

THE **LAW SOCIETY**  
OF NORTHERN IRELAND



**100**  
YEARS



# Supervisor's Annual Report - **Anti-Money Laundering**

October 2023

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

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## 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.

The Society recognises that effective Anti-Money Laundering (AML) 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 a supervisory authority under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (Amended) and to assisting firms in meeting their obligations under the said regulations.

This commitment was demonstrated during the year by appointment to new position of Head of AML Policy within the Society's Senior Management Team and establishing an AML Hub within the Professional Conduct Department.

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.

Whilst the legal services most at risk of exploitation for money laundering purposes continue to be conveyancing and trust and company services it is imperative that all solicitor Firms are aware of and adhere to their AML obligations. This is particularly the case where client accounts have also been assessed as most at risk.

A primary objective for the Society is to ensure the effective regulation of Solicitors in Northern Ireland. The Society, through its Professional Conduct Committee, has put in place a robust monitoring and inspection regime to ensure compliance, to educate and to promote best AML practice.

Our AML/CTF Annual Return was reviewed and updated to obtain enhanced data capture. It continues to provide positive results such as a high percentage of 94%, relevant Firms having appointed a Money Laundering Compliance Officer being maintained.

Each of our 435 relevant Firms has been provided with an individual risk profile. The risk rating is formulated from information received from the AML 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.

The Society's risk review process has also enhanced its risk review process by incorporating a risk review assessment Policy which (1) records the methods used and (2) confirms the basis for uplifting or downgrading risk as noted in the existing review agendas.

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 AML on-site inspections and Desk Based Reviews (DBRs) for Firms where monitors focus on AML governance and practice within a firm. During Desk Based Reviews (DBRs) and at on-site inspections, monitoring officers will consider a number of the Firms' files (usually between 10-15, depending on the size of the Firm) and will further raise queries relating to the Firms' client due diligence and source of funds/ source of wealth policies and procedures.

At applicable DBRs and on-site 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 a subgroup within the Professional Conduct Department. Where deficits are found the Society works with a firm to drive service improvements.

During the reporting period the Society continued to increased its supervisory activity. The total number of DBRs and on-site inspections completed by the Society in the reporting period increased by 12% from the last reporting period. 35% of all relevant Firms received at least one form of supervisory DBR or on-site inspection in the reporting period. The Society will continue to monitor levels of review in the next reporting period.

Overall, 85% of relevant Firms which received an on-site visit or DBR in the relevant period had a compliant or generally compliant rating. The Society works with Firms to monitor improvement and to ensure compliance.

A number of the Society's identified areas for focus at the outset of the year were completed, including the delivery of AML key themes to the membership by new methods. The Society is committed to continuous improvement with new areas for focus also identified for the year ahead. The Society has continued its active engagement with other professional body supervisors and supervisory authorities which continues to provide invaluable source of intelligence and best practice sharing.

As recent local media coverage confirms the risks of money laundering and terrorist financing are ever present. Members must actively consider if their practice-wide and client/matter risk assessments and resulting AML policies, controls and procedures 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.



**Brian Archer**  
President  
October 2023

## 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, in order to maintain the independence, ethical standards, professional competence and quality of services offered to the public.

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 a 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.

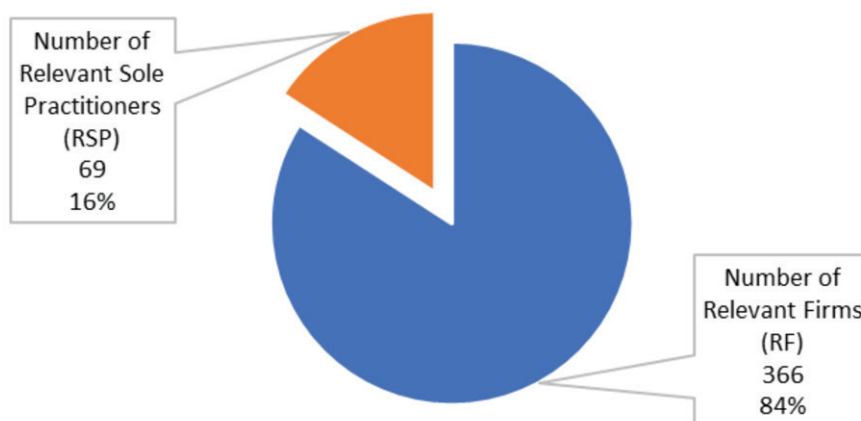
The Society also exercises other co-regulatory functions, with a remit across a total of approximately 450 solicitors' firms in Northern Ireland.

This is the Society's third published annual report as part of its responsibilities as an AML/CTF professional body supervisor 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 2022 to 5 April 2023 ('the reporting period').

## Demographic

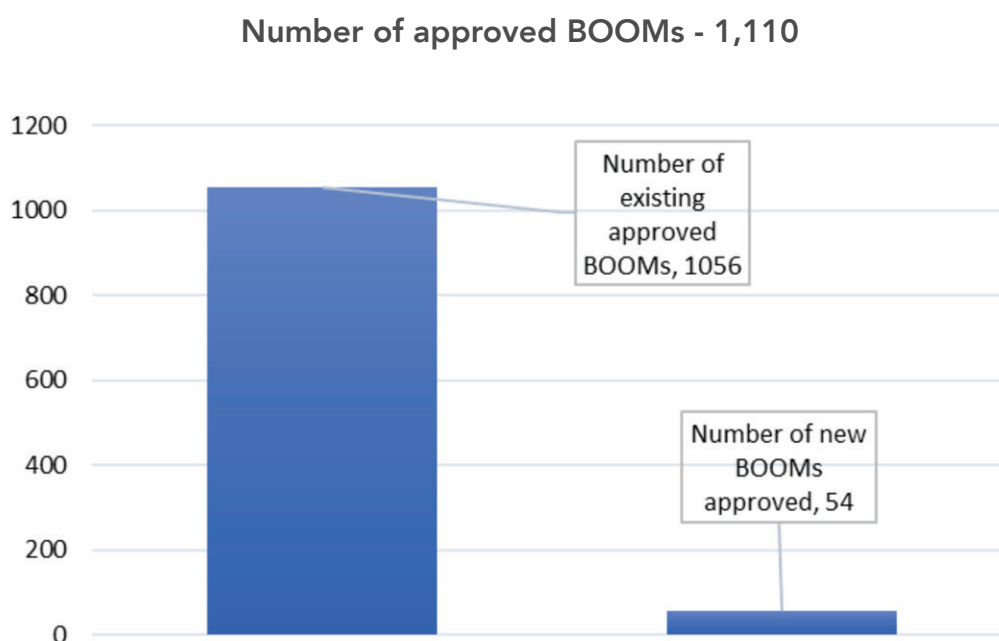
The composition of Firms in Northern Ireland for the reporting period is set out below:

### Supervised Population - 435 firms



Relevant Firms and relevant Sole Practitioners who provide the services of an independent legal professional as defined in the MLRs (together 'relevant Firms') comprised 97% of all firms within the Society's remit in the reporting period.

The MLRs requires beneficial owners, officers and managers (BOOMs) of relevant Firms to be approved by the Society.



AML information relating to Firms within the Society's membership was obtained through our AML/CTF Annual Return 2021-2022 issued to and required to be completed by all Firms. The Society's AML/CTF Annual Return was reviewed and updated to obtain enhanced data capture and responses were collated within the reporting period.

Enhanced data captured included:

- As a result of the new sanctions relating to Russia's invasion of Ukraine, asking Firms to confirm if they had conducted business for any clients working, living in or based in Russia, Ukraine and/or Belarus.
- Adding to the relevant existing list of international jurisdictions referred to in the Annual Return, which included Russia, to also include Belarus, Ukraine and other countries bordering Ukraine to take into account the developing risks in the region.
- A breakdown of services provided by relevant Firms acting as Trust and Company Service Providers (TCSPs).

Information obtained from the Annual Return includes the following:-

- 94% of relevant Firms have appointed a Money Laundering Compliance Officer (MLCO). 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. This high percentage figure has been maintained consistent with the previous reporting period and is indicative of firms' continued focus on the importance of compliance with their obligations under the MLRs.

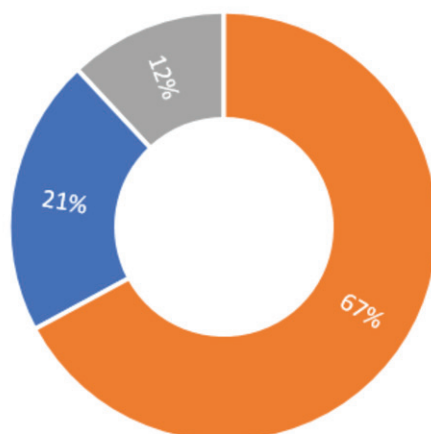
- 9% of Firms had made internal Suspicious Activity Reports (SARs) to their Firm's Money Laundering Reporting Officer (MLRO), with 8% of Firms making an external Suspicious Activity Report (SAR) to the UK Financial Intelligence Unit (UKFIU) positioned within the NCA.
- 20% of Firms reported providing legal services outside of the Northern Ireland jurisdiction, however, only 1% reported providing services to other jurisdictions outside the UK and EU.
- Of services provided by the 305 relevant Firms also acting as TCSPs, acting as a trustee was the service most commonly provided, followed by trust formation, company formation, providing registered office and arranging/acting as director/secretary.

Each of the 435 relevant Firms has been given an individual risk profile by the Society which is kept under continuous review. This profile is formulated 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.

### Risk Profile - 435 Firms

■ Low Risk ■ Medium Risk ■ High Risk



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.

The Society has also enhanced its risk review process by incorporating a risk review assessment Policy which (1) records the methods used and (2) confirms the basis for uplifting or downgrading risk as noted in the existing risk review agendas.

## 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;
- On-site inspections by compliance/monitoring officers – to include standalone AML/CTF on-site inspections;
- Accompanying DBR and pre-visit questionnaires which have continued to be updated and enhanced as appropriate during the reporting period;
- Information returns, such as the Society's enhanced AML/CTF Annual Return;
- Raising queries through correspondence;
- Reports to the relevant regulatory 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 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 provided 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 and terrorist financing to which solicitors in the Society's sector are subject.

### Desk Based Reviews (DBRs) and on-site inspections

The Society's programme of DBRs and on-site inspections involve AML/CTF supervision in conjunction with regulatory inspection. Every supervisory DBR or on-site inspection



undertaken by the Society – being those taking account of solicitors’ accounts, financial services, and Home Charter (conveyancing) practice also reviews Firms’ AML/CTF practice.

In addition, standalone AML/CTF DBRs and on-site visits continue within the Society’s supervisory approach. A subgroup also meets to consider Firms’ Firm Wide Risk Assessments and Policies, Controls and Procedures.

The Society has continued with its hybrid approach to supervision, to include DBRs and on-site inspections.

DBRs and on-site 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 monitoring 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 on-site inspections, and also in relation to AML/CTF matters.

During DBRs and at on-site inspections, monitoring officers will consider a number of the Firms’ 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) policies and procedures.

At applicable DBRs and on-site inspections, Firms are asked to provide the monitoring 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 471 such Reports.

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.

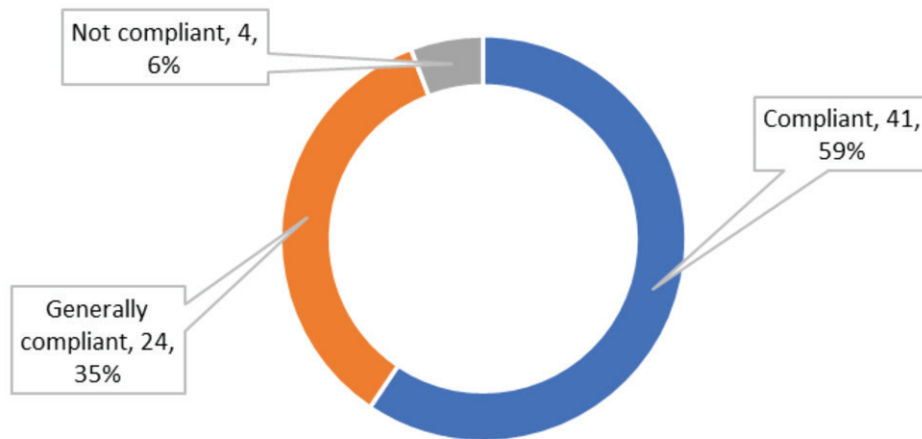
## Supervision

As noted above, the Society continued its hybrid approach to using both DBRs and on-site inspections during the reporting period. However, as the return to pre-pandemic working practices continued within the Society's sector, the numbers of DBRs decreased and on-site inspections increased.

	Current Reporting Period (6 April 2022 – 5 April 2023)	Last Reporting Period (6 April 2021 – 5 April 2022)
Number of completed DBRs	69	104
Number of completed on-site inspections	104	51
Total number of DBRs and on-site inspections	173	155

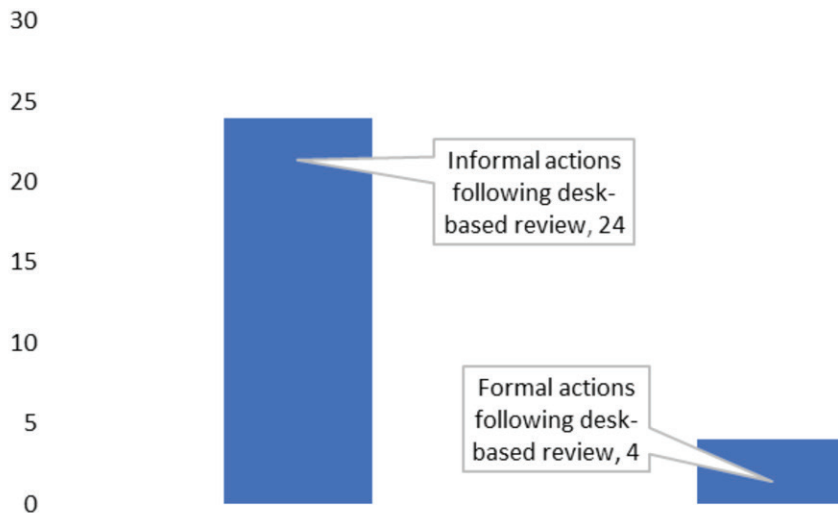
The number of DBRs completed in the reporting period was 69.

### Desk-Based Reviews - 69 completed



Of the 69 completed DBRs, 28 required further action to be taken as a result of a generally compliant or not compliant rating.

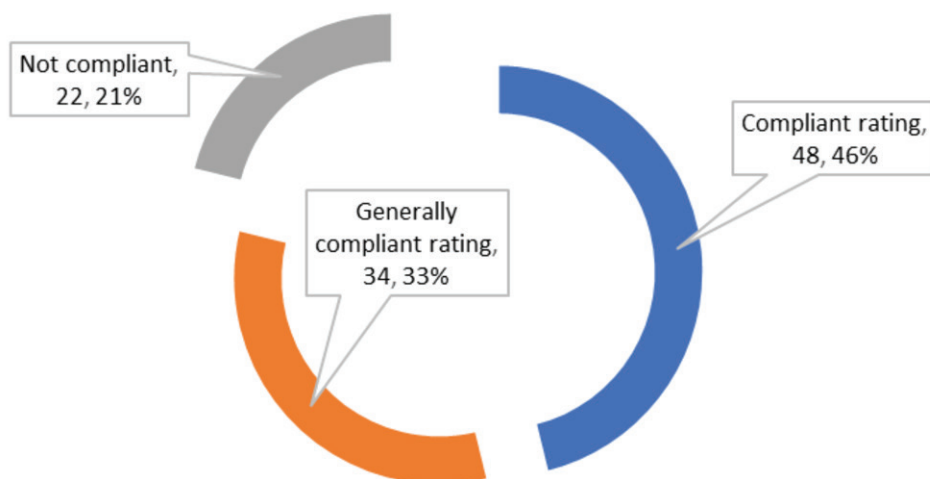
### Desk-Based Reviews - 28 actions taken



'Informal actions' refer to guidance or reminder letters being issued to Firms, whereas 'Formal actions' refer to warning letters issued, directed specific follow-up DBR or on-site inspection, such as a standalone AML/CTF DBR or on-site inspections, directed revisits or referrals made to the Solicitors' Disciplinary Tribunal (SDT).

As mentioned above, the number of on-site visits also increased in the reporting period.

### On-site visits - 104 completed



Of the 104 completed on-site inspections, 56 required further action to be taken as a result of a generally compliant or not compliant rating.

### On-site visits - 56 actions taken



The total number of DBRs and on-site inspections completed by the Society in the reporting period increased by 12% from the last reporting period, including more than doubling the number of on-site visits. 38% of supervision reviews commenced during the relevant period comprised DBRs.

35% of all relevant Firms received at least one form of supervisory DBR or on-site inspection in the reporting period. The Society will continue to monitor levels of review in the next reporting period.

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.

Overall, 85% of relevant Firms which received an on-site visit or DBR in the relevant period had a compliant or generally compliant rating.



## Case Study – Supervision action

Firm A

### Summary:

*In the relevant period a large firm with a high individual risk profile received a Home Charter inspection by the Society's Monitoring Officer. The outcome of the inspection was referred to the Professional Conduct Committee (the Committee) who noted a number of Home Charter breaches. It was also 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 Committee directed that the firm review their FWRA and provide a copy to the Society for consideration. A follow up on site Home Charter revisit was also directed to be undertaken. The firm was advised of this outcome and then proceeded to engage proactively with the Society to review their FWRA. The firm's updated FWRA was subsequently provided to the Committee who were pleased to note the positive engagement and the improved FWRA.*

*At the subsequent Home Charter revisit it was noted that the firm had put in place procedures to regularly review their FWRA.*

### Details:

*In April 2022, the Society's Home Charter Monitoring Officer carried out an integrated on-site inspection of Firm A. On inspection 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 inadequate for the size and nature of the firm.*

*The Monitoring Officer's Inspection Report together with the solicitors' response to the queries raised were considered by the Society's relevant regulatory Committee. It was noted by the Committee that not all matters referred to in Regulation 18 of the MLRs were covered by the FWRA, and that content could be included to provide further detail as to: a general practice overview, delivery channel risk, suspicious activity reporting and a conclusion/overall risk section. The Committee also directed that a Home Charter revisit take place in relation to the Home Charter breaches noted.*

*The firm engaged positively with the Society and arranged a meeting with the Society's Monitoring Officer to further discuss their FWRA in August 2022. The firm provided an updated document for consideration by the Society in September 2022 and this was placed before the Committee at their next meeting.*

*The Committee noted the firm's positive engagement with the Society regarding the matter, together with the amended content of their FWRA and the progress demonstrated in this regard.*

## Enforcement

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

These enforcement powers range from:

- informal advice being provided
- letters issuing which remind solicitors of their AML/CTF obligations
- warning letters being issued
- directed specific follow-up DBRs or on-site inspections or revisits
- or in more serious cases, referring the solicitor and/or Firm to the Solicitors' Disciplinary Tribunal (SDT)

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

The SDT currently has twenty seven Members, all appointed by the Lord Chief Justice (as then was) 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 make up 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 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 fine of £500 and three admonishments were ordered by the SDT as a result of breaches which were related to AML/CTF and/or contravention of the MLRs.



## Case Study – Enforcement action

Firm B

### Summary:

*Referral was made to independent Solicitors Disciplinary Tribunal (the Tribunal) for non-compliance with obligations under Regulations 19, 28 & 40 of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (“the MLRs”) despite a previous warning letter being issued to the firm.*

### Details:

*In October 2019, the Society’s Accountant carried out an onsite integrated Accounts inspection of Firm B. On inspection twelve client files were reviewed and on four of 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. Whilst the solicitor may have been able to explain the source of funds in each of the four matters, the relevant evidential documentation was not present on the client files pursuant to Regulation 40 of the MLRs.*

*The Society’s accountant’s Inspection Report together with the solicitor’s response to the queries raised were considered by the Society’s relevant regulatory Committee. The Committee noted that the solicitor had previously been reminded of their obligations to comply with the MLRs following previous inspections.*

*The Tribunal held an inquiry on 29 June 2022 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 customer due diligence measures in accordance with Regulation 28 of the MLRs; failed to maintain appropriate and risk-based policies controls and procedures in accordance with Regulation 19 of the MLRs and failed to demonstrate documentary evidence of compliance as required by Regulation 40 of the MLRs.*

*The solicitor attended at the hearing and admitted the allegations. Prior to the hearing the solicitor had prepared a written submission to the Tribunal with a plea in mitigation. They explained that they had in fact checked the source of the client funds in each of the client files, but they accepted that they had failed to ensure that documentary evidence was attached the files to verify the source of the client funds. They apologised to the Tribunal and to the Law Society in respect of these failures and acknowledged the fact that they had previously been warned by the Society to ensure that there was compliance with the money laundering regime.*

*The Tribunal noted that the solicitor had candidly admitted to the inadequate records on four of his client files and noted that a recent follow up Law Society inspection revealed no further issues of note. The solicitor appeared to have shown that they understand the importance of strict adherence to the MLRs.*

*The Tribunal ordered the solicitor be admonished. The solicitor was also ordered to pay the Tribunal's costs together with the costs of the Society.*



## 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 (since May 2023), the Monitoring Manager and the Society's Monitoring Officers. Through that forum, and through matters heard by the Professional Conduct Committee, the most common forms of non-compliance with AML/CTF obligations identified include:

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

53% of breaches identified by the Society concerned lack of evidence of both source of funds and client due diligence checks. A further 37% arose solely from lack of evidence of source of funds checks.

Common themes that emerged 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, in particular regarding record keeping.
- Non-compliance with AML/CTF obligations was found across all sizes of Firms.

## Actions taken in response

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

This included:

- Education of 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,

- Continuing Professional Development (CPD) in AML/CTF (making use of technology to provide online access),
- The Society, in conjunction with Willis Towers Watson & ABL Group, developed a Guidance Card - AML Aide-Memoire –which provides headline information on effective AML practice and was issued in hard copy format to each Firm in Northern Ireland. This card is designed to be placed on a desk with key information to reduce the risks involved in AML work. It is designed around 3 key areas 'Identify, Verify and Document'. It is also available for download from the Society's website.
- Recording an AML/CTF Podcast to assist members with their obligations in late 2022
- 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 well-attended series of two AML webinars was arranged in April & October 2022 which covered a range of AML topics including how to undertake Practice Wide Risk Assessments (PWRAs) and what they should contain. Separately, the second session focussed on source of funds and source of wealth.
- In conjunction with Willis Towers Watson (the Society's insurance broker) the Society hosted a bespoke Risk Management webinar in January 2023 to cover the compulsory 2023 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.
- A webinar specifically aimed at Firms' MLROs covering relevant was provided in February 2023.
- In March 2023, a further seminar was provided in relation to Desk Based Reviews (DBRs) which covered AML/CTF DBRs as well as including a consideration of common issues arising at same
- A webinar was delivered by the NCA at the Society's invitation regarding improving the quality of SARs in March 2023.

The Society continued with the 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, Anti Money Laundering and Solicitor Accounts.

## 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 the regular risk review meetings and at bi-monthly meetings referred to above.

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.

The Society also arranges for in house AML/CTF training to staff as appropriate.

## 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 they were unavailable, the nominated Deputy MLRO, the Chief Executive, was contactable by staff.

The Society also continued to monitor suspicious activity reporting by relevant Firms.

Analysis of responses to the Society's AML/CTF Annual Return (2021-2022) issued to Firms and collated within the reporting period shows that:

- The percentage of relevant Firms submitting one or more SARs to the NCA reduced from 11% in the last reporting period to 8% in this reporting period.
- However, the total number of external SARs submitted by relevant Firms only changed by 1 from 74 in the last reporting period to 73 in this Reporting Period.

- The majority, 67%, of SARs submitted to the NCA by relevant Firms were reported to be Defence Against Money Laundering (DAML) SARs.
- However, the percentage of SARs submitted to the NCA by relevant Firms reported to be information SARs rose from 28% in the last reporting period to 32%.

During the reporting period, the Society continued to support relevant Firms in the submission of and improving quality of SARs. This included arranging for the above noted dedicated CPD training for MLROs which included specific consideration of submitting SARs and the webinar on Improving the Quality of SARs presented by the NCA To better understand how to produce high quality SARs that can provided law enforcement with actionable intelligence.

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.

The Society has updated members on SAR IT transformation and development of the new SARs Portal. It has also used data captured from its Annual Return to engage with relevant Firms' MLROs' regarding development of the new SARs Portal.

Changes to the MLRs during the relevant period provided 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.

## Sanctions Work

During the reporting period the Society has continued its work in the sanctions area following the change in sanctions context in the UK since Russia's invasion of Ukraine.

This has included:

- Reviewing existing data from information returns submitted by firms and relevant information available to the Society from appropriate supervisory activity.
- Enhancing its annual information return required to be submitted by all firms in its supervised population, the Society's AML/CTF Annual Return, to obtain relevant information and data.
- 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,
- Issuing relevant communications to members as well as signposting the importance of the ongoing regular communications from OFSI and guidance issued by OFSI.

## Analysis and Continuous Improvement

The Society has continued with a hybrid model of supervision using both on-site inspections and DBRs as the benefits of using both supervisory tools together had been noted. In the reporting period the total number of on-site inspections and DBRs again increased compared to the previous reporting period.

During the reporting period the Society also continued standalone AML/CTF DBRs and on-site inspections. As part of the AML/CTF DBR process, a subgroup continued to meet to consider Firms' Firm Wide Risk Assessments and Policies, Controls and Procedures.

The Society considered the results of the responses to its AML/CTF Annual Return 2021-2022 for the reporting period at its Annual Risk Review meeting in March 2023. Prior to this meeting the results of the AML/CTF Annual Return (Firms) were again scored in order to feed into the Society's review of each Firms' risk profile using the Society's adopted risk matrix to ensure consistency.

The Society continued to hold its stated quarterly risk review meetings and bi-monthly meetings with the Professional Conduct Department's Monitoring team regarding the ongoing work done by DBRs and on site inspections in order to identify common trends and themes which emerge from such monitoring activity.

Outcomes from the Society's risk reviews informed allocation of its resources and the Society's proactive AML/CTF and integrated supervision. and to discuss the selection of Firms for Review using the Society's Risk Based Approach and the risk profile assigned to each firm.

The Society has reviewed the changes to risk ratings of the individual risk profiles of relevant Firms subject to supervisory activity during the reporting period. Analysis shows that:

- 79% of existing risk ratings prior to supervisory activity were unchanged on review following supervisory activity.
- 5% of existing risk ratings were reduced (2.5% high to medium and 2.5% medium to low)
- 7% of existing risk ratings were increased, (2.5% medium to high, 0.5% low to high and 4% low to medium).
- The remaining 9% of existing risk ratings relate to relevant Firms that subsequently closed within during the reporting period or to new relevant Firms not yet subject to supervisory activity.

The Society considers that this demonstrates the effectiveness of the Society's risk review process, with the majority of existing risk ratings unchanged following supervisory activity including on-site inspections and DBRs.

The Society is mindful however of that were changes to risk ratings did occur, relatively speaking the largest number of changes occurred from in the increase from low to medium risk ratings.

Accordingly in the next reporting period, 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.

## **Progress on Areas of Focus in the Reporting Period**

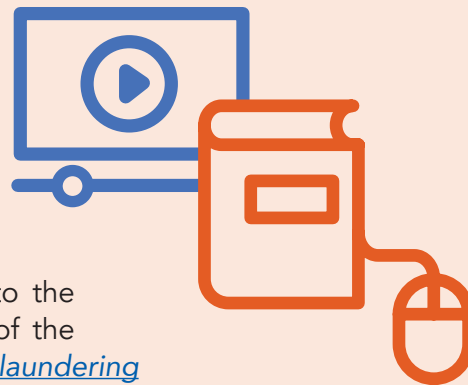
The Society continues to dedicate resources to its AML supervision. Areas of focus previously identified by the Society for the reporting period and corresponding completed actions have included:

Establishing an AML Hub within the Society – During the reporting period, the Society completed the recruitment of a senior staff member to the new position of Head of AML Policy. The Head of AML Policy is a member of the Society's Senior Management Team and will provide exclusive assistance with AML/CTF strategic and operational work. The Head of AML Policy has since commenced in post after the reporting period.

Amending the Society's AML/CTF Annual Return and reviewing data obtained arising from the change in sanctions context in the UK since Russia's invasion of Ukraine – This was completed with the reviewed enhanced information and data obtained incorporated into the Society's existing ongoing risk review process.

Consider the delivery of AML key themes to the membership by new methods – This was completed by issuing the above noted AML Aide-Memoire and delivery of the above noted AML/CTF podcast. The Society will look to review the effectiveness of these methods as appropriate.

## 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
- AML Aide-Memoire: Knowing your client and understanding where their money comes from.

### 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 2020-22 (December 2022)  
<https://www.gov.uk/government/publications/anti-money-laundering-and-countering-the-financing-of-terrorism-supervision-report-2020-22>

### From the National Crime Agency (NCA)

- The new NCA SAR Portal  
<https://sarsreporting.nationalcrimeagency.gov.uk/>
- SARs Reporter Booklet (August 2023)  
<https://nationalcrimeagency.gov.uk/who-we-are/publications/671-sars-reporter-booklet-august-2023/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>

### **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>
- 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>



## Emerging areas of risk/trends

- **Financial Sanctions**

In light of the ongoing conflict in Ukraine, the Society continues to note the imposition of financial sanctions on Russian nationals (and others) as an area of risk for members.

Information and data available to the Society during to the reporting period indicates 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, this remains a fast-moving practice area and the sanctions list is updated on a very regular basis. Members should be alive to the fluid nature of same.

- **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 client's businesses due to the ongoing impact of Brexit on trade with Northern Ireland.

There is potential for an increased risk of smuggling – of both goods and persons – as can be seen through the Northern Ireland connection to the well documented migrant smuggling case in Essex in 2019.

- **Cryptocurrency**

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

Cryptoassets 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. Cryptoassets also remain a key tool in cybercrime. While use of cryptoassets alone is not necessarily suspicious, cryptoassets can be used to disguise the origin of funds more easily than other payment methods.

- **Cyber security**

The Society regularly warns members of ongoing cyber scams, which have increased in frequency in recent years. Cyber security breaches could assist criminals to gain access to Firm's systems and information, which may leave them vulnerable to reputational, legal and financial loss as well as being used for money laundering. Firms should be aware of the risks their IT and other systems may pose and mitigate these risks where possible.

- **Sham litigation**

The NRA 2020 identifies 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.

## Areas of focus

In the year ahead the Society intends to focus on:

- Development of the AML Hub established within the Society including recruitment of an AML Compliance Officer;
- Continuing evolution of its risk-based approach to the exercise of its AML supervisory functions, including review and update of its consolidated Risk assessment methodology;
- Strengthening its quality assurance work including risk reviews and decision-making measures;
- Continuing enhancement of data capture and analysis, including development of submission of the Society's AML/CTF Annual Return and CRM enhancement;
- Continuing to provide guidance for Firms through the Society's CPD programme of webinars which focus on risk and AML;
- Consider ongoing delivery of AML key themes to the membership by different methods such as development of dedicated communication channels with Firms MLROs and/or refresh of the Society's AML modules for trainees;
- Continuing to provide AML/CTF staff training to the Society's regulatory team;
- Monitoring emerging areas of risk and trends, and responding as required;
- Continuing to bring enforcement action as required;
- Continuing the Society's active involvement in AML information sharing groups and forums with other AML supervisory authorities.



THE LAW SOCIETY  
OF NORTHERN IRELAND



100  
YEARS

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