

Anti-Money Laundering Supervision Report 2018



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Introduction

- ✦ CILEx became an approved anti-money laundering (AML) supervisory authority on 6 February 2015. In line with other regulatory functions, under the Byelaws, CILEx delegates to CILEx Regulation the AML supervisory activities and functions, including risk assessment, monitoring and enforcement.
- ✦ The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 came into force on 26 June 2017 and set new requirements for supervision by self-regulatory bodies.
- ✦ The 5th Money Laundering Directive will see a requirement on all self-regulatory bodies to publish an annual report containing information on their supervisory activity.
- ✦ This report outlines the AML supervisory activity carried out by CILEx Regulation in 2018. The supervisory data relates to the period 6 April 2017 to 5 April 2018, which covers the last annual return to HM Treasury.
- ✦ It also identifies areas for development for our AML supervision in 2019.



Scope of supervision

We supervise for AML compliance:

- ✓ CILEx Authorised Entities; and
- ✓ Unregulated sole practitioners (not operating through a Limited Company or LLP)

We do not supervise unregulated firms as they are not members of CILEx.

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Office for Professional Body Anti-Money Laundering Supervision (OPBAS)



The Government created the Office for Professional Body Anti-Money Laundering Supervision (OPBAS) as part of a wider package of government reforms to strengthen the UK's AML and CTF regime. They aim to ensure there is a consistent standard of AML/CTF supervision by PBSs and became operational on 1 February 2018. They enable PBSs, statutory supervisors (including HM Revenue & Customs and the FCA) and law enforcement agencies to collaborate and share information and intelligence. They published a Sourcebook on 1 February setting out the standards expected of supervisors.

During 2018, OPBAS conducted a supervisory assessment of CILEx Regulation to assess how CILEx Regulation supervises the members in line with the requirements set out in the MLRs for preventing money laundering and terrorist financing.

CILEx Regulation presented an action plan to OPBAS to address the findings and OPBAS was to comment on this in early 2019.

Governance



The supervisory activities of CILEx Regulation are carried out under the guidance of the MLRO and the senior Management Team. They are reported regularly to the CILEx Regulation Board.

2018 saw new terms of reference for the Strategic Risk Committee approved, which extended the scope of the committee to include anti-money laundering. They assessed new risk assessment tools and provided guidance on the approach to proactive supervision.

They also provided an oversight to the AML work of CILEx Regulation with OPBAS.

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Information to supervised community

In 2018 CILEx Regulation continued to provide information by newsletters to its supervised community covering how they should comply with their AML requirements. We have supported CILEx in how they communicate to members on the need to be supervised for AML compliance.

On 5 March 2018 the Legal Sector Anti-Money Laundering guidance was approved by HM Treasury and this was added to the CILEx Regulation website and promoted to supervised firms.

The 23 March 2018 saw the launch of CILEx Regulation's Sectoral Risk Assessment, which built on the risks identified in the 2017 National Risk Assessment and the areas that might apply most CILEx Authorised Entities.

We have supported our supervised community by adding additional resources to the CILEx Regulation website throughout 2018, including providing links to risk assessments and templates and checklists that can be used by firms.

At the end of 2018, CILEx Regulation was pleased to be involved for the first time in the Government's anti-money laundering campaign, Flag it Up, following the switch from solicitors to the more inclusive lawyers in all material. It supported the campaign through a combination of direct communications and social media, via LinkedIn and Twitter.



Training

This year saw training targeted primarily towards members of the Enforcement Team and the members who constitute the Panels & Tribunals that decide disciplinary action against members and firms.

CILEx Regulation conducted its own internal audit of its AML activities prior to the visit by OPBAS and this contributed to identifying those areas for an improvement in our supervisory action.

With some changes to the team during the latter part of 2018, CILEx Regulation identified a training provider to provide both whole team training and specific technical knowledge in the early part of 2019.

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AML supervisory activity

During 2017/18 CILEx Regulation had the following supervised community:

Supervised Community

Supervised firms (Authorised Entities)	2
Sole practitioners conducting regulated activities as Authorised Entities	10
Firms or sole practitioners who act as TCSP	0
Total beneficial owners, officers, or managers within a firm ("BOOMS") as referred to in Regulation 26	15

Supervisory inspections

CILEx Regulation requests information from its applicant firms to enable it to conduct desk-based reviews of their compliance with the regulations. This will include sight of the required policies and procedures, including their own risk assessment.

On an annual basis, questionnaires are used to collect up to date information from its supervised community to conduct desk-based reviews. These will cover AML information, including a review of changes to the firm's risk assessment and the number of suspicious activity reports submitted.

Where the intelligence gathered requires further investigation, then a visit to the firm will be arranged.

Inspections - Desk Based Reviews

Desk-based reviews conducted	2
Number where assessed as 'compliant' rating	2
Number where referral or follow up action required	0

CILEx Regulation conducts a six month visit to new firms which they often find helpful in providing support and reassurance that they have appropriate controls in place. These visits also enable CILEx Regulation to validate decisions made from desk-based reviews.

If intelligence is received that indicates further investigation is required of a firm or it is felt that because of the area of work that a firm is engaged in it would benefit from a face to face review, then a further visit will be arranged.

Inspections – Onsite Visits

Visits	3
Number where assessed as 'compliant'	2
Number where assessed as 'generally compliant' rating	1
Number where assessed as 'not compliant' rating	0
Informal action following visit	1
Formal action following visit	0

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Collaboration

CILEX Regulation attended meetings to discuss best practice, share information and gain sector intelligence. These included:

- ✦ The anti-money laundering supervisors' forum
- ✦ The legal affinity group
- ✦ The legal regulators group
- ✦ The Shared Intelligence Service meetings

There was no direct engagement with law enforcement bar the meetings above, but this will be reviewed during 2019.

Enforcement action

There was no identified enforcement action required during 2017/18.

Disciplinary measures for contraventions of the Regulations

Suspension / Fine / Reprimand / Undertaking / Warning / Action Plan _____ 0

Referrals to Law Enforcement for ML/TF related matters _____ 0



Areas for development 2019

In December 2018, the mutual evaluation of the UK's AML and counter terrorist financing (CTF) measures by the Financial Action Taskforce (FATF) (the MER Report) identified significant inconsistencies between the PBSs and their standards of AML supervision. CILEx Regulation will be working with the other AML supervisors to address issues raised in the review.

During 2019, CILEx Regulation will continue to work with HM Treasury and OPBAS to ensure that its AML supervisory activities are to the standard expected. Once the action plan has been agreed in early 2019, CILEx Regulation will ensure that any identified areas are addressed. The progress that CILEx Regulation makes will be overseen by the Strategic Risk Committee.

We will be reviewing and implementing new governance protocols and policies with CILEx to shape our joint approach to combating the risks posed by money laundering activities. This will include joint training sessions appropriate to the risks that staff may encounter. CILEx Regulation has also commissioned a further independent review of its AML activities to further strengthen its approach to supervision.

The new CILEx Regulation website, which will be launched in early 2019, will see a new expanded section on Money Laundering.

CILEx Regulation will continue to engage with other legal regulators and AML supervisors on shaping the approach of PBS's. This will include responding to consultations on the OPBAS fee structure and the 5th Money Laundering Directive, as well as developing extended intelligence gathering and sharing with law enforcement bodies.

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Conclusion

- ✓ We will continue to engage with OPBAS on strengthening our risk-based approach and with law enforcement to facilitate better information sharing.
- ✓ We will work with the other supervisors on a shared approach to address the issues raised in the FATF MER.
- ✓ We will work with CILEx on ensuring that the whole membership understands the risks of money laundering and terrorist financing, when they need to be supervised, and with improved information gathering, identifying who needs to be supervised.