

CLC AML non-compliance case studies

The following case studies are anonymised examples of AML non-compliance that the CLC has identified during its ongoing monitoring of CLC Practices.

The CLC is committed to tackling the fight against money laundering, particularly in the conveyancing sector, and will take action against any CLC Practice found not to be fully compliant with their AML obligations. The 2017 AML Regulations have been in place for some time now, and the CLC believes that practices have had sufficient time to come into compliance, particularly bearing in mind the resources which are contained in the CLC's AML toolkit¹.

The CLC hopes that these case studies will provide a timely reminder to practices of their obligations, to ensure transparency in what we do and to achieve consistency in our approach to non-compliance that is identified on inspections.

Any questions on AML matters should be directed to your practice's allocated Regulatory Supervision Manager (RSM) or Officer (RSO) in the first instance.

Case Study 1: A sole practitioner (Recognised Body)

Issues: During an inspection in 2022, the CLC inspector identified a number of instances of non-compliance with the AML including:

- a. A non-compliant AML policy that referred to the superseded 2007 AML Regulations and which appeared to be the policy of an entirely separate CLC practice that had closed down.
- b. On two files which were reviewed, it was identified that two forms of identification had not been obtained to satisfy proof of identity and proof of address.
- c. The practice did not undertake client and matter-based risk assessments which assess the level of risk in each transaction on an ongoing basis.
- d. The practice did not have an up-to-date practice wide risk assessment (PWRA) which contained details which were no longer applicable.
- e. Source of funds/source of wealth checks were not clearly evidenced on two of the files reviewed.
- f. Client ID documents were found not to have been routinely certified by the practice.

CLC action: The practice was provided with 14 days to address these issues including to draft an appropriate AML/CTF policy, to implement client/matter risk assessments, to develop a source of funds checklist which was to be used on every file going forward along with the relevant evidence that had been obtained and to provide an up-to-date PWRA.

Outcome: The practice did not come back into full compliance with the CLC codes and it was noted that the responses provided to the CLC were far below the standards that would be expected of a Licensed Conveyancer.

It was also identified that some of the AML failings identified in 2022 were similar to issues identified in a 2018 inspection. For example, it was also concluded in 2018 that the practice was non-compliant with AML and one of the actions was that the practice was required to document and evidence the source of funds on all current cases prior to exchange and completion.

¹ <https://www.clc-uk.org/lawyers/anti-money-laundering-toolkit/>

In light of these factors, the seriousness of the issues identified and the practice's subsequent lack of cooperation and poor quality of multiple responses, the CLC decided to take disciplinary action against the practice which culminated in a public hearing before the Adjudication Panel (AP) at which the practice and the sole practitioner were fined and the SP was disqualified for a period of three years. The CLC was awarded costs which came to £2,763.

CLC guidance:

- The CLC has now developed a template AML policy/procedure which sits within our AML guidance document that can be found [here](#). CLC practices are welcome to use this template as long as they tailor the template to their own practice and AML procedures and processes.
- Also relevant to this case study is the source of funds checklist which is a valuable tool to ensure that you are discharging your obligations in this area and avoiding some of the common issues. The checklist can be found [here](#).
- The CLC would also like to highlight to practices a recent template for practice wide risk assessments (PWRA) which can be found in our AML toolkit [here](#).

Case Study 2: A medium sized CLC practice (Recognised Body)

Issues: During an inspection in mid-2024, the CLC identified some instances of non-compliance with the AML code as follows:

- a. The practice's AML policy/procedure did not include a number of critical areas including:
 - (i) A clear position on how ongoing monitoring is conducted or when client due diligence or enhanced due diligence should be reapplied;
 - (ii) A definition of source of wealth and the full process and procedure for it;
 - (iii) A full process and procedure for dealing with high-risk third countries and HM Treasury sanctions;
 - (iv) A procedure for handling foreign and domestic politically exposed persons (PEPs);
 - (v) Reference to the process and procedure for screening potential/current employees.
- b. It was identified that although the practice had a client/matter risk assessment form in place, this was not being undertaken at the outset of matters as it would be expected to be in order to properly assess the risk at the beginning of the matter and decide the level and extent of due diligence to be carried out.
- c. In one matter (that was still ongoing at the time of the inspection) that had been reviewed by the inspectors, it was identified that the source of funds and source of wealth checks did not go far enough in that only one statement of a savings account was one file, which covered one month, despite the client claiming to have saved £500,000 over a significant time period. Furthermore, payslips and details of the clients' other employments were not located on file.

CLC action: With respect to the live matter referred to above, the CLC practice was provided with immediate actions to take after the closing meeting with the practice. Ultimately the practice was able to obtain the necessary evidence to satisfy themselves that the client had legitimately saved up the amount stated above which was also satisfactory for the CLC. With

respect to the other issues identified the practice was required to amend its existing AML policy/procedure to address the findings, to amend the risk assessments forms it had to include all relevant factors be taken into account and to outlined a new process for ensuring that sufficient SOF/SOW evidence is obtained such as in the matter noted above – and to ensure this approach is captured in its AML policy and procedure.

Outcome: The practice came back into full compliance with the CLC codes in a timely fashion and fully cooperated with the CLC. The CLC was satisfied with the responses that it received.

CLC guidance:

- In addition to the AML policy/procedure that was noted in the previous example, the CLC in 2024 published the AML checklist that we use when going out on inspections. It can be a useful health check for practices if you want to assess whether what you currently have would be considered to be compliant or not. The checklist can be accessed [here](#).
- In relation to savings, CLC practices should be careful of accepting limited evidence that covers a short period of time when in fact the savings have been accrued over a very long period of time such as in the example above. Although you are not required to extensively document every month the savings were held, it would be prudent, for example, to obtain bank statements which show the money accumulating over time and evidencing the deposits that the client has stated are the source of the savings (such as salary payments).

Case Study 3: A large CLC practice (Alternative Business Structure)

Issues: During a two-day inspection in early to mid-2024, the CLC identified some instances of non-compliance with the AML code as follows:

- a. On one matter that was reviewed by the inspection team, it was identified that an internal suspicion report form was not completed and also that correspondence relating to the suspicion of money laundering, which was escalated to the MLRO, was evident on the matter file which risked tipping off, which is a serious criminal offence.
- b. It was also identified on this file that the MLRO had indicated to the member of staff who had raised the suspicion of money laundering that as the NCA had not commented on the matter (after it had been reported), that the practice was free to proceed. This was said despite the fact that an information only SAR had been submitted as opposed to a SAR that requested an actual defence to money laundering. Furthermore, a copy of the SAR was not retained by the practice.
- c. It was also noted that this practice had previously used the phrasing “proof of funds” instead of source of funds. The implication of this is that merely obtaining proof of funds (such as a bank statement by itself) is sufficient to discharge the practice’s duty under the AML Regulations.

CLC action: In relation to the issues identified above, the CLC required the practice to: outline to the CLC how internal suspicion reports and/or correspondence relating to a fee earners’ suspicions of money laundering which are considered internally/escalated to the MLRO are not saved to the matter file, to avoid tipping off, to ensure that copies of SARs submitted to the NCA are retained and for the practice and to ensure that DAML (Defence Against Money Laundering SARs were submitted in appropriate scenarios where the practice has exchanged on a matter.

With respect to the language that the practice had used (proof of funds) the CLC issued a recommendation to the practice which is at the practice's discretion to implement.

Outcome: The practice complied with all of the actions issued by the CLC and came back into compliance with the CLC's codes.

CLC guidance:

- SARs – the CLC would reiterate that there are two distinct classes of SARs which practices must be conscious of: intelligence only SARs and Defence Against Money Laundering SARs. In terms of acting for clients, the latter should be used where the practice has **exchanged** in a transaction and has developed either knowledge or suspicions that money laundering may be taking place.
- In matters which have **not exchanged** a DAML SAR should not be used as a routine mechanism for seeking protection against committing offences under the Proceeds of Crime Act 2002 (POCA). Where there is any knowledge or suspicion of money laundering and where exchange has not yet taken place and there is no contractual obligation to proceed, the retainer should be terminated. Continuing an arrangement with a client where there is any suspicion they have committed an offence and seeking a defence for comfort is considered to be potentially unethical and may also be an offence under POCA.
- Please note that irrespective of the above, where a CLC practice has received **client money** and the client is asking for it to be returned in unusual circumstances (even if it is prior to exchange), a DAML SAR is likely to be appropriate to ensure that the practice is not committing a money laundering offence by returning the money. The client accounts of CLC practices can give the impression that client money is clean.
- CLC practices should be aware of the language they are using in their AML policies and procedures and conscious that such language can have a bearing on the evidence that fee earners obtain. Using “proof of funds” instead of “source of funds” is one such example and we would encourage CLC practices to check their own documents to ensure such language is not used. Bear in mind with source of funds that it is not sufficient to obtain evidence the funds exist but to answer the question of how that money was generated in the first place. A good explainer of this can be found in the CLC's source of funds checklist which can be obtained [here](#).

Case Study 4: A small CLC practice (Recognised Body)

Issues: During an inspection in early 2024, the CLC identified some serious instances of non-compliance with the AML code as follows:

- It was identified that the MLRO had little to no knowledge about the rules relating to anti-money laundering compliance. There was no record of any AML training having been undertaken by either of the two licensed conveyancers (LCs) at the practice.
- The MLRO informed the CLC that she did not conduct source of funds or source of wealth checks which was evident on a number of matters reviewed by the team that the MLRO was handling.
- The other files reviewed, which were handled by the other LC, demonstrated either no evidence of such checks or inadequate checks in the judgement of the inspection team.

- It was also found there was no evidence that client and/or donor ID was verified or adequately verified in relation to four matters that were reviewed at the inspection.
- The practice was found not to be conducting any client or matter risk assessments and their practice wide risk assessment identified the risk of money laundering as being “low” despite conveyancing being at a high risk of exploitation by those seeking to launder the proceeds of crime.
- Serious breaches of the accounts code were also identified including allowing the client account to be used as a banking facility, using suspense ledgers inappropriately and round sum transfers from the client account to the office account which could not be properly explained by the practice.

CLC action: After investigation of these concerns and seeking responses from the practice to the issues identified, the CLC concluded that not only was there serious and significant breaches of two of the CLC’s core codes, it was also identified that the practice did not cooperate with the CLC and failed to respond to emails trying to find out more about the AML and accounts breaches noted above. A month after the visit to the practice, the CLC took the decision to intervene into the practice.

CLC guidance:

- It is vital that MLROs have sufficient training and knowledge to discharge their roles in light of the numerous and wide-ranging obligations in the 2017 AML Regulations (As amended) and to ensure that the practice is not targeted by those seeking to launder the proceeds of crime. Bear in mind that the CLC’s AML & CTF code requires that MLRO’s have an appropriate level of authority and independence as well as access to, “resources and information sufficient to enable them to carry out that responsibility.”² One of the key ways of ensuring the MLRO is kept up to date and well informed is through training which should be at an enhanced level that is commensurate with such a position.
- The CLC often finds a connection between serious AML breaches and inappropriate use of the client account. We would emphasise to practice’s that they should only allow CLC regulated client account to be used for regulated matters in relation to current clients. It may be tempting to allow others to use the client account, perhaps as a favour to friends of acquaintances, but this is a serious risk in terms of exposing your practice to the risk of money laundering and one which the CLC will not tolerate.
- Finally, the CLC would also highlight that **personal relationships** do not provide an exemption to the money laundering regulations. Although you may consider that you are aware of where the money is coming from in a particular transaction and perhaps conclude that you do not need to conduct basic checks, this would be a serious violation of the CLC’s AML code and would expose the practice to considerable risk.

Effective date	March 2025
Review Date	March 2026
Review Record	
Author: Deputy Director of AML and Sanctions (SH)	

² Paragraph 8(c).