

# Client & Matter Level Risk Assessment

Guidance notes

2025

# Client level Risk Assessment – Risk Factors

## Client Information

1. Personal and long-standing clients does not negate your obligation to comply with the Regulations. Please see section 6.2 of the Legal Sector Affinity Guidance ([LSAG Guidance](#)) for information regarding how this may affect the risk profile and due diligence you are required to perform.
2. Holistic due diligence means going beyond undertaking identification and verification (ID&V) of your client. It involves (but is not limited to) obtaining other information on your client, including details of their occupation / position held, background, their circumstances (for example this could involve simple google searches of client), the reason they are engaging your services - and then assessing this information to form an overall profile of the client.
3. A PEP is defined as an individual who is entrusted with prominent public function, other than as a middle-ranking or more junior official', e.g., heads of state, MPs or similar, members of courts or judicial bodies, members of administrative, management or supervisory boards of state-owned enterprises, and directors and members of the board of an international organisation, whether in the UK or abroad. The PEP definition also extends to family members.

*Note: you must obtain senior management / MLRO approval before continuing with the business relationship. Ensure that the approval is documented. Further, that you apply the Enhanced Due Diligence (EDD) required when dealing with a PEP.*

Please see r.35 and sections 6.19.3 to 6.19.3.4 of the LSAG guidance for further information. Please also see “sanctions/PEPs and Adverse Media screening” section below.

4. You should take into consideration the elevated risks attached to certain sectors when carrying out your assessments. Please see r.33(6)(b)(vii) and section 5.6.1.3 of the LSAG guidance for further information.

5. You should consider the elevated risk attached to clients who operate or benefit from high cash turnover operations as these types of businesses may be appealing to criminals seeking to launder money. Non-business entities may fall into this group also, including charities, where funds are coming from multiple sources and are difficult to verify, though this may be of greater risk in a terrorist financing context. Equally you should consider the potential risks where a client has low cash turnover, but an unexplained large cash balance. (LSAG section 5.6.1.4).

## Client Location

6. This extends beyond sanctioned jurisdictions or those on so-called “International grey-lists”. It also includes high-risk third countries.

### **High Risk Third Countries (HRTC)**

HM Treasury released an Advisory notice which came into force on 22 January 2024, this note amended the definition of HRTC. It removes Schedule 3ZA containing the list of HRTCs in the MLRs. Instead of referring to a separate schedule, Regulation 33(3)(a) will now define an HRTC as:

- a country named on either of the following lists published by the Financial Action Task Force (FATF) as they have effect from time to time—
  1. High-Risk Jurisdictions subject to a Call for Action;
  2. Jurisdictions under Increased Monitoring

In order to keep abreast of which countries are HRTCs, relevant persons will now have to refer directly to lists published by the Financial Action Task Force (‘FATF’) of ‘Jurisdictions Under Increased Monitoring’ and ‘High-Risk Jurisdictions subject to a Call for Action’. These lists are updated three times a year, on the final day of each FATF Plenary meeting, held every February, June and October.

### **Higher Risk jurisdictions**

You should note that there may be other jurisdictions that present a higher risk of money laundering that are not on the above FATF lists.

LSAG section 5.6.2.1 provides further guidance on this.

Further resources to help you consider whether a country is higher risk include:

- [AML and geographical risk | Law Society of Scotland \(lawscot.org.uk\)](#)
- [Transparency International's corruption perception index](#)
- [The Basel AML Index](#)
- [CIA World Factbook](#)
- [International Narcotics Control Strategy Reports](#)
- [FATF Jurisdictional Information](#)
- [The Know Your Country rating table](#)

Please also see r.33(3) and sections 5.6.2.1, 5.6.2.3 & 6.19.1 of the LSAG guidance for further information and useful links which will assist you.

## Client Interaction

7. ID&V is often undertaken in person, on the premises of your practice using suitable identification documents. This can provide a stronger level of assurance. Alternatively, you can use free basic software products that enable video conferencing to assist with the identification and verification process. Your practice's definition of face-to-face should be documented in your AML policies, controls and procedures. The LSS website provides guidance on [non-face-to-face identification and verification](#). Please also see sections 6.14.5 and 6.14.6 of the LSAG guidance for further information.
8. When you do not meet the client, you should consider the reason for this and whether this represents an additional risk which should be taken into account within your risk assessment and the extent of the due diligence measures you apply. EID&V may be a particularly useful tool in these circumstances. Please see sections 6.14.5 and 6.14.6 of the LSAG guidance for further information.
9. If the client is acting or planning to act through an intermediary, you should establish why and ensure that the rationale for doing so makes sense. You must also:
  - verify that the intermediary, agent or representative is authorised to act on your client's behalf (i.e., obtain written confirmation from your client)
  - identify the intermediary, agent or representative
  - verify the identity of the intermediary, agent or representative on the basis of documents and information from a reliable source which is independent of both the representative and the client e.g., via a copy of their passport or driving license.

Please see r.28(10) and section 6.14.9 and 6.6 of the LSAG guidance for further information.

## Sanctions, PEP and adverse media screening

10. Screening should be considered in areas where it will be most useful and effective. As the sanctions regime is absolute, practices should ensure there are appropriate measures in place to ensure they do not undertake unauthorised business with sanctions targets in areas of less risk. R35(1) requires practices to have appropriate risk management systems and procedures to determine whether a client or beneficial owner is a PEP. These measures, along with those in relation to adverse media screening should be risk-based in approach. Please see sections 5.10, 6.19.3 and 7.11 of the LSAG guidance for further information.

## Matter Level Risk Assessment – Risk Factors

11. R.12(1) and (2) defines all relevant work undertaken by Practices that is in scope of the Money Laundering Regulations.
12. Under the new money laundering regulation statutory instrument brought in September 2022, the Government brought in the amendments 16A, 18A and 19A in relation to the proliferation of financing (PF).
  - R.16A defines PF
  - R.18A-19A further adds the requirement on all practices in scope of the regulations to carry out a practice wide risk assessment incorporating PF and further include PF in their policies, controls and procedures.Further information on this can be found within r.16A, r18A, r19A and [Guidance on Proliferation Financing Risk Assessment and Mitigation \(fatf-gafi.org\)](https://www.fatf-gafi.org/publications/fatfguidance/documents/guidance-on-proliferation-financing-risk-assessment-and-mitigation.pdf).
13. Consider if the transaction / matter is within your area of expertise and, importantly, within your practice's risk appetite. Being aware of your practices risk appetite is imperative when deciding whether to onboard a client or complete a transaction. Risk appetite is defined as the level of risk a practice is willing to accept. For some practices this may mean that higher risk transactions fall outside of 'the normal' risk appetite – e.g. commercial conveyancing involving cash intensive business when the majority of the work undertaken is residential conveyancing.

When considering risk appetite, you should take into account the normal locations, clients, services and sectors in which your practice operates, and the risk level your practice is willing to tolerate as well as governance and decision-making processes.

## Source of funds

14. A fundamental element of CDD is understanding the nature, background and circumstances of the client, including their financial position – and making an assessment as to whether the legal services provided to the client and the level of funds involved in the transaction are in keeping with your understanding of the background and circumstances of the client. The extent to which you should obtain, review and evidence your client's financial position is dependent upon the risk profile of the client or matter. In enhanced due diligence situations this requirement is more stringent. Section 6.17 to 6.17.2 of the LSAG guidance provides comprehensive and detailed information on source of funds.
15. The source of funds pertains directly to the funds that are being used to fund the specific transaction in hand i.e., the origin of the funds used for the transactions or activities that occur within the client's business relationship with you. Checking this means ascertaining where those funds came from (the originating or underlying source of the funds), how they were accumulated by the client and ensuring on a risk-based approach that they are not the proceeds of crime. When verifying funds that are not coming from a regulated lender, it is not enough to know that they are coming from a UK bank account or purely having sight of the client's bank account statements showing that the funds are available. Please see section 6.17.2 of the LSAG guidance.
16. It is important to note and consider any heightened or specific risks involved should the client's funds originate from outside of the UK.
17. Particular care should be given when the source of funds derive from a geographic location which is subject to sanctions, a high-risk third country, or otherwise associated with a higher risk of money laundering, corruption or criminality. Please see sections 5.6.2.1, 5.6.2.3 and 6.19.1 of the LSAG guidance for further information and useful links.
18. Where you have identified that funds are coming from a third party, you may wish to verify that person and their source of funds and, where applicable in higher-risk situations, source of wealth. Please see Section 6.17.2.1 of the LSAG guidance for further information.
19. For example –
  - Regular or round-amount cash payments / deposits funding the account
  - Frequent / round amount transfers in to or out of the account
  - A lack of what could be described as "normal" current account patterns – wages in / bill payments, living expenses out
  - Third party credits that cannot be explained

20. The Law Society of Scotland has recently released an updated FAQ on the use of crypto derived funds. Please see [AML FAQs | Law Society of Scotland \(lawscot.org.uk\)](https://lawscot.org.uk) for further information.

## Source of wealth

21. Source of wealth describes the economic, business and/or commercial activities that generated, or significantly contributed to, the client's overall net worth/entire body of wealth. It does not however require you to account for all of a client's assets, but to build a rationale and reasoning as to why they have such wealth and to provide assurance that it was obtained through legal means. Section 6.17.3 and 6.18 of the LSAG guidance provides comprehensive and detailed information on source of wealth.

## Reliance

22. Reliance has a specific meaning within the Regulations and relates to the process under R39 where, in certain circumstances, you may rely on another person to conduct CDD for you, subject to their agreement. R.39 provides a full definition of what constitutes Reliance and who can be relied upon. Please see Section 6.23 of the LSAG guidance provides further information.

Please note that accepting certified documentation from a suitable person does not constitute Reliance.

## Risk Appetite consideration

23. It is recommended that the most recent practice wide risk assessment approved by your senior management documents the practice's risk appetite. Should the client or matter be outside of your practice's risk appetite, you may wish to consider seeking senior management/MLRO approval. This approval should be documented. Further information on risk appetite can be found within guidance note 13.



## Escalation/Senior management approval

24. Gaining senior management approval is mandatory under certain circumstances – i.e. in matters which involve onboarding a PEP or a client from a high-risk third country. However, dependent on the size and nature of your practice, it could be considered best practice to have an escalation procedure for client and matters which are of higher inherent risk following completion of your client and matter level risk assessment.