



How to spot criminals targeting your firm to launder money

Criminals target Law Firms to launder their illicit funds, this isn't new news. It is estimated that over £90bn a year is laundered through the UK. The government is concerned about this and has recently issued the second National Risk Assessment of money laundering and terrorist financing (NRA).

The Legal Profession has been identified as high risk for money laundering, although low risk for terrorist financing.

That is not to say that all Solicitors are money laundering, but rather, where Law Enforcement see money laundering, there is a high risk that lawyers are involved. They single out lawyer's involvement in "high end money laundering" which is defined as the laundering of large amounts of criminal funds (often the proceeds of serious fraud or overseas corruption) through the UK financial and professional services sectors.

The NRA identified three aspects of a lawyers practice which are high risk: Trust and Company Formation, Conveyancing and the use of the Client Account. All firms who are regulated by the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 will have to compile a Risk Assessment of their business (Regulation 18), and it needs to be considered in every matter (Regulation 28(12)(a)(i)). Therefore, consideration of the information in the NRA should form part of that process.

Trust and Company Formation

Law Enforcement have identified that in many money laundering investigations there is a presence of a trust or company vehicle which has been used to hide the true beneficial ownership.

If you do provide these services you should be alert to "red flags" such as unusually complex business

structures, for which there doesn't appear to be any commercial reason. If you are having difficulty getting information about the beneficial owners because the client is being secretive, you should consider whether the entity you are being asked to form is to disguise the true ownership. It is relatively simple to form a company, so ask yourself why they are looking to use a lawyer, particularly if it is not part of a wider instruction. As ever extra caution should be applied when dealing with High Risk Jurisdictions, which lack transparency.

Conveyancing

It has long been accepted that property transactions are attractive to criminals for the purposes of money laundering. The NRA accepted that the number of lawyers who are wittingly involved in money laundering is small, but the scale of money laundering through property must mean that criminal clients are getting past solicitor's checks. Criminals can present themselves as legitimate, they will have the documents a firm will need, and have answers prepared to the questions they are asked. However, there are some steps you can take to try and minimise the risk to exposure to money laundering.

- Criminals like to move money around quickly, they are adding layers of legitimacy to disguise the involvement of criminal funds. Be careful if the property has been conveyed recently and is being sold without a plausible explanation.
- Look out for transactions which are designed specifically to launder money, for example the parties are known to each other and the value of the property has increased significantly over a short period of time.
- Third party funding can be completely legitimate, especially with gifts from Mum and Dad, but criminals are using this process to launder money. Think about the checks you should make on people



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who are not your clients to be satisfied that the money you are using is not the proceeds of crime. The criminals will bank on you not asking!

- Don't forget about how the criminals get the money into the banking system. It's unlikely they will come into the office with holdalls of cash because you won't accept it. Instead they use cash rich businesses to disguise their money laundering, so consider carefully the legitimacy of funds from clients with these businesses, car washes, nail bars, take-aways, amongst others.
- The government is particularly focused on the ownership of high value property in London and Edinburgh by overseas companies and trusts as fronts for money laundering, so care should be taken in these matters to establish the beneficial ownership and consider whether there are any risks of corruption, tax evasion or money laundering.

Client Accounts

The government has identified that criminals find the solicitor's client account an attractive way of adding a layer of legitimacy to transactions. Once money has been paid out of the client account, a criminal can lie about its origins. Money which has been remitted to a client following the sale of a property, could be represented as damages from an injury claim. Firms should be alert to this risk and engage their accounts staff in looking for signs of money laundering.

In particular firms should look out for clients placing funds in the client account and then cancelling instructions without any reasonable explanation. Requests for refunds should be considered carefully.

It is clear that firms are doing a lot of work to prevent money laundering, but it is important to keep the risks on the radar, and remain vigilant to the new ways in which you can be targeted with regular training.