Annual report by the Money Laundering Reporting Officer (MLRO) for the year ending October 2020

Background

1   Money laundering is the way in which criminals can profit from some of the worst crimes in society, for example human trafficking, modern slavery, drug dealing and child exploitation.

2   Removing the proceeds and disrupting criminals from spending the profits of their crimes is one of the best deterrents to them committing that crime in the first place. We take our duties to detect and report money laundering in the legal sector incredibly seriously. The prevention of money laundering and terrorist financing remain a high priority for government and so we continue to see rapid changes in legislation in this area, priority on reporting suspicion, sharing information and a public/private partnership to help fight economic crime.

3   Money Laundering Reporting Officers (MLROs) carry out their duties in compliance with the Money Laundering, Terrorist Financing and Transfer of Fund (Information on the Payer) Regulations 2017 ("the money laundering regulations"), Proceeds of Crime Act 2002 and Terrorism Act 2000. The primary responsibility of an MLRO is to receive and consider internal reports relating to suspicions of money laundering or terrorist financing and submit Suspicious Activity Reports (SARs) to the National Crime Agency (NCA) where appropriate.

4   Although it is not a requirement for MLROs working within AML Supervisors to deliver annual reports it is recognised as good governance to do so. This is in addition to our detailed annual return to HM Treasury, and the inspection/reporting requirements placed on us by our oversight body the Office for Professional Body Anti-Money Laundering Supervision (OPBAS).

5   This report, my third as MLRO, is an overview of the year ending October 2020. The report outlines the money laundering and terrorist financing training that we provide for staff, the obligations placed on all SRA staff to report any suspicions, internal and external engagement, and key successes from 1 October 2019 to 31 October 2020.

6   This report also gives an overview of the types of money laundering reported to the National Crime Agency (NCA) by way of Suspicious Activity Reports (SARs) and the ongoing work we are doing to further strengthen our money laundering prevention and detection capabilities.

Discussion

Money Laundering Training

7   We remain committed to ensuring that all SRA staff members are aware of money laundering and terrorist financing related risks and the obligations placed upon everyone to internally report their suspicions. We continue to deliver a range of money laundering and terrorist financing training courses:

- Money Laundering (ML) and Counter Financing of Terrorism (CFT) eLearning - all new and existing SRA staff must complete the latest version of this training, which takes the form of informative slides followed by a test which staff must score 100% to pass. This is designed to give all staff a base knowledge.

- Internal Suspicious Activity Reports (iSAR) Training – All staff must attend this classroom training which is delivered by our MLRO and covers money laundering and terrorist financing in more detail. This training is part of our corporate induction programme and is designed to make sure all staff know what to do if they have knowledge or suspicion of ML or CFT. It explains how to make an internal suspicious activity report (iSAR) and our legal obligations to report suspicion to the NCA. It also informs how we contribute to the fight against financial crime.

8   As MLRO, the development and delivery of training remains a priority. During the year, we have updated the iSAR training to include a more interactive approach to aid learning. Due to the pandemic and subsequent office closures, the training was quickly tailored for delivery remotely, via Skype and Teams, and virtual sessions were successfully delivered to 135 colleagues.

9   The recorded feedback received was very positive, with colleagues reporting the training meets their needs, and 100% of those responding said that they understand their obligations and feel equipped to escalate any suspicions of ML and TF.

10   Also, we have worked closely with the AML Team to aid the development and roll out of our new AML training programme which started in September 2020. We support the delivery of this training by discussing ML red flags and high risk transactions, along with some real life case examples.

11   As well as formal training, we have conducted some bespoke sessions at team meetings during the year, delivering short, tailored presentations on any specific ML or CFT risks these teams may encounter. Attendance at these meetings has been well received and plans are being made to deliver more in the future.

MLRO referrals and records management

12   We continue to have effective and robust policies and procedures in place to ensure MLRO awareness of investigations which carry potential money laundering risks. This

proactive approach means we are often sighted on cases at a very early stage so aware of any potential ML issues on the horizon.

13   We have seen an increased importance being placed on preventing money laundering and this heightened awareness of our ML/CFT statutory responsibilities, along with our training, has resulted in a continued increase in matters being referred for consideration.

14   Reporting channels include:

- Internal Suspicious Activity Reports (iSARs)
- Investigation & Supervision department (Risk Assessment Profiles for new cases)
- Intelligence Unit reports
- Reports made directly from external parties (including banks, law enforcement / other regulators)

15   Figures taken from the MLRO records show between 1 October 2019 to 31 October 2020 there were 266 matters escalated to MLRO for review, of which 31 were iSARs.

16   All referrals are reviewed and from those iSAR referrals, 26 required a Suspicious Activity Report to be made to the National Crime Agency (NCA) based on suspicions of money laundering. A further 122 of those referrals are being monitored to track the progress of our investigations which may uncover ML suspicions which require reporting in due course.

17   Throughout the year detailed MLRO monthly update reports are shared internally with all relevant staff, including senior management, and are discussed during our monthly AML Steering Group meetings. The report includes an overview of matters being escalated for my review, SAR themes, and any ML trends which inform our ongoing assessment of ML risks.

18   This monthly report also provides senior management continuous assurance that we are not experiencing any challenges or blockers in carrying out our duties.

ML themes and trends

19   As a result of our work, over the past year we have reported 26 money laundering related SARs to the National Crime Agency involving more than £200 million in suspected criminal proceeds. The key themes of money laundering related activity have remained broadly unchanged since last year. These include money laundering linked to:

- residential property conveyancing
- fraud
- tax evasion
- bogus investment schemes
- clients / funds from high risk jurisdictions

- high risk commodities (precious and scrap metals)
- aborted property transactions
- no underlying legal service or purpose for transaction
- complex offshore company structures / trusts
- human trafficking and modern slavery.

20   Money laundering linked to vendor fraud was identified as a key theme in the SARs we reported. This is where homes are targeted by fraudsters and sold without the knowledge or consent of the true owners, with the elderly and vulnerable often the victims. As MLRO I issued a trend alert on this to flag the issue and raise awareness. This has been widely shared with law enforcement partners (such as the NCA, police and HMRC), other supervisors, and the legal profession, though existing information sharing gateways and our Risk Outlook.

Quality Assurance and Pro-active work

21   During the year we have expanded the quality assurance work done. This involves conducting full file reviews of several investigations cases each month and sharing a finding report. This is done to ensure that any potential ML related issues are being identified and escalated where appropriate. The Deputy MLRO also now chairs monthly QA meetings with colleagues to give feedback, share best practice and plug any training gaps.

22   Pro-active working with the NCA has continued during the year to identify any ML risks in certain areas of the legal profession or issues with specific firms. This engagement with the NCA means they are sharing more information with us and contributes to our intelligence capabilities and investigation work, which are key priorities in our corporate strategy. This collaborative way of working is something the NCA report on in documents they publish, such as their SARs Annual Report and quarterly SARs in Action Magazine.

Stakeholder engagement

23   As MLRO I have been pro-actively engaging with fellow MLROs and other financial crime professionals, ensuring channels of communication remain open, particularly given that face to face meetings could not take place for much of the year.

24   I have arranged and attended meetings with counterparts from law enforcement agencies and other supervisors including Law Society Scotland, Gambling Commission and HMRC, along with the nominated officers from the financial sector. Also, engaging with police officers working within financial crime teams which has led to the police referring several cases to us for further investigation.

25   I have provided contributions to projects and larger pieces of work being done by other government agencies. For example:

- HM Treasury - National Risk Assessment
- HMRC - Trust & Company Service Providers Threat Assessment

- NCA – Family Offices Threat Assessment
- NCA - SARs Regime Reform Programme
- NCA (National Economic Command Centre) - Redesign of the UKFIU
- Home Office - updating the Proceeds of Crime Act.

Resources and Resilience

26   Ensuring we have enough resource to provide resilience in the short-term absence of the MLRO and ongoing support for this role is essential and we therefore have a full-time Deputy MLRO to fulfil this responsibility.

27   We also work very closely with our dedicated AML Team, which has added further resilience and specialist knowledge to enhance our capabilities to prevent and detect money laundering.

28   The resilience of the MLRO operating procedures and records management have been stress tested this year and are proven effective. The systems in place meant that our work has continued without issue or disruption since the office closures in March due to the pandemic.

Independent Audit

29   In January 2020, the MLRO function was the subject of independent audit by KPMG, as part of our Internal audit of AML. The audit looked at all aspects of our work including the policies and procedures in place, internal reporting channels, training, and engagement. It also explored the independence and accountability of my role. The audit provided positive feedback with no remedial or follow up actions.

30   The work of the MLRO and DMLRO will also be subject of audit and interview by OPBAS during their next planned inspection of the SRA which is due to take place in January 2021.

Outcomes

31   Contributing to important high profile pieces of work being driven by the National Economic Crime Command (NECC) such as the Reform of the SARs Regime and Redesign of the UK Financial Intelligence Unit (UKFIU).

32   Our close partnership working with the NCA resulting in increasing levels of co-operation to support our AML supervisory, intelligence and investigation work.

33   Actionable information shared with us by law enforcement partners (e.g., NCA and Police) resulting in investigations to protect consumers and prevent/detect money laundering related issues.

34   Continued positive perceptions across law enforcement and other regulators, evidenced by them looking to us for guidance and best practice in our approach to AML supervision and MLRO function.

35 Increasing levels of engagement by colleagues across the business, coupled with more iSARs being received and numbers of SARs submitted, is evidence that the training and pro-active approach taken by me as MLRO and Deputy MLRO is effective.

36 SARs involving more than £200 million in suspected criminal proceeds reported by us to the NCA to support law enforcements efforts to disrupt and prosecute offenders, protect the public and tackle financial crime.

Declaration

37 The MLRO is required to confirm whether there have been any restrictions or resistance to them undertaking their statutory duties and/or accessing relevant information and senior management.

38 I can confirm that I have experienced no restrictions or resistance in undertaking my duties. I have unfettered access to the senior management team and have experienced positive engagement and co-operation across the organisation.

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