



The Law Society

Risk assessments – key risk factors

A key feature of the Money Laundering Regulations 2017 is the 'risk-based approach' to preventing and detecting money laundering, and the specific requirement to undertake and maintain a documented firm-wide risk assessment if you work in the regulated sector.

A firm-wide risk assessment should identify the money laundering risks that your firm faces and set out the steps you take to address those risks. You should reference your policies, controls and procedures, and state clearly what you do when you identify a high-risk client or matter.

Read on for key considerations and valuable advice on identifying and assessing risk factors.

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1 Clients

Begin by assessing your client base and the level of money laundering risk associated with it. Consider the following questions.

- How often do you undertake regulated work?
- Do you tend to have a stable client base or high client turnover?
- Do you have clients based in high risk jurisdictions? See the country and geographic risk factors set out below.
- Do you know your clients personally? If not, what additional steps do you take to mitigate the risks that this poses?

Ensure that your policies, controls and procedures, especially in relation to customer due diligence and ongoing monitoring, address and mitigate the client risk factors relevant to your firm.

2 Delivery channels

The way services are delivered can enhance or reduce your risk.

- Do you provide services to clients you have not met face-to-face?
- Do you enter into business relationships with clients that are conducted through intermediaries?

3 Countries or geographic areas of operation

Country risk factors should feature in your assessment of the money laundering and terrorist financing risks your practice faces. Consider whether the jurisdictions in which your clients, or the beneficial owners of your clients, are based, or operate their businesses:

- have deficient anti-money laundering legislation, systems and practice
- have high levels of acquisitive crime or higher levels of corruption
- are situated in 'offshore financial centres' or tax havens
- are subject to sanctions.

You should set out the enhanced due diligence measures that you apply when acting for a client based in a high risk third country, or where there is a higher risk of money laundering.

4 Products or services

Consider whether any services you provide are attractive to money launderers. The Legal Sector Affinity Group AML guidance identifies the following areas as posing the highest risk of being used for money laundering:

- misuse or abuse of client accounts
- the sale or purchase of real property
- creation of trusts, companies and charities
- management of trusts and companies
- sham litigation.

5 Transactions

Consider how frequently you carry out higher risk transactions. Factors that might make a transaction higher risk include:

- the size and value of the transaction
- the payment type (for example cash, bitcoin)
- transactions or products that are complex, facilitate anonymity or don't fit a usual pattern.

Always keep a record of the sources you use when carrying out your firm-wide risk assessment and ensure that the risk assessment is regularly reviewed and updated to reflect any changes in your firm's circumstances.

For additional support on anti-money laundering and compliance-related issues facing law firms, visit: www.lawsociety.org.uk/riskandcompliance