

National Risk Assessment 2017

A summary for CLC Practices

The [National Risk Assessment 2017 \(NRA\)](#) was published on 26 October 2017. The report sets out the key money laundering (ML) and terrorist financing (TF) risks for the UK, how these have changed since the UK's first NRA was published in 2015, and the action taken since 2015 to address these risks.

Background

The UK published its first national risk assessment in 2015 which set out the areas of risk of ML and TF. In response to the report, the government published an action plan in 2016 outlining reforms to the UK's anti-money laundering (AML) and counter-terrorist financing (CTF) regime.

Many of the actions have now been launched or delivered. For example, the [Criminal Finances Act 2017](#) and the [Money Laundering Regulations 2017](#) have brought the latest international regulatory standards into UK law.

Reforms of the suspicious activity reports (SARs) regime and the supervisory regime have begun and there is a commitment to improve public-private intelligence and information sharing with the aim of disrupting criminal activity.

In March 2017, the government stated its intention to create a new supervisory function called the [Office for Professional Body AML Supervision](#) (OPBAS), to oversee the professional body supervisors in the UK. During 2018, OPBAS will be visiting all supervisors, including the CLC, to gain a better understanding of AML supervision in the UK.

The UK's AML and CTF regime is currently being assessed by the [Financial Action Task Force \(FATF\)](#). The FATF is an inter-governmental body with the objective to set standards and promote effective implementation measures for combating ML, TF and proliferation financing. The UK will be evaluated on its effectiveness and technical compliance to combat ML and TF. The final report is expected to be published at the end of this year.

What does it say?

The NRA states that professional services are a crucial gateway for criminals looking to disguise the origin of their funds. The report notes that legal services - like banking and accountancy services - remain at high risk of being abused by money launderers and suggests that high-end ML almost always requires facilitation by legal services, even if they are unwitting.

The identification of the sector as being 'high risk' means that those working in that sector *'should be vigilant towards the persistent efforts of criminals and terrorists to exploit...vulnerabilities'*.

The NRA specifically highlights the following services to be at high risk of money laundering:

- Conveyancing services
- Client account services
- Trust and company formation

To mitigate risks when operating in these areas, you must make sure that you comply with the latest AML guidance and pay attention to red flags that could cause you to have suspicions of money laundering. You should also ensure that the conclusions of the NRA are reflected in your firm's AML policies, controls and procedures, as well as in your risk assessment.

Conveyancing

Conveyancing is a common method for disposing of or converting criminal proceeds due to being able to launder large sums in a single transaction. This is highlighted by the National Crime Agency (NCA) reports that suggest that in 2016, 50 per cent of legal sector SARs were linked to property transactions.

Conveyancing receives a 'high' risk rating in the report whereas estate agents are deemed to be 'low' risk. The report suggests that the proximity that legal professionals have to the client and their funds justifies the difference in the ratings.

The NRA makes clear that while some professionals are complicit in money laundering, most cases are likely to involve criminal exploitation of the negligent or unwitting. This is why it is important that the higher ML risks in conveyancing should be reflected in practices' internal risk assessments, and mitigated through effective client due diligence (CDD).

Commercial property can be moved less quickly and therefore has a lower risk rating.

Client accounts

The NRA views the quick and often large-scale movement of funds through client accounts as high risk.

CLC Practices must comply with their obligations under the [CLC Accounts Code](#), which prohibits the use of the client account as a banking facility and requires all monies in the account to be linked to an underlying transaction or retainer.

Practices should have a cash policy in place in response to the ML risks posed by cash. Practices should also not take receipt of any monies until the appropriate due diligence has been carried out on the client and the source of funds.

Trust and company formation

The NRA states that law enforcement sees many investigations involving trusts and companies being used to facilitate ML by '*hiding beneficial ownership, undermining due diligence checks and frustrating law enforcement investigations*'. This is often used together with other services (in particular the purchase of property) to facilitate ML.

A CLC Practice must not act as a Trust and Company Service Provider unless it has been registered with HMRC and notified the CLC.

Suspicious Activity Reports

The UKFIU is a part of the NCA that receives financial intelligence gathered from SARs. According to the NRA, in 2015/16, the UKFIU received 419,451 SARs of which 3,447 were submitted by legal professionals.

Practices should have appropriate risk assessments and policies to identify red flags and effectively and quickly escalate any suspicions of ML taking place.

We have produced guidance to help identify the issues or circumstances that may suggest a greater risk of money laundering taking place, which you can find [here](#).

Additional checks and enquiries should be considered in order to resolve any concerns so that you are comfortable in continuing to act. If you do decide to continue to act, you should document your decision-making including what additional enquiries you have made.

If you still have suspicions, you should refer the matter to your practice's Money Laundering Reporting Officer (MLRO) and they will determine whether a SAR needs to be filed with the NCA.

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