



AML Compliance: Comprehensive Guide to Source of Funds for Conveyancers



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Introduction

In conveyancing, ensuring compliance with Anti-Money Laundering (AML) regulations is not merely a legal obligation but also a fundamental responsibility in maintaining the integrity of financial transactions and safeguarding the firm and the public.

Source of Funds verification is central to this compliance effort, a process designed to identify and mitigate the risks associated with potential money laundering activities, whether when taking on new clients or managing existing ones.

This guide explores how legal practitioners can harness compliance technology to streamline Source of Funds checks, enhance efficiency, and bolster fraud prevention measures.

From digital platforms employing Open Banking technology to Electronic Identity Verification solutions, the integration of technology can serve as a vital part of their compliance toolkit.

“ The legal profession often finds Source of Funds/Source of Wealth checking challenging, complex and difficult to apply in practice. It was on this knowledge that the Legal Sector Affinity Group (LSAG) sought to significantly expand guidance in this crucial area, giving both definitions, the circumstances when such checking must or should apply, and what evidence should be documented. It is a fundamental part of holistic due diligence and is at the heart of assessing the money laundering risk associated with a client or transaction. ”

- **Graham MacKenzie, Head of AML at the Law Society of Scotland**



LSAG Guidance and Regulatory Requirements

[Sections 6.17](#) and [6.18](#) of the LSAG guidance provide comprehensive directives on conducting Source of Funds (SoF) and Source of Wealth (SoW) checks, offering clarity on obligations under the Money Laundering Regulations, 2017.

SoF and SoW verification is mandatory under r.35 with respect to Politically Exposed Persons (PEPs) and r.28(11) which deals with ongoing monitoring.

The guidance emphasises that SoF checks should delve beyond mere identification of the source of funds. It necessitates understanding how and from where the client acquired the funds, ensuring a risk-based approach to mitigate the potential for illicit proceeds.

In summary, the guidance suggests:

- SoF checks are recommended for all transactions, irrespective of risk profile, value or frequency.
- Legal professionals are advised to use bank statements and relevant documentation to establish and evidence the originating and underlying source of the funds. The extent of evidence collated should be based on the risks inherent in the client and/or matter.
- SoF and SoW checks should be integrated into Enhanced Due Diligence procedures, particularly for PEPs. Additionally, conducting these checks as part of holistic Client Due Diligence practices is recommended for comprehensive risk mitigation.

Risk-Based Approach to Source of Funds

Given the risk of financial crime and money laundering associated with conveyancing transactions, conveyancers must adopt a risk-based approach to Source of Funds verification.

Conveyancers should conduct a risk assessment of new instructions, even for existing clients. In high-risk matters, they may apply enhanced due diligence measures, which involve further inquiries into the client's identity and evidencing the underlying/originating Source of Funds and Wealth to mitigate the identified risks effectively.

Following a risk assessment, conveyancers can carry out due diligence on the client, involving the following steps:

- Identifying the client, including their name and address
- Verifying the identity of the client in line with r.28 requirements
- Understanding the nature and purpose of the intended business relationship, with a specific focus on the source of funds/wealth, which entails gaining insights into the origin of funds and how the client acquired them
- Carrying out ongoing/enhanced monitoring to stay vigilant against potential risks



Documents and Verification Required

According to the LSAG guidance, Source of Funds checks should extend beyond mere transactional details to establish/evidence a substantive provenance for the funds. This means that it should not simply be limited to knowing from which financial institution the funds may have been transferred or that the client's name matches the name on the account.

In addition to documenting the amount, currency, and the remitting account details (bank, account number, sort code, name on account), the information obtained should be substantive and establish a provenance or reason for having been acquired, such as salary or gift.

It is useful to see documents like the client's bank statements in an individual client's case or company accounts in the case of a limited company. These documents provide an audit trail for the funds, helping conveyancers to verify their legitimacy.

Any gaps should be investigated, and it's crucial to ensure that the information about the source of funds is consistent with the client's profile and risk assessment.

For more information on what documents to see and processes to follow, practitioners should refer to their firm's source of funds policy and information provided by their respective supervisors:

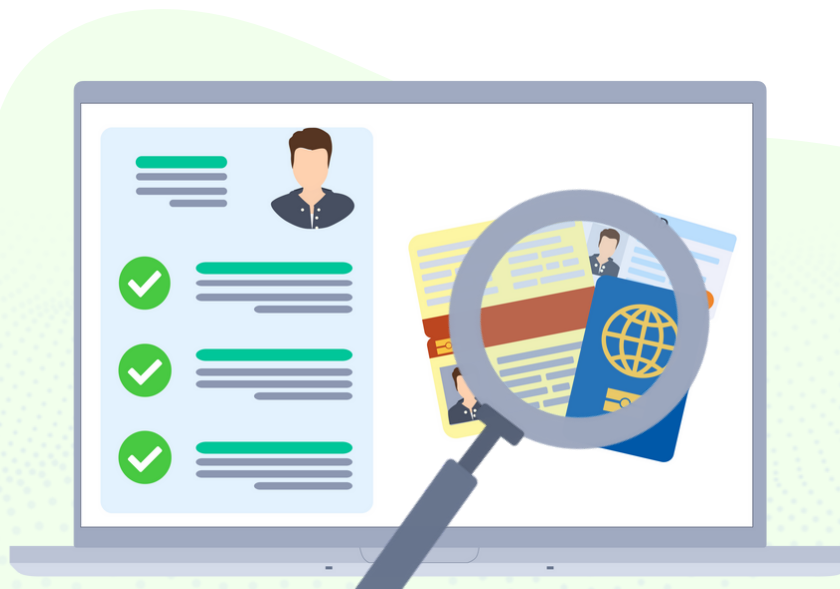
- [LSAG guidance](#)
- [SRA | Questions and answers | Solicitors Regulation Authority](#)
- [Source of Funds and Source of Wealth: What you need to know | Law Society of Scotland](#)
- [AML FAQs | Law Society of Scotland](#)

Compliance Technology for Source of Funds

Evidencing a client's source of funds is an integral part of a robust risk-based approach to comply with AML regulations. Traditionally, firms request clients to share their bank statements for a certain period via email which can sometimes pose risks such as data breaches and inefficiencies.

Digital Compliance platforms that use Financial Conduct Authority (FCA) regulated Open Banking technology, enable clients to securely share their financial transaction data directly from their bank.

It is important to note that using this technology does NOT mean that a firm has ongoing access to clients' bank statements or transaction history; instead, it provides a 'snapshot' of the data.



“ We’ve had positive feedback from our clients as many of them already use open banking technology. We now have clients asking, can you send me another link to do the check through open banking? Because it’s easier for them and us and more secure than the alternatives. ”

- Amiquis’ client Fords Daly Legal

What is Open Banking Technology?

The Open Banking regime enables trusted third parties to securely access the banking and transaction data of individuals and small and medium-sized enterprises (SMEs).

According to the data provided in January 2022 by the banks and building societies mandated under the Competition and Markets Authority (CMA) order to implement Open Banking in the UK, the number of people actively using Open Banking in the UK has reached five million.

Open Banking provides more security than other methods of sharing financial information, such as screenshots of bank statements. It is regulated by the Financial Conduct Authority and therefore must meet the same rigorous standards as banks and other financial institutions.



Benefits of Using a Digital Provider for SoF Checks

- **Mitigate fraud risks:** Unlike PDF or paper statements, the data is accessed directly from banks and cannot be forged. This ensures the authenticity of the financial information, significantly reducing the risk of fraud.
- **Efficient time management:** The bank statements and other data are instantly retrieved from the bank, eliminating the need to chase clients and manually upload documents.
- **Quick assimilation and filtering of relevant information on which to base SoF decisions:** Practitioners don't need to spend hours searching for transactions as digital platforms can filter all the data to highlight key information required.
- **Suitable for all clients:** Most user-friendly platforms, including Amiqus offer a fallback option if Open Banking isn't available or clients are unwilling to use it. This reduces additional administrative burdens while consolidating all information in one accessible platform for review.
- **More than Source of Funds:** Digital compliance platforms go beyond Source of Funds checks, digitally verifying clients' identities via Electronic Identity Verification (EID&V) capabilities. Additionally, these platforms facilitate other essential compliance checks, including address verification, PEPs screening, sanctions checks, and adverse media monitoring.

Conclusion

While the adoption of digital compliance platforms for conducting Source of Funds checks is not mandatory, it undoubtedly presents significant benefits for conveyancing and property transactions. The integration of compliance technology, particularly Electronic Identity Verification, is increasingly recognised as being as robust as traditional verification methods, if not more so.

Ultimately, the decision to use Open Banking technology to verify the source of funds rests with the firm, which should assess its suitability based on specific needs and operational requirements. However, given the advantages, it presents a promising opportunity for conveyancers to streamline processes and ensure regulatory compliance.

[Book a free demo](#)



How Can Amiqus Help

At Amiqus, we use Open Banking technology in our Source of Funds check which enables you to securely verify your clients' source of funds in a matter of minutes by returning balances, transactions, payees, income and affordability data that can be digitally filtered to instantly highlight the key information you need. When used in conjunction with the rest of Amiqus' suite of tools, you can fully automate your compliance and client onboarding process.

Get in touch: amiquus.co | sales@amiquus.co