

ANTI-MONEY LAUNDERING - SUPERVISION REPORT 2019

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. These were amended by The Money Laundering and Terrorist Financing (Amendment) Regulations 2019 which came into force on 10 January 2020 and transposed the requirements of the 5th Money Laundering Directive.
- The 5th Money Laundering Directive required all self-regulatory bodies to publish an annual report containing information on their supervisory activity and CILEx Regulation published its first annual report in 2019 ahead of this requirement being put in place.
- This report outlines the AML supervisory activity carried out by CILEx Regulation in 2019. The supervisory data relates to the period 6 April 2018 to 5 April 2019, which covers the last annual return to HM Treasury.
- It also identifies areas for development for our AML supervision in 2020.

SCOPE OF SUPERVISION

We supervise for AML compliance:

1. CILEx Authorised Entities; and
2. Unregulated sole practitioners (not operating through a Limited Company or LLP)

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

As the majority of our firms hold client money, we recommend that even if they do not fall within the scope of the regulations, they put in place policies and procedures, including firm risk assessments, so they can tackle the risks of being targeted by criminals, and comply with the requirements of the Proceeds of Crime Act 2002. We welcome the positive approach that our firms adopt.

OFFICE FOR PROFESSIONAL BODY ANTI-MONEY LAUNDERING SUPERVISION

The aim of the Office for Professional Body Anti-Money Laundering Supervision (OPBAS), which became operational on 1 February 2018, is to ensure there is a consistent standard of AML/CTF supervision by PBSs. They enable PBSs, statutory supervisors (including HM Revenue & Customs and the FCA) and law enforcement agencies to collaborate and share information and intelligence.

Following a supervisory assessment of CILEx Regulation in 2018, CILEx Regulation has been working to an agreed action plan with OPBAS to address the findings of their visit. Quarterly updates of progress made, together with supporting documents, were submitted in a timely fashion. These will continue in 2020 in line with agreed deadlines for action.

Actions that have taken place include:

- Implementing new AML Training

- Publishing a Whistleblowing policy
- Improving our Information sharing arrangements
- Reviewing our Governance arrangements

GOVERNANCE

The supervisory activities of CILEx Regulation are carried out under the guidance of the MLRO and the senior Management Team. Progress on the OPBAS Action plan, together with other AML activities, is reported regularly to the CILEx Regulation Board.

The Strategic Risk Committee continued to provide oversight on the new AML risk assessment tools and guidance on the approach to proactive AML supervision. We have also reported to them on the work to meet the requirements of the OPBAS action plan.

During the year we have continued to develop our internal policies and procedures and, following discussions with CILEx, published our first Whistleblowing policy.

INFORMATION TO SUPERVISED COMMUNITY

In 2019 CILEx Regulation continued to provide information by newsletters to its supervised community covering how they should comply with their AML requirements. We continued to work with CILEx on how they communicate to members on the need to be supervised for AML compliance.

We updated our 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 and was first published in 2018.

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, and continued this publicity of AML risks by supporting #SuspiciousMinds in 2019.

The new CILEx Regulation website was launched in early 2019 and saw a new expanded section on Money Laundering that was easier to access for users.

Our CEO Helen Whiteman reiterated the importance of combating money laundering by publishing a piece on our Regulation Matters website in July 2019.

TRAINING

This year saw the introduction of a more structured approach to our AML training with the implementation of a new suite of eLearning courses which included Preventing Money Laundering, Whistleblowing and Preventing Bribery in Business.

These ensure that all existing and new staff now complete or refresh their AML training annually.

In addition, training was carried out in February by an external AML specialist to provide both whole team training and specific technical knowledge to staff with key AML responsibilities. They also provide an external audit of our policies and procedures.

AREAS DEVELOPED IN 2019

The year has seen CILEx Regulation involved in a number of initiatives that are connected to helping combat money laundering and the funding of terrorist activities.

These have included:

- NCA roundtable on Modern Day Slavery
- Governments work on the delivery of the Economic Crime Plan
- New SARS online system
- Legal Sector Intelligence Sharing Expert Working Group

CILEx Regulation has continued to engage with other legal regulators and AML supervisors on shaping the approach of PBS's.

AML SUPERVISORY ACTIVITY

During 2018/19 CILEx Regulation had the following supervised community:

Supervised Community	
Supervised firms (Authorised Entities)	2
Sole practitioners conducting regulated activities as Authorised Entities	15
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	20

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 includes 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 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. The following relate to those firms authorised in 2018, who had previously had an inspection visit

Inspections - Desk Based Reviews	
Desk based reviews conducted	5
Number where assessed as 'compliant' rating	5
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	7
Number where assessed as 'compliant' rating	6
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
- The Legal Sector Intelligence Sharing Expert Working Group

Whilst there was no direct engagement with law enforcement bar the meetings above, this is reflected in the limited instances of money laundering identified within the CILEx membership as a whole.

Enforcement action

There was no identified enforcement action required during 2018/19.

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 2020

During 2020, CILEx Regulation will continue to work with HM Treasury and OPBAS to ensure that its AML supervisory activities are to the standard expected.

We will ensure the final issues identified under the action plan are addressed and the progress will continue be overseen by the Strategic Risk Committee, the Senior Management Team and the CILEx Regulation Board.

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.

We will work with the other supervisors on implementing the new AML Regulations and carrying out a full review of the Legal Sector Guidance. This year will see focus on the new National Risk Assessment and establishing the Legal Sector Intelligence Sharing Expert Working Group as an effective communication platform for the supervisors.

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 Financial Action Task Force Mutual Evaluation Report.

- We will continue to 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.

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