our offices based in West York to local clients as well as international clients.
 - 85% of our clients are local
 - 15% are international
- Does the firm deal with countries with significant levels of corruption?
- Does the firm deal with countries subject to sanctions?
- We have clients in Gibraltar and the United Arab Emirates, which are HRTCs.
- Does the firm deal with countries with stringent currency controls?

Product/Services risk

- Describe the specific services your firm offers within each area of law
- Assessing the risks that these represent
- Work that is 'unregulated' and 'regulated' under the money laundering regulations

Product/Service risk

- Client accounts
- Conveyancing/real estate
- We deal with residential and commercial real estate and provide the following services:
 - Purchases and sales
 - Lease extension and enfranchisement
 - Landlord and tenant
 - Real estate tax
- Tax mitigation strategies
 - We provide advice on SDLT only, which is general advice and doesn't bring us into scope of tax adviser. Any clients asking for tax advice are referred to financial advisers.

Product/Service risk

- Creating/managing companies
- Wills and probate
- Family
 - Divorce
 - Financial orders
 - Child arrangements
 - Pre- and post-nuptial agreements
 - Family trusts
- Proliferation financing

Transaction risk

- Describe all transactions types
- Include non-monetary transactions
- Typical size and frequency
- Enhanced due diligence required where transaction is complex, or unusually large
- Transactions that may facilitate anonymity

Transaction risk

- The size and value of the transactions that the firm deals with are relative to the wealth of the clients that the firm acts for and relative to property prices, typically in the West Yorkshire area.
 - The value of a transaction that the firm would act is limited to their level of professional indemnity insurance cover - £2m with an excess layer of £8m - regardless of market values and client wealth.
 - Our average transaction during 22/23 was £365,000.
 - During this period, we have acted on two commercial property purchases that were £1.2m and £959,000. These were unusually high for our firm.
 - Any purchase over £600,000 would be considered as high risk for our firm.
 - Majority of our conveyancing clients purchase properties with a mortgage, although some are cash buyers.

Transaction risk

- We rarely deal with cash and have a maximum acceptance of £300 if receiving it on any one transaction. We have a strict policy that we will not accept any more than this:
 - Physical cash to be deposited into its client account, not into the firm's office.
- The firm is not instructed on any transactions where the client is seeking anonymity and nor would it accept any such instructions:
 - While we accept there may be some cases where the client, due to being high profile or such like, would like to keep their business private, our typical clients generally do not meet this remit so we would not act.

Transaction risk

- Recently implemented an online payment system
- Examples where we may receive funds from third parties
 - Collecting estate assets - banks, pension providers, investment funds, life insurance policies etc
- Conveyancing - gifts from family members / friends
- Payments types
 - We accept cash, cheques and card payments

Delivery channel risks

- Identify the channels you use to provide services
- Remote clients
- Third parties
- Funds to/from third parties
- Passporting

Delivery channel risks

- The firm delivers its services using the following channels:
 - Face-to-face
 - Remotely - via email, telephone and video calls
- Online messaging portal on website

Final hints/tips

- Easy to identify
- Describe methodology eg sources and approach to assess risk
- State the risks
- Expanding on the risks identified
- Keep it up to date (identifying risk and references)
- Retain previous copies
- Keep risk rating terminology simple
- Inherent risk vs risk after mitigation

Helpful resources

- Firm wide risk assessments
 - Template
 - Guidance
 - Checklist

sra.org.uk/riskassessment/#firm-wide

Any questions?