

THE **LAW SOCIETY**
OF NORTHERN IRELAND



100
YEARS



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

October 2022

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 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 has played an active role in assisting our members to identify and manage risks related to Money Laundering. We have updated and circulated our Sector Risk Assessment during this reporting period. The Sector Risk Assessment provides clear and practical advice to Firms in the assessment, monitoring and management of AML risks.

Whilst the 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.

The Society was proud to hold the Chair's position of the Legal Sector Intelligence Sharing Expert Working Group for the UK during this reporting period. Engaging with other regulators and professional bodies has been an invaluable source of intelligence and best practice sharing.

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.

Data collected from our AML Annual Return continues to provide positive results. The AML Annual Return in this period indicates that in addition to appointing a Money Laundering Officer (MLRO):

- 95% of Firms, who provide the services of an independent legal professional have appointed a Money Laundering Compliance Officer;
- 11% of Firms had made internal Suspicious Activity Reports to their MLRO.

Each of our 450 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. We reviewed and updated our Risk Categorisation and Risk Assessment Methodology procedures in March 2022, keeping our risk assessment methods up to date and in line with best practice.

A well-attended series of AML seminars throughout the reporting period covered a range of topics. This included two webinars which covered firstly, recent developments in AML and then the updated LSAG AML Guidance for the Legal Sector 2021. Further, in conjunction with Willis Towers Watson, the Society hosted a Risk Management webinar looking at the key risks law Firms face and another seminar regarding the role of the MLRO was also provided.

The pandemic and associated lockdown restrictions have required the Society to move elements of our Regulatory supervision online whilst also undertaking on-site inspections. The Society has introduced standalone AML inspections 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 these DBRs and 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 sub-committee within the Professional Conduct Department. Where deficits are found the Society works with a firm to drive service improvements. In addition, every new firm in Northern Ireland now receives an AML inspection or DBR within their first year ensuring that sound AML governance is at the heart of each new firm.

During the reporting period the Society significantly increased its supervisory activity. 34% of all relevant Firms were subject to a DBR or on-site inspection. Of the 104 DBRs completed in the period, 68 Firms were given a compliant rating, 28 Firms were provided with a generally compliant rating and 8 Firms were not compliant. The Society works with Firms to monitor improvement and to ensure compliance.

Robust AML policies and procedures should be at the heart of every Firm's operational practice. We will continue to identify new ways of communicating key AML themes to our members including using online and podcast media. The Society is committed to working with Firms to ensure that regulatory obligations are adhered to and that the risk of exploitation of Firms for money laundering purposes is significantly reduced



Brigid Napier
President
October 2022

Introduction

The Law Society of 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.

The Society's overriding principle in exercising its' regulatory function is to regulate in the public interest, with the aim of protecting the public.

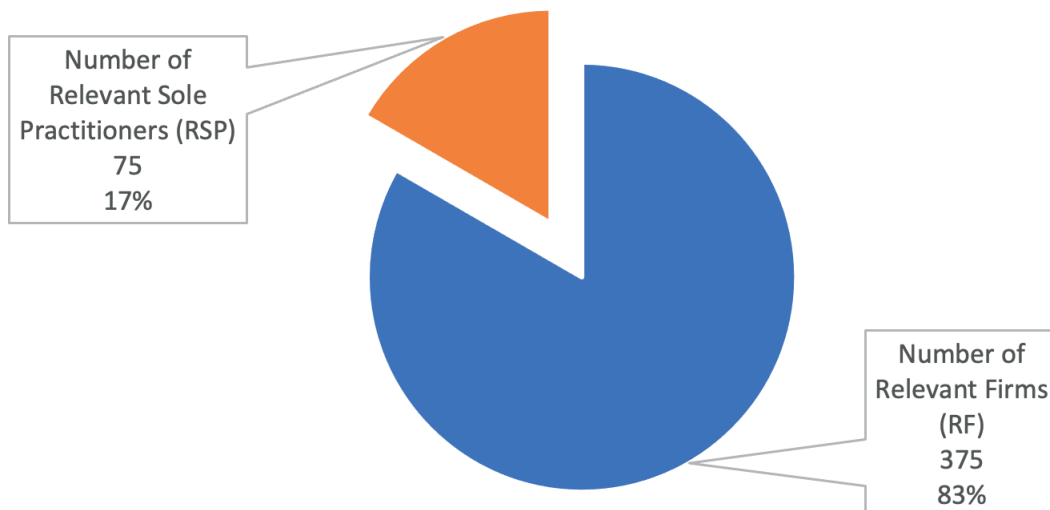
The Society is the professional body supervisor under the Money Laundering, Terrorist Financing, Transfer of Funds (Information on the Payer) Regulations 2017 (Amended) (the MLRs) for the solicitors' branch of the legal profession in this jurisdiction and exercises other co-regulatory functions, with a remit across approximately 450 Firms in Northern Ireland.

This is the Society's second annual report as part of its responsibility as an AML supervisor and its duty to report information to the Office for Professional Body Anti-Money Laundering Supervision under regulation 46A of the MLRs. For this purpose, the Society is reporting on the period 6 April 2021 to 5 April 2022 ('the reporting period').

Demographic

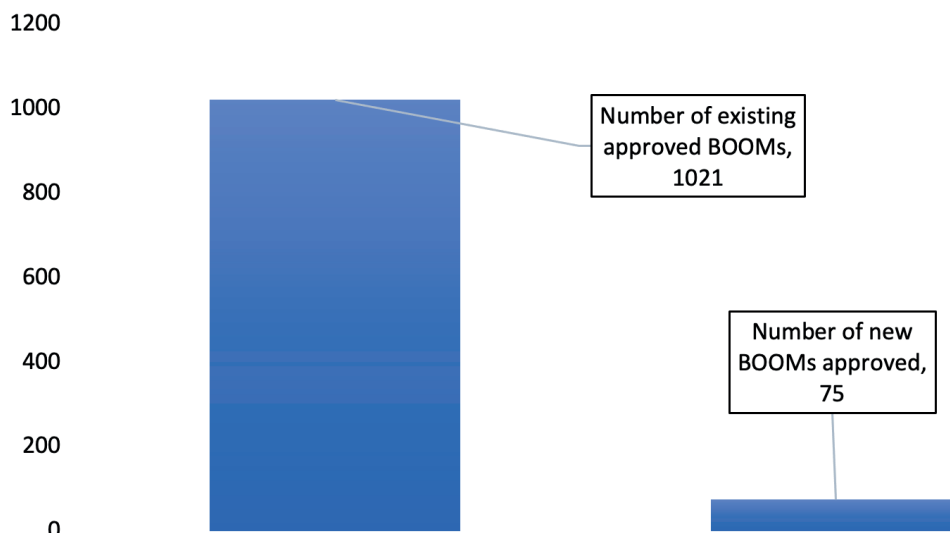
The composition of Firms in Northern Ireland for the reporting period is set out below:

Supervised Population - 450 firms



The MLRs require beneficial owners, officers and managers (BOOMs) to be approved by the Society.

Number of approved BOOMs - 1,096



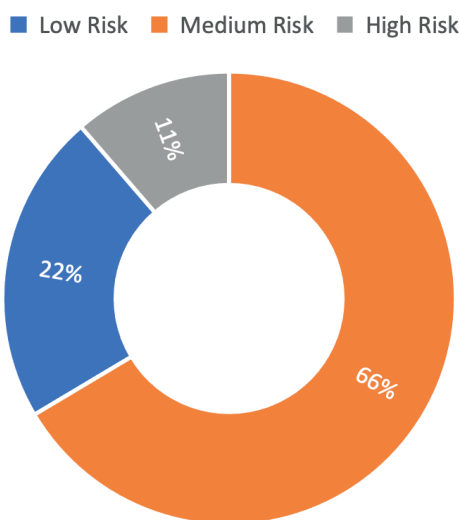
AML Information relating to the relevant Firms within the Society's membership was obtained through our AML/CTF Annual Return 2020-2021. The Return responses were collated within the reporting period. Information obtained from the Annual Return includes the following:-

- 95% of Firms who confirm they provide the services of an independent legal professional, as defined in the Regulations, 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 is indicative of Firms identifying the importance of focusing on their obligations and approaching compliance of the Regulations in a systematic manner.
- 11% of Firms had made internal SARs to their Firm's Money Laundering Reporting Officer (MLRO).

Each of the 450 relevant Firms and sole practitioners as defined in the MLRs has been given an individual risk profile by the Society which is kept under continuous review. This profile is formulated by obtaining information from the 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.

In the reporting period, the Society has developed a policy whereby any new firm will receive on site inspections in relation to all aspects of their professional conduct – being supervisory activity to cover compliance with Accounts, Home Charter and AML/CTF matters within 12 months of their establishment.

Risk Profile - 450 Firms



The assignment of a risk profile is a fluid exercise which is an ongoing process and is constantly under review. The Society continues to hold quarterly risk review meetings, bi-monthly regulatory review meetings and an annual risk overview exercise which also inform the risk review process.

In the relevant period the Society updated its Consolidated Risk Assessment Methodology and its Risk Categorisation and the Assessment of Risk Policy in March 2022.

Monitoring and enforcement of compliance

The Society has continued to deploy a range of supervisory measures in order to monitor and ensure compliance with the Money Laundering Regulations to include:

- Desk Based Reviews (DBRs) – to include standalone AML/CTF DBRs since December 2021;
- Raising queries through correspondence;
- Onsite inspections by compliance/monitoring officers – to include standalone AML/CTF on site inspections since December 2021;
- Reports to the relevant regulatory Committee;
- Issuing guidance and regulatory notices;
- Issuing directional warning letters to drive improvement;
- Continuing to develop and use an enhanced Pre-Visit Questionnaire;

- Continuing to update our existing DBR questionnaire;
- 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 identifies key AML/CTF themes and trends at bi-monthly DBR meetings, 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.

The Society has updated its Sector Risk Assessment – 2021. This sets out the Society’s methodology and identification and assessment of international and domestic risk of ML/TF. The Sector Risk Assessment was updated in September 2021 following the publication of the National Risk Assessment in December 2020.

Desk Based Reviews (DBRs) and on-site inspections

The Society’s programme of DBRs and on-site visits 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 practice also reviews Firms’ AML/CTF practice.

In addition, since December 2021 standalone AML/CTF DBRs and on-site visits have been incorporated into the Society’s supervisory approach. A sub group 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, since Covid restrictions have eased.

DBRs involve reviewing a variety of information, which is provided by the Firm, together with the Firm’s responses to a 32-question pre-visit questionnaire. 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.

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 these DBRs and 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.

The Society also reviews the annual independent statutory Annual Accountants' Reports delivered to the Society by members. The Society continues to scrutinise all Annual Accountants' Reports, which are provided by every Firm in Northern Ireland, as part of its supervision. In the reporting period the Society reviewed 480 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>.

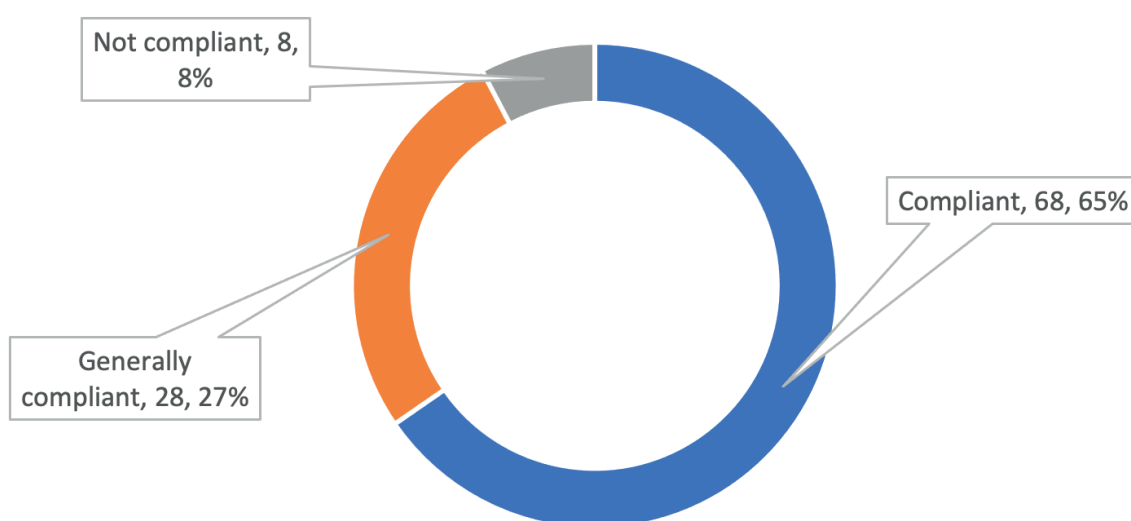
The policy explains how a member of the public, lawyers and other people working in the legal sector may raise a concern with the Society about a serious wrongdoing, risk to the public or professional misconduct of which they become aware, whether through their work in a Firm or with a solicitor. This includes individuals under a contract of employment, trainees and agency staff, as well as external suppliers and clients.

Supervision

The number of DBRs and on site inspections has increased significantly as the Society has moved to a hybrid approach of using both DBRs and on site inspections as covid restrictions eased during the reporting period. The Society also commenced standalone AML/CTF DBRs and on site inspections during the Reporting Period.

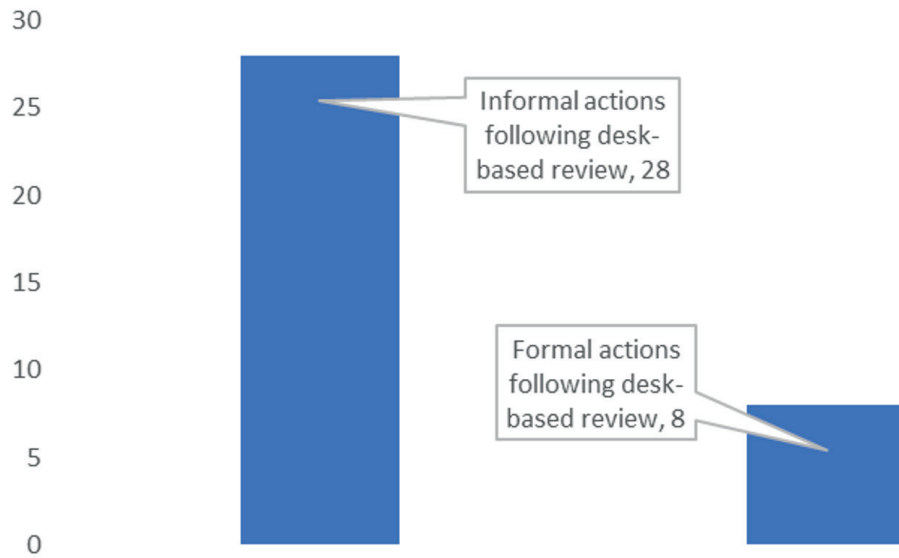
The number of DBRs completed in the reporting period was 104.

Desk-Based Reviews - 104 completed



Of the 104 completed DBRs, 36 required further action to be taken as a result of a generally compliant or not compliant rating.

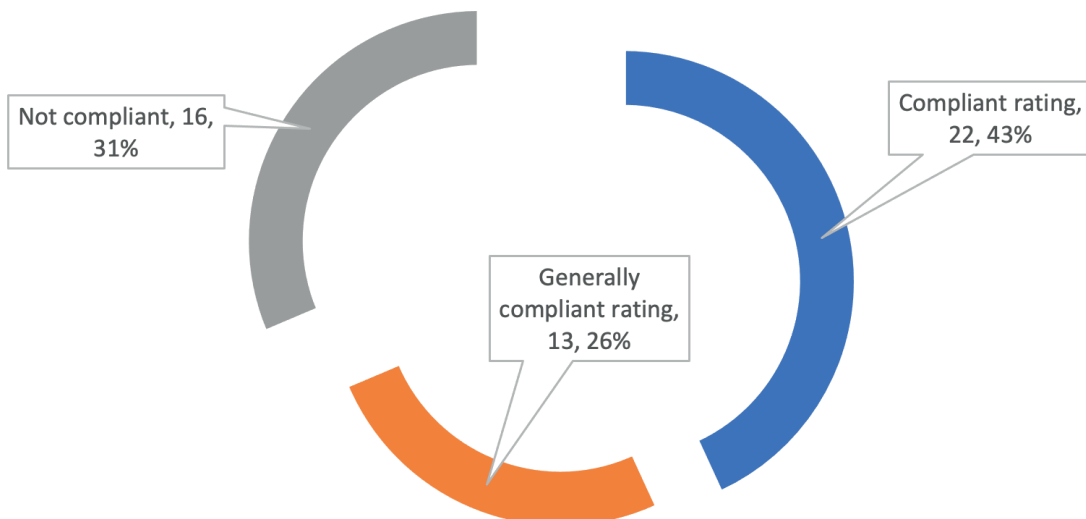
Desk-Based Reviews - 36 actions taken



'Informal actions' refer to guidance or reminder letters being issued to Firms, whereas 'Formal actions' refer to warning letters issued, revisits directed or referrals made to the Solicitors' Disciplinary Tribunal.

As mentioned above, the number of on site visits also increased in the reporting period due to the relaxing of Covid-19 restrictions at this time.

Onsite visits - 51 completed



Of the 51 completed on site visits, 29 required further action to be taken as a result of a generally compliant or not compliant rating.

Onsite visits - 29 actions taken



In total, during the reporting period, the Society commenced the review of 34% of relevant Firms (as defined in the MLRs) in the reporting period by either DBR or onsite visit. This is an increase from a review of 20% of relevant Firms in the last reporting period. The Society anticipates that in the next reporting period it will maintain this level of review.

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.



Case Study – Supervision action

Firm A

Summary:

Firm A (categorised as large and high risk) received an accounts inspection by the Society's accountant and compliance officer. The outcome of the inspection was referred to the Professional Conduct Committee who noted a number of potential AML/CTF breaches regarding Source of Funds enquiries. These enquiries appeared to take place only when they were queried by the Society's monitors during the inspection and had not taken place at the time of the transaction. Firm A's wide risk assessment (FWRA) and Policies, Controls and Procedures (PCPs) were also found to be inadequate for the size and nature of the firm.

The Committee directed an on site AML/CTF standalone inspection be undertaken. Firm A was advised of this outcome and the firm then proceeded to engage the services of an AML/CTF compliance consultant to review their FWRA and PCPs and to undertake a review of their processes. At the subsequent AML/CTF inspection improvement was seen and no further AML/CTF issues were noted. Firm A had put into place appropriate checks and procedures to ensure Client Due Diligence (CDD) & Source of Funds (SOF) enquiries were made on every file and relating to each client.

Details:

In September 2021, the Society's Accountant carried out an integrated onsite inspection of Firm A. On inspection it was noted that AML/CTF SoF checks had not been carried out. Firm A appeared to only make these checks following queries raised by the Society's Accountant.

The Society's Accountant's Inspection Report together with the solicitors' response to the queries raised were considered by the Society's relevant Regulatory Committee. The Committee's recommendation was that a follow up AML/CTF on site inspection take place to investigate the matter further. The Society was also instructed to enter into further correspondence with Firm A in order to ascertain the position regarding the firm's PCPs in this regard. Firm A advised that they had engaged the services of an AML/CTF consultant in order to review their FWRA, PCPs and AML/CTF procedures generally. This review took place during February 2022.

An on site inspection was arranged. At the follow up inspection the Society's monitoring officer considered the updated FWRA and PCPs and reviewed 9 files. The updated documents were found to be in order and satisfactory responses were received to the queries raised from Firm A with no breaches of the MLRs found. The Professional Conduct Committee were advised and were pleased to note the improvements made.

At the follow up DBR the Society's Accountant raised queries on 10 files and satisfactory responses were received from firm A with no breaches of the MLRs found. Firm A advised that they had compiled a checklist to ensure all requirements of the MLRs are met by obtaining original or certified ID and proof of address before accepting client funds and to raise probative enquiries regarding the source of funds.

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
- 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 Tribunal 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 there were 4 admonishments (without fines) which 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 Regulation 26 of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 ("the MLRs").

Details:

In September 2019, the Society's Accountant carried out an onsite integrated inspection of Firm B. On inspection it was noted that the solicitor had acted in the administration of an Estate which is defined as a regulated activity in the Legal Sector Affinity Group Anti Money Laundering Guidance for the Legal Sector. The Solicitor had previously informed the Law Society that he did not provide the services of an independent legal professional as defined in Regulation 12(1) & (2) of the MLRs. By acting in the administration of an Estate, the Respondent did provide the services of an independent legal professional and he had therefore failed to make the requisite application to the Law Society for approval as a beneficial owner, officer or manager of a relevant firm pursuant to Regulation 26 of the MLRs.

In June 2020, the solicitor was referred to the Solicitors Disciplinary Tribunal (SDT). The matter was heard by the SDT in February 2022.

The Tribunal was advised that the factual basis of the allegation was not in dispute. There was a candid acknowledgement that the requirement to make the requisite application pursuant to Regulation 26 of the MLR 2017 for approval as a beneficial owner had been missed. When the matter was drawn to the solicitor's attention the appropriate application was made and the approval was readily granted.

The Tribunal considered the submissions made and acknowledged that once the matter had been drawn to the solicitor's attention he took swift steps to regularise the position and took into account his acknowledgement that this had been an oversight.

They commented that it is certainly the case that the MLRs have imposed onerous obligations on Solicitors' practices and it is important that Solicitors keep abreast of the ongoing requirements and indeed amendments to those requirements from time to time.

The Tribunal agreed that the circumstances of this referral warranted the imposition of a sanction at the lowest end of the scale and determined that it was appropriate to impose an admonishment.

In addition, the solicitor was required to discharge the Society's costs and the Tribunal's costs (totalling £4,046.00) and allowed 26 weeks to pay with liberty to apply for further time if required.

Key themes

The Professional Conduct Department continues to host bi-monthly DBR meetings to identify trends and themes which are attended by the Head of Professional Conduct, Team Leader for the Monitoring & Inspection team 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:

- Inadequate checks on source of funds or source of wealth – particularly a reliance on bank statements only;
- Failure to document or keep records;
- Inadequate Practice (Firm) Wide Risk Assessment;
- Timing of verification checks;
- Client Due Diligence checks;

70% of breaches identified by the Society concerned lack of evidence of both source of funds and client due diligence checks. A further 30% arose solely from lack of evidence of source of funds checks.

In the reporting period, the Society had a particular focus on the area of sanctions, which came to the fore in February/March 2021 following the Russian invasion of Ukraine and subsequent sanctions put in place thereafter.

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,
- Response to AML/CTF queries,
- Continuing Professional Development (CPD) in AML/CTF (making use of technology to provide online access),
- 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 2021 and covered a range of AML topics, including recent developments in AML and the updated LSAG Guidance for legal sector 2021.
- In conjunction with Willis Towers Watson (the Society's insurance broker) the Society hosted a Risk Management webinar looking at the key risks law Firms face in January 2022.

- A seminar regarding the role of the MLRO was provided in February 2022.
- In March 2022, 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.
- In April 2022, a webinar was provided detailing firm's requirements regarding firm wide risk assessments as required by Regulation 18 of the MLRs.

Sanctions work:-

In February/March 2022 the Society took the following actions to keep members updated regarding the situation in relation to sanctions:

- The Society cascaded the FCA statement, issued in February 2022, to all members and placed same on the News section of the Society's website with a reminder of members' obligations regarding updated UK sanctions;
- The Society reminded members by e-former of the need to review the OFSI sanctions list regularly and advised members to consider subscribing to OFSI email updates in this regard.
- In the same e-former, the Society advised Firms of the HMT webinar regarding sanctions which was scheduled for 17 March 2022.
- The Society cascaded the March 2022 changes to SARS documentation re sanctions to all members by way of e-former, and by placing same on the Members' Services part of the website.

Staff training

The Professional Conduct Team are subject to continuous training.

As well as Society CPD seminars (referred to above) the team are advised of developments in the area such as the sanctions matters previously referred to at the team's quarterly risk review meetings and at bi-monthly DBR meetings.

Relevant staff attended or later viewed online at least 3 of the 6 CPD seminars referred to above.

Staff also attend relevant fora in the area of ML/TF, for example, the Legal Regulators AML forum, LSAG, AMLSF, ISEWG meetings and the Cyber Crime Engagement Group.

The Society intends to provide further in house training to staff in the area of sanctions and cryptocurrency in the next reporting period.

SARs reporting

The Society maintains an Internal SARs Policy. Each member of staff is responsible for submitting suspicious reports directly to the 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 John Mackell, Head of Professional Conduct was the Society's appointed MLRO. In the event he was unavailable, the nominated Deputy MLRO, the Chief Executive, was contactable by staff.

As noted above, responses to the AML/CTF Annual Return 2020-2021 showed that 11% of relevant Firms submitted a SAR, with a total of 74 SARs being submitted by relevant Firms.

Analysis

As Covid-19 restrictions eased in the reporting period, the Society moved to a hybrid model of supervision using both on site visits and DBRs as the benefits of using both supervisory tools together had been noted. In the reporting period the number of on site visits and DBRs increased compared to the previous reporting period.

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

The Society recommenced 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.

The Society continued to hold bi-monthly meetings with the Professional Conduct Department's Monitoring team regarding the ongoing work done by DBRs in order to identify common trends and themes which emerge from such Reviews, 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 continued to enhance and develop their Risk Based Approach to supervision and as part of this updated its Sector Risk Assessment in September 2021, following the publication of the National Risk Assessment in December 2020. This was provided to every solicitor in Northern Ireland and is also available to members on the Society's website.

The Society also updated its Consolidated Risk Assessment Methodology Document & Guidance for a Risk Based Approach for the Society: Supervision and Monitoring (March 2022) and developed a Risk Categorisation and the Assessment of Risk Policy – March 2022.

The Society considered the results of the responses to its AML/CTF Annual Return 2020-2021 (Firms) for the reporting period at its Risk Review meeting in March 2022. Prior to this meeting the results of the AML/CTF Annual Return (Firms) were 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.

Due to fast moving developments in Ukraine towards the end of the reporting period, the Society took a number of actions to keep members updated and to highlight the situation at that time. These actions are noted above in the Key Themes section.

The Society also reviewed AML Annual Returns (Firms) for relevant information and emailed MLROs directly in order to ascertain the level of risk within the sector. This work will be kept under review as events unfold.

Relevant resources



- The Report prepared by the Treasury (HMT) and the Home Office under regulation 16(6) of the Regulations (the National Risk Assessment 2020) ;
<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>
- The National Crime Agency/UK Financial Intelligence Unit (NCA/UKFIU) Suspicious Activity Reports (SARs) Annual Reports and SARs Reporter Booklets (2018-2021) ;
<https://www.nationalcrimeagency.gov.uk/what-we-do/crime-threats/money-laundering-and-illicit-finance/suspicious-activity-reports>
- FATF Guidance for a Risk-Based Approach – Legal Professionals (June 2019);
<https://www.fatf-gafi.org/publications/fatfrecommendations/documents/rba-legal-professionals.html>
- FATF AML and CTF Measures Ireland- Mutual Evaluation Report (June 2017) and Follow-Up Reports (November 2019);
<https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/Follow-Up-Report-Ireland-2019.pdf>
- FATF AML and CTF Measures United Kingdom Mutual Evaluation Report (December 2018);
<https://www.fatf-gafi.org/publications/mutualevaluations/documents/mer-united-kingdom-2018.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>
- HM Treasury – AML and CTF Supervision Report 2019-20 (Published November 2021);
<https://www.gov.uk/government/publications/anti-money-laundering-and-counter-terrorist-financing-supervision-report-2019-20>
- Legal Sector Affinity Group – Anti-Money Laundering Guidance for the Legal Sector 2021.
- The Society's updated Sector Risk Assessment 2021.

Emerging areas of risk/trends

- **Financial Sanctions**

In light of the conflict in Ukraine, the Society has noted the imposition of financial sanctions on Russian nationals (and others) as an area of risk for members. The Society has issued several communications to members in this regard and placed relevant information on the Society's website.

This is a fast moving situation 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.

The National Risk Assessment 2020 (NRA 2020) has noted the impact of Covid-19 on cross border matters. It is highly likely that fluctuations in travel restrictions linked to Covid-19 will lead to further surges (in the case of restrictions easing) or decreases (in the case of restrictions tightening) in criminal cash being moved out of Northern Ireland via passengers.

Solicitors may also 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 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. The Society has increasingly seen cryptoassets referred to in its supervisory work.

- **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**

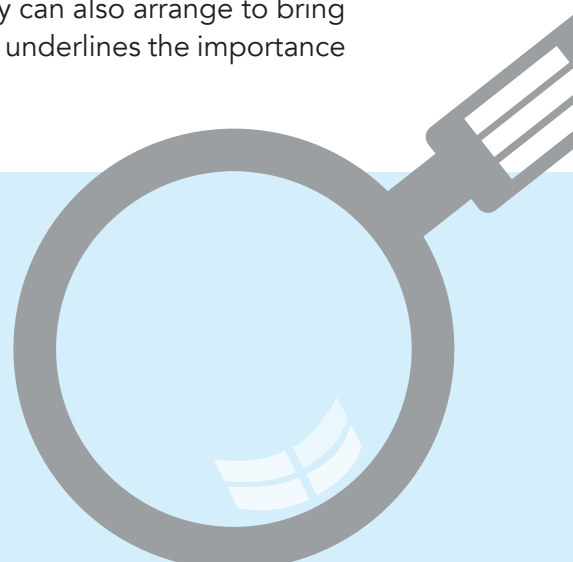
The NRA 2020 identifies sham litigation as an emerging area of risk whilst further noting recent research which suggests the UK court system is vulnerable to being exploited for money laundering.

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:

- Establishing an AML Hub within the Society;
- Providing an interactive format for members to submit their AML/CTF Annual Return with greater ease;
- Amending the AML/CTF Annual Return in the next reporting period to ask members if they have conducted business for any clients working, living in or based in Russia, Ukraine and/or Belarus.
- Reviewing AML annual return data to review Firms who have undertaken work for any clients working, living in or based in countries which border Ukraine to take into account the developing risks in the region.
- Continuing to provide guidance for Firms through the Society's CPD programme of webinars which focus on risk and AML;
- Consider the delivery of AML key themes to the membership by new methods – eg: by podcast, issuing an AML aide memoire and use of other relevant online resources;
- 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.





THE LAW SOCIETY
OF NORTHERN IRELAND



100
YEARS

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