

The Accounts Rules

Tuesday 13 May 2025

2.30pm to 4.00pm

Candidates are required to answer TWO out of three questions.

Throughout this paper The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 are referred to as the Money Laundering Regulations.

When applicable, an answer should refer to The Accounts Rule identifier.

Question 1

The Law Society of Scotland (LSS) sets out requirements and obligations for regulated members. Amongst the requirements, members are obliged to perform/act in accordance with the stipulations of Rule B. Rules B6 and B9 interlink with other LSS Rules but specifically they address the Accounts Rules.

- a) What do you regard as the primary objective of Rule B6?
- b) What do you regard as the strengths and weakness of Rule B6 as drafted and published in the LSS web site?
- c) Please respond to each of the following questions as they relate to Rule B6.
 - i. List the obligations in the Accounts Rules relating to Client Balances held after the conclusion of matter. Identify a possible, belated consequence for the firm.
 - ii. What are your firm's obligations before entering into a bridging loan on behalf of a client.
 - iii. What do the Accounts Rules say about account reconciliation? What is the purpose of these reconciliations, the frequencies of reconciliations and why are they deemed necessary?
 - iv. When reviewing and closing "old" client files, you're horrified to find a cheque for £150 which is stapled to a letter you received from the client three months ago. The client matter is closed. The letter explains that the cheque was a payment to account of outlays. £50 pounds of outlays had been incurred and paid by your firm. What are the rules on banking client money and how do you propose to deal with the cheque? State your assumptions when answering.
 - v. What do the Accounts Rules say about withdrawing money from a client account?
 - vi. In what circumstances can the Council of the Law Society of Scotland carry out a routine inspection?

Question 2

AAA Limited is a long-established client of your firm. You agreed to act for the client in the purchase of a commercial property. You take instructions from a director, Mr Johnston. He is known to your firm as you have acted for AAA Limited on his instructions before. You received from the company £5,000 as a payment to account of various outlays which are anticipated to be incurred during the purchase process.

- a) Are you under any obligation to pay interest to the client on this money?
Explain your answer. Identify an applicable Rule under the Accounts Rules.

Halfway through the transaction Mr Johnston explains that there has been a change of plan and title will be taken in the name of another company, SSS Limited. SSS Limited is also a long established client of your firm. You have acted for that company previously, again on the instruction of Mr Johnston who a director of both companies. You complete the transaction in the name of SSS Limited as instructed paying outlays as they incurred out of the £5,000 provided to the firm. Now that the transaction has concluded you realise that there remains £200 on the client ledger. You no longer need this money as the transaction is completed.

- b) Under the Accounts Rules what are your obligations in relation to this money? Identify the relevant Rule.

You now realise that money received from AAA Limited has been used to pay for outlays due to be paid by SSS Limited.

- c) Has there been a breach of the Accounts Rules?

Explain your answer with reference to the Accounts Rules.

- d) With the benefit of hindsight are there any steps which you wish you had taken at the point of receiving instruction from SSS Limited?

- e) Under the Accounts Rules what is meant by?

- i. "clients' money"
- ii. "holding ledger"
- iii. "client account"; and
- iv. "balance its books".

- f) The week before the property purchase by SSS Limited was due to be completed Mr Johnston explains that the client company had recently appointed a new director (Mr Stevens) who will take over the instruction of the transaction. You have never met Mr Stevens or had prior dealings with him.

Are required to take any steps under the Money Laundering Regulations following the change of client personnel? Briefly explain your answer.

In addition to the change of the client's named contact, you were informed by the client that the funding to purchase the commercial property (Cost £1million) would be transferred to your firm from an overseas bank.

Are there any Anti-Money Laundering implications due to your receipt of this information?

Question 3

Your legal firm has been asked to carry out a commercial property transaction on behalf of a new client. The new client is John Baker (Edinburgh) Limited. You understand that the company trades in scrap metal and that it wishes to lease a warehousing facility. The company is UK based and has no links with foreign countries. The instruction is coming from Mr John Baker.

Neither the company nor Mr Baker is an existing client.

- a) With reference to the Regulation 27 of the Money Laundering Regulations what statutory obligations are you under? With reference to Regulation 30 what obligations are you under with regard to timing?
- b) On the information provided, do you need to apply enhanced customer due diligence? Explain your answer.
- c) What is the definition of a "PEP" under the regulations?
- d) Explain your understanding of a "Defence Against Money Laundering" (DAML).
- e) You see from Companies House that Mr Baker is the sole Director. He does not however own any shares. The shareholding in the company is held as follows:-

Mrs Jennifer Baker – 26 per cent

The Baker 1992 Trust for Children – 74 per cent.

- (i) What are your obligations with regard to due diligence under the Regulations?
- (ii) List the documentation you would wish to see when vetting the client.

END OF PAPER