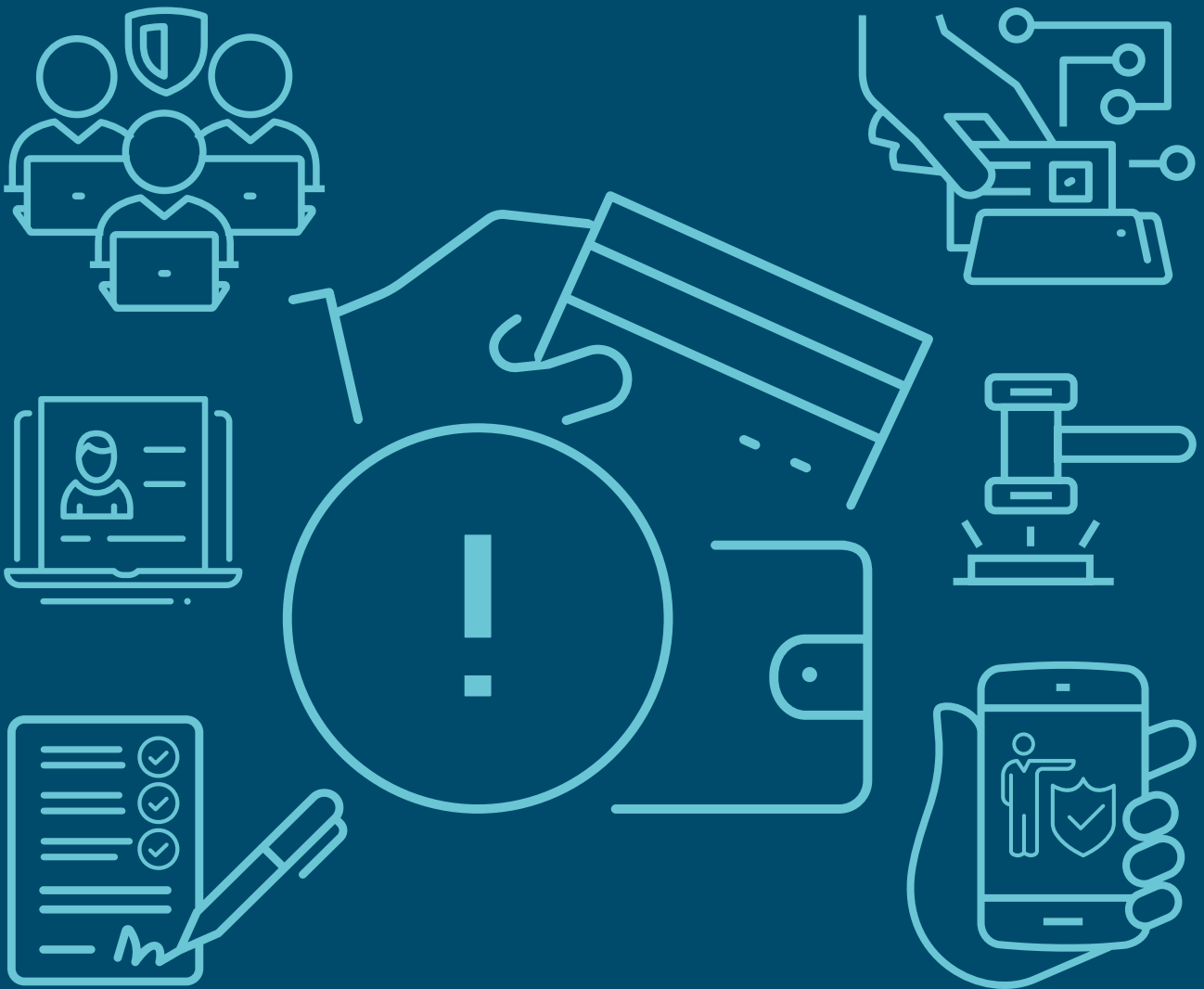


Annual Anti-money Laundering Report October 2021



Foreword by the Chair of the Council for Licensed Conveyancers

Money laundering is a significant enabler of serious and organised crime which, according to the National Crime Agency, generates more than £12bn annually in the UK. The Council for Licensed Conveyancers and the lawyers and legal practices we regulate have a vital role to play in combatting it and this first Annual Report on AML sets out our work in the year to 5th April 2021.

The CLC has a rigorous approach to monitoring compliance. The regulatory and legal requirements on its regulated community are driven by risk assessments and a focus on positive outcomes in the public and client interest. Each practice is inspected at least once every three years and more frequently if our risk assessment of an individual firm indicates that it is needed. In addition there are regular in year touch points and each practice has a designated regulatory supervision manager.

This report sets out how we work with practices to support them in meeting our standards and, where they fall short, to bring them into compliance within a short time and where possible without further enforcement action. The statistics around this process speak eloquently of its positive impact. Of course, enforcement may nonetheless be needed in some cases and the report sets out how such cases are escalated.

I am pleased that the CLC has been able to work so effectively with the Office for Professional Body Anti-Money Laundering Supervision (OPBAS) and that this has resulted in a very positive view of our AML work. In common with all our regulatory activity, this is an area where our efforts will evolve in line with changing risks and threats.

The CLC is committed to continued close working with the regulated community, other legal sector regulators and government agencies to prevent crime and protect clients and citizens. It is also very important that all those involved in supervision are as transparent and open to information sharing as possible as this will help all of us to support continued improvement in AML practice. We will report again in 2022.

Dame Janet Paraskeva
October 2021

Contents

- CLC Remit and Role in Anti-Money Laundering and Combating Terrorist Financing (AML/CTF) supervisory landscape 4
- AML Monitoring & Compliance 5
- AML Risk Register..... 6
- Practice Risk Ratings..... 8
- Inspections..... 9
- Inspection Findings 9
- Inspection Themes..... 10
- Case studies 10
- AML Survey..... 12
- Enforcement..... 12
- Breach Reporting and Monitoring..... 12
- Emerging Threats..... 13
- Resources and guidance 13
- A look ahead to the next supervision year (6 April 2021- 5 April 2022)..... 13

CLC Remit and Role in Anti-Money Laundering and Combating Terrorist Financing (AML/CTF) supervisory landscape

The Council for Licensed Conveyancers (CLC) regulates specialist conveyancing and probate lawyers in England and Wales. As at 5 April 2021 the CLC regulated 194 relevant practices and 32 sole practitioners, all of which are supervised by the CLC for compliance with the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (as amended) (MLRs).

The CLC was established by the Administration of Justice Act 1985 and is bound by the regulatory objectives in the Legal Services Act 2007. The CLC also has powers derived from the Courts and Legal Services Act 1990 and the Deregulation Act 2015. The CLC's authority as a Professional Body AML Supervisor (PBS) has been ratified by Her Majesty's Treasury in Schedule 1 of the MLRs.

The CLC's regulatory activities include:

- Setting educational and training standards for entry into the conveyancing profession.
- Licensing conveyancing and probate service providers and Alternative Business Structures.
- Setting standards to regulate the professional practice, conduct, and discipline of licensed conveyancers and practices.
- Setting standards to maintain adequate professional indemnity insurance and a compensation fund.
- Monitoring the work and conduct of, and providing guidance to, regulated bodies.
- Investigating allegations of misconduct and taking appropriate disciplinary action.
- Contributing to policy development.

The CLC's specific obligations and duties in relation to its AML supervision are set out in the MLRs. In particular, regulation 46 requires that the CLC:

- takes a risk-based approach to supervision, basing the frequency and intensity of supervision on the supervised population's risk profile;
- keeps written records of actions taken, including reasons for deciding not to act;
- takes effective measures to encourage the supervised population to report potential or actual breaches of the MLRs to it.

Further, regulation 47 sets out the information that the CLC is required to provide to its supervised population, and regulation 49 imposes additional duties on self-regulatory organisations to ensure effective delivery of their supervisory functions.

The Money Laundering and Terrorist Financing (Amendment) Regulations 2019 added new Regulation 46A, which requires the CLC to publish an annual report that sets out:

- measures taken to encourage reporting by the regulated population of actual or potential breaches of the MLRs
- the number of reports received
- The number and description of measures carried out to monitor and enforce compliance by relevant persons with their obligations under the MLRs, the Terrorism Act 2000, and the Proceeds of Crime Act 2002.

This is the first of the CLC's Regulation 46A AML Annual Reports. The content and style of future reports will develop along with our approach to AML supervision and enforcement, and with guidance issued by the Office for Professional Body AML Supervision (OPBAS).

AML Monitoring & Compliance

Since 2017 the National Risk Assessment of Money Laundering and Terrorist Financing (NRA) has identified legal services, and in particular conveyancing, both residential and commercial, as one of the services most at risk of exploitation by money launderers. As the specialist regulator for conveyancing services and probate activities in England and Wales, 99% of CLC practices offer conveyancing services to the public.

The CLC's team of four Regulatory Supervision Managers (RSMs) is responsible for the monitoring and compliance of our regulated population. Each RSM manages a portfolio of practices to ensure compliance with the Code of Conduct, MLRs and anti-money laundering and prevention of financing terrorism legislation. The RSMs work with the CLC's money laundering reporting officer (MLRO) and Deputy MLRO as required, notifying them of AML risks in accordance with internal reporting procedures. These are reported to the Senior Management Team and Council periodically.

The CLC adopts a risk-based approach to supervision and targets resources at those practices considered to be higher risk. All practices receive an onsite inspection on a three-year cycle, and within 12 months of coming into CLC regulation. However, this can be more frequent should we receive intelligence, complaints, or concerns about a particular practice.

Our approach to regulation means that we offer a dedicated point of contact for our practices via the RSMs, which helps to establish strong working relationships, thereby encouraging transparency and engagement. The benefit of this model gives practices the opportunity to seek guidance and discuss compliance issues at an early stage, which often prevents serious problems from manifesting and coming to light at a later stage and can provide an early insight into potential weaknesses in a practice's controls.

AML Risk Register

As required by Regulation 17(4) of the MLRs, the CLC developed a risk register to record a risk profile of each CLC practice which includes key areas of risk such as; geographical location of clients, % of overseas clients, % of remote clients and method of client verification. The development of the risk areas were based on the CLC’s Red Flag Indicators, Legal Sector Affinity Group Guidance, MLRs, National Risk Assessments and the CLC’s Anti-Money Laundering and Combating Terrorist Financing Code.

The key risk areas enable us to create a risk rating and risk score for each practice. This information is used to inform our annual inspection programme, understand specific areas of risk, and identify any trends within the supervised population.

Practices are given an overall risk score based on responses to 14 set questions. Each question is individually scored, and the total score gives the practice an overall risk rating. The overall risk score equates to a high, medium, or low risk rating.



Common High Risk Factors	Common Medium Risk Factors	Common Low Risk Factors
<ul style="list-style-type: none"> • No AML Policy or Procedure • No practice-wide risk assessment • MLRO not completed enhanced AML training • No evidence of CDD/EDD on files • No source of funds/wealth checks on files • Overseas clients • High % of clients outside local area 	<ul style="list-style-type: none"> • Nationwide client base • Less than 75% of clients met in person • Minor amendments required to PCPs • Only one type of ID verification • Self-assessed risk level as medium 	<ul style="list-style-type: none"> • Compliant and robust PCPs • 100% of Clients met in person • Dual verification of client ID • Local client base • Regular AML training for MLRO and relevant staff • Consistent application of source of funds/wealth checks on clients • Documented evidence of CDD/EDD and source of funds & wealth on file • Matter based risk assessments

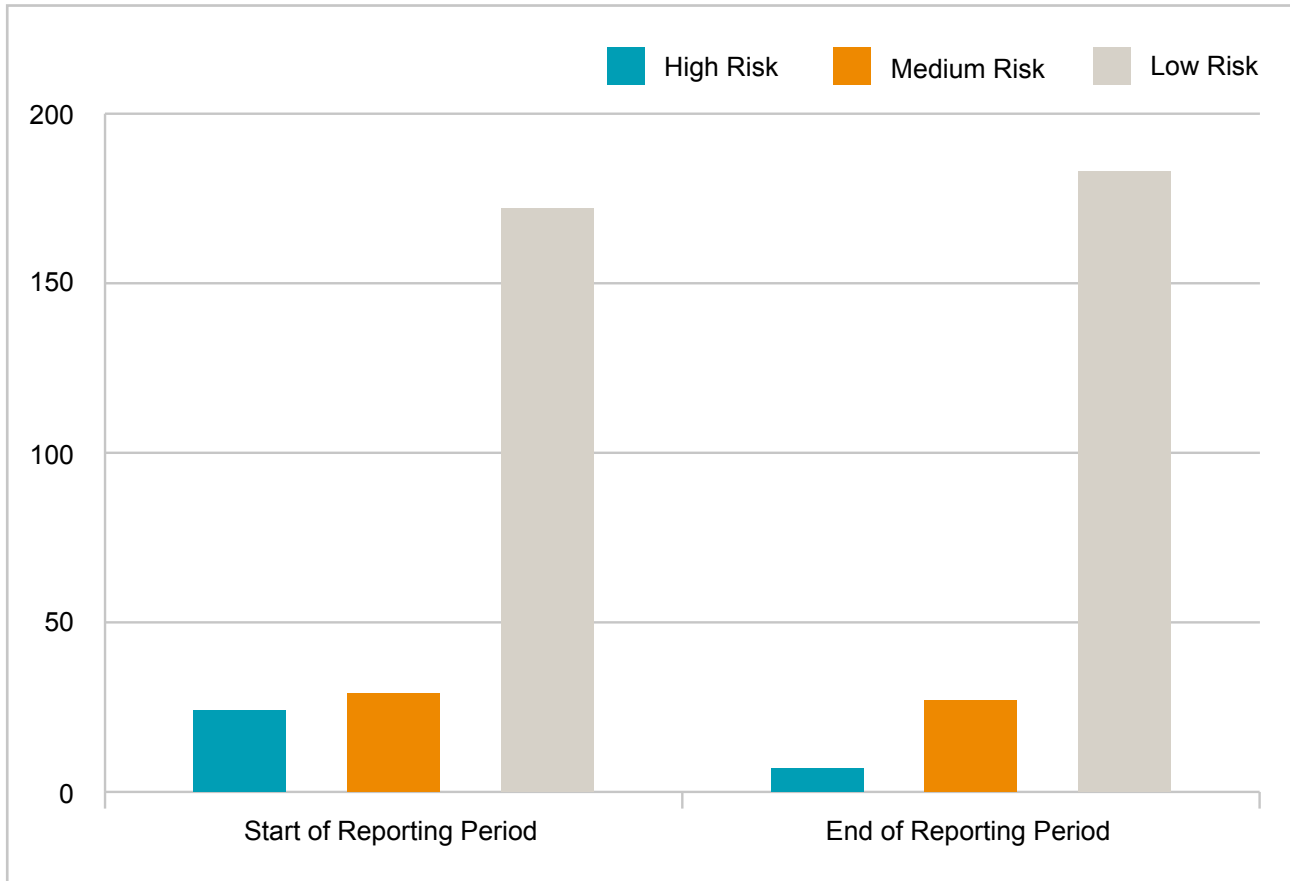
We use the data collected from practice inspections, policy and procedure reviews, file reviews and AML Surveys to populate the AML risk register. Each year we inspect approximately 25-30% of our supervised population by way of an onsite inspection, however the impact of COVID-19 has reduced our ability to conduct onsite inspections during this reporting period. Any inspections that could not be completed onsite were completed remotely where possible.

Although conveyancing is an area of legal services at an inherently high risk of money laundering, our risk ratings are calculated by taking into account a range of mitigating factors. Practices can and do mitigate risks to their businesses by:

- having robust AML policies, controls, and procedures (PCPs) in place which are tailored to their business needs
- appropriate and regular AML training for staff
- appropriate CDD/EDD on clients and donors
- a practice-wide risk assessment that is reviewed regularly
- source of funds/wealth checks where necessary
- matter and client-based risk assessments
- ongoing transaction monitoring
- a high ratio of authorised to non-authorised fee earners

Practice Risk Ratings

At the start of the reporting period (6 April 2020 – 5 April 2021), 24 practices were considered high risk, 29 were considered medium risk and 172 practices were considered low risk.



By the end of the reporting period the number of high-risk practices reduced to 7, the number of medium risk practices decreased slightly to 27 and the number of low-risk practices increased to 183.

Of those within the high-risk category at the start of the reporting period (24):

- 8 were inspected just before the reporting period commenced;
- 7 were inspected during the reporting period;
- 5 received an AML survey so that PCPs and practice-wide risk assessments could be reviewed;
- 3 closed during the reporting period;
- 1 practice could not be inspected during the reporting period due to COVID-19.

Inspections

In 2019 we revised our inspection process to request policies controls and procedures (PCPs) from practices in advance of an inspection rather than review the documentation on the day of the inspection. The change in process provides the inspector with an opportunity to complete an in-depth review of the PCPs prior to the inspection, identify areas of weakness or non-compliance and test PCPs during the inspection as part of the file review process.

During the inspection the inspector will interview key members of staff, usually owners, directors and MLROs to discuss the PCPs and ask a series of AML based questions which have been developed in accordance with our Anti-Money Laundering & Combating Terrorist Financing Code and the MLRs. Several file reviews are also undertaken to stress test the PCPs and check the practice's approach to risk and compliance with the MLRs.

Following the inspection practices are rated as compliant, generally compliant, or non-compliant both overall and in relation to AML specifically. A practice is considered AML-compliant if no areas of non-compliance have been found and no corrective actions are required. A generally compliant rating is given if minor amendments to PCPs are required. A non-complaint rating is given when areas of non-compliance have been identified, PCPs are inadequate and/or the practice's approach to monitoring and mitigating risk is inconsistent or weak. If a practice is found to be non-compliant in relation to AML, the overall rating for the report is that the practice is non-compliant.

Inspection Findings

During the reporting period 51 practice monitoring inspections were carried out. Forty-four inspections were remote and 7 were completed onsite in accordance with public health advice and covid-19 guidance. Four practices were considered compliant, 27 were considered generally compliant and 20 were considered non-compliant.

Forty-seven of the 51 practices inspected were required to undertake informal corrective actions. Practices are provided with 14 days from receipt of the inspection report to complete any corrective actions and/or rectify areas of non-compliance.

Only 2 of the 51 practices inspected are currently considered non-complaint. We are working with both practices to achieve compliance. We consider that our 'assisted compliance approach' ensures that most of our practices are able to rectify areas of non-compliance without further enforcement action.

Inspection Themes

Following an analysis of the inspection data we found several common areas of non-compliance:

- 60% of practices rated as non-compliant following an inspection during the relevant period could not provide an AML training record for relevant staff.
- 55% of practices rated as non-compliant following an inspection during the relevant period had not updated their practice-wide risk assessment to account for changes imposed by covid-19 restrictions.
- 50% of practices rated as non-compliant following an inspection during the relevant period had not updated their AML Policy/Procedures following the introduction of the 5th Money Laundering Directive in January 2020.
- 45% of practices rated as non-compliant following an inspection during the relevant period did not demonstrate that adequate source of funds/wealth enquires were undertaken in relation to a transaction.
- 40% of practices rated as non-compliant following an inspection during the relevant period could not provide a sufficient matter risk assessment.

In light of the risks and issues identified during the relevant period including those arising from the COVID-19 pandemic, the CLC worked with the LSAG to publish targeted guidance on remote and electronic ID checking, as well as on managing risks associated with the pandemic.

Case studies

Case study 1

A routine inspection of Practice A was conducted during the reporting period as it had been three years since the previous inspection. The inspection was completed remotely due to the covid-19 pandemic. A review of the practice's AML PCPs was undertaken prior to the inspection and these were stress tested during the inspection. The MLRO provided responses to a series of questions about risk, training, CDD/EDD, PCPs and internal controls during the inspection. Following a review of several transaction files, the following areas of non-compliance were identified:

- AML Policy did not contain sufficient source of wealth guidance for staff
- AML Policy did not contain sufficient information about beneficial ownership criteria and requirements
- AML risk assessments were not seen on individual matter files
- The Practice MLRO and relevant staff had not completed any AML training since 2019

Following the inspection, the monitoring inspection report was sent to the practice and the practice was requested to address the areas of non-compliance within 14 days which is the standard timeframe for CLC practices to respond to AML corrective actions of non-compliance.

The practice provided an updated AML Policy and a template matter risk assessment. Following a review by the relevant RSM both documents were considered compliant. The practice also provided an updated AML training log which confirmed that staff at the practice completed refresher AML training in March 2021.

Case Study 2

This practice was categorised as high risk on the risk register and added to the inspection programme for 2021.

Following a review of the AML policies and transaction files during the inspection, the practice was considered generally compliant with AML requirements. The practice was required to make the following minor corrective actions:

- AML policy requires additional information about the electronic ID process undertaken by the practice to complete client verification
- Confirmation that all staff have completed the planned AML training
- Ensure that additional source of wealth information on clients/donors is obtained when necessary.

The practice completed the above corrective actions and the risk register was updated with the additional practice data. As a result the practice's risk rating changed from high to low risk.

Case Study 3

The practice's PCPs were considered non-compliant with the MLRs 2017 (as amended). The practice was required to provide a compliant AML policy within 14 days of receipt of the inspection report.

The non-compliant AML policy data was added to the risk register and the practice was categorised as high risk and non-compliant.

The practice provided an amended policy within the required timeframe and following a review of the amendments, the policy was considered compliant.

The practice's risk rating was reviewed in light of the amended policy and the overall risk rating for the practice was reduced to low risk.

AML Survey

During the reporting period the CLC also sent AML surveys to 66 CLC practices that were identified as not requiring an inspection in 2020. The AML survey consists of a risk-based questionnaire and a request for practices to provide their AML Policy and practice-wide risk assessments. Following a review of the AML survey data collected in 2019 the CLC decided to include additional questions about SAR reporting and 5MLD in the 2020 survey.

The data collected from AML surveys is inputted to the risk register so that those practices that are categorised as high risk can be monitored, inspected, or reviewed in accordance with the CLC's risk-based approach to AML compliance.

Enforcement

During the reporting period we continued to develop our Sanctions and Enforcement Policy. The Policy sets out how we investigate and take disciplinary action for breaches of the Code of Conduct and regulatory requirements. The CLC currently has a number of ongoing disciplinary investigations against practices and individuals, some of which relate to breaches of the Anti-Money Laundering and Combatting Terrorist Financing Code and money laundering regulations, one of which is on its way to the independent Adjudication Panel.

As at 31 August 2021 we have 206 practices rated as compliant with the MLRs 2017 (as amended) and 11 practices recorded as non-compliant. Three of the non-compliant practices are due an inspection during the next reporting period (6 April 2021 - 5 April 2022), six of the non-compliant practices are working with regulatory supervision managers to come into compliance and two are currently under disciplinary consideration. We believe our high rate of compliance is evidence of the effectiveness and impact of our supervisory strategy.

Breach Reporting and Monitoring

The CLC is obliged by regulation 46 to encourage its regulated community to report AML breaches and goes about this in several ways, including:

- Through the introduction of the CLC's Whistleblowing Policy which enables the regulated community to make anonymous reports of suspected illegality, including money laundering concerns.
- Publishing a range of guidance and resources on breach reporting and making suspicious activity reports (SARs) in the AML Toolkit.
- Providing targeted training to Money Laundering Reporting Officers, including on their reporting obligations, as part of our national AML training roadshow in 2019.

The CLC's approach to supervision and regulation establishes strong working relationships with practices, encouraging transparency and active engagement. Practices can seek guidance and discuss compliance issues at an early stage, which prevents more serious problems from manifesting at a later stage, and provides an early insight into potential weaknesses in a practice's controls.

During the reporting period the CLC was notified by one licensed conveyancer of AML concerns at their firm. As this was not a firm regulated by the CLC, appropriate guidance was provided to the individual and a referral was made by the CLC to the appropriate regulatory body.

Emerging Threats

Like the 2017 NRA, the 2020 NRA identified legal services as being at high risk of money laundering and low risk of terrorist financing.

The NRA 2020 states that there is no evidence that risks in the sector have changed since 2017, and the conveyancing services related to residential and commercial property are still considered as presenting a high risk of abuse for money laundering.

The CLC provides summaries of both the 2017 and 2020 NRAs on its website, including the new threats and vulnerabilities arising as a result of the pandemic.

Resources and guidance

The CLC publishes a range of guidance and resources for its supervised population in its AML Toolkit. The AML Toolkit includes AML guidance developed by the CLC and the LSAG as well as links to relevant policies, compliance case studies, the CLC's sectoral risk assessment, and the NRAs.

The AML Toolkit also features several links to external resources such as the National Crime Agency's suspicious activity reporting guidance and FAQ documents, as well as relevant legislation and regulations.

The close relationship CLC practices have with the RSMs means that they are comfortable contacting the CLC for AML related advice and issues are generally resolved through guidance and informal action before more formal enforcement actions are necessary.

A look ahead to the next supervision year (6 April 2021- 5 April 2022)

The CLC will continue to develop its approach to effective risk-based AML supervision, including:

- Continuing work on the revision of our approach to enforcement and sanctioning in response to non-compliance with AML regulations and requirements.
- Looking at how we can improve our communications and guidance for practices, including through a dedicated AML newsletter for MLROs and compliance staff.
- Considering what additional training and support we might offer to our regulated practices to address knowledge gaps and risk areas.
- Continuing to design and deliver a risk-based approach to AML supervision, including through the prioritisation of inspections for high-risk and non-compliant practices.
- Reviewing the outcomes of disciplinary cases which relate to AML to establish whether any changes to the relevant codes are necessary or whether our approach needs to be altered in any way when drafting allegations.



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