

Anti-money laundering red flags

The [Money Laundering, Terrorist Financing and Transfer of Funds \(Information on the Payer\) Regulations 2017](#) (MLR 2017) came into force on 26 June 2017, replacing the Money Laundering Regulations 2007. Our guidance on the changes can be found [here](#).

The CLC supervises those it regulates for compliance with money laundering legislation.

To comply with your legal obligations under the Proceeds of Crime Act 2002, the Terrorism Act 2000 and the MLR 2017, you should have regard to the specific outcomes under the [CLC Code of Conduct](#) outcome 1(m) and the [anti-money laundering and combating terrorist financing code](#) and [guidance](#).

The [Financial Action Task Force](#) (FATF), an independent inter-governmental body, [issued a report in 2013](#) outlining the vulnerabilities of legal professionals to money laundering and terrorist financing.

The report identifies 42 'Red Flag Indicators' or warning signs of money laundering and terrorist financing.

Red flags

It is important to be aware of, and act properly upon, red flag indicators that a transaction may be suspicious. One of the following circumstances may provide a basis for making further enquiries of your client. Several red flag indicators together, without reasonable explanation, are more likely to provide grounds for suspicion.

The following list is not intended to be a tick-list nor is it exhaustive but it may help you to consider which circumstances in your experience are unusual. If further enquiries do not satisfy your suspicions, you should refer the matter to your practice's Money Laundering Reporting Officer (MLRO) who will determine whether a Suspicious Activity Report (SAR) needs to be filed with the National Crime Agency (NCA).

The AML red flag indicators highlighted by the FATF include:

If the client:

- Is secretive or evasive about who they are, the reason for the transaction, or the source of funds.
- Avoids personal contact without good reason.
- Refuses to provide information or documentation or the documentation provided is suspicious.
- Has criminal associations.
- Has unusual level of knowledge about money laundering processes.

If the source of funds or source of wealth are unusual, such as:

- Large cash payments.
- Unexplained payments from a third party.
- Loans from non-institutional lenders.
- Use of multiple accounts or foreign accounts.

If the transaction has unusual features, such as:

- Size, nature, frequency or manner of transaction.
- Early repayment of mortgages/loans.
- Short repayment periods for borrowing.
- An excessively high value is placed on assets/securities.
- It is potentially loss making.
- Repetitive instructions involving common features/parties or back to back transactions with property rapidly changing value.
- The transaction is unusual for the client's profile.
- Unexplained urgency, requests for short cuts or changes to the transaction particularly at last minute.
- Use of a Power of Attorney in unusual circumstances.
- Instructions to retain documents or to hold money in your client account.
- Abandoning transaction and/or requests to make payments to third parties or back to source.

If the instructions are unusual for your business such as:

- Outside your or your practice's area of expertise or normal business.
- The client is not local to you and there is no reasonable explanation as to why your practice has been chosen.
- Willingness of client to pay high fees.
- Unexplained changes of legal advisers.
- The client appears unconcerned or lacks knowledge about the transaction.

If there are geographical concerns such as:

- Unexplained connections with and movement of monies between other jurisdictions.
- The client's bank is not local to the property.

This list is not intended to be a tick-box exercise nor is it exhaustive. It aims to provide guidance as to what issues or circumstances may suggest a greater risk of money laundering taking place.