

Anti-Money Laundering Supervisory Report 2025

October 2025

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1. Foreword from Law Society of Scotland CEO, Ben Kemp

The Law Society of Scotland remains steadfast in its commitment to upholding the rule of law, public trust, and the highest ethical standards across the legal profession. Throughout this reporting year, our anti-money laundering (AML) supervisory work has continued to protect the integrity and reputation of Scottish solicitors, ensuring the sector's resilience in the ongoing fight against financial crime.

Our dedicated AML team, supported by strong governance and specialist expertise, embraces a continually evolving regulatory approach. We have enhanced our risk-based supervision and continue to utilise intelligence-sharing partnerships with agencies such as Police Scotland and HMRC, and delivered intelligence driven targeted reviews.

This report highlights not only our compliance with regulatory standards, but also our proactive improvements to supervisory tools, including the enriched AML Certificate and advanced risk profiling methodologies. These enable us to focus resources on areas of greatest risk and maintain proportionate oversight across the diverse range of practices we supervise - from sole practitioners in rural communities to large urban firms with international reach.

The report also showcases our continual engagement with national forums, a culture of guidance and support for the profession, and the robust application of disciplinary action when necessary. Importantly, we remain alert to future challenges, welcoming oversight and constructive input from the Office for Professional Body Anti-Money Laundering Supervision (OPBAS) and actively engaging with government-led supervisory reform proposals.

I extend my sincere thanks to all those who work tirelessly to uphold these high standards - our members, our staff, and our partner organisations. Together, we continue to foster a culture of compliance, vigilance, and continual improvement within the Scottish legal sector. I trust this report provides clarity and assurance regarding the strength, depth, and direction of our AML supervisory work as we look ahead to the coming year.

Thank you for taking the time to learn about the AML work that the Law Society of Scotland undertakes in the public interest. I am proud of the dedication of our AML team and hope this report offers helpful insight into our ongoing efforts.

Yours sincerely,

Ben Kemp (CEO)

2. Context to this report

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs or “the regulations”) set compliance requirements for the AML regime within the regulated sector.

MLR r.12 stipulates that the regulations apply to 'independent legal professionals', that operate as:

“a firm or sole practitioner who by way of business provides legal or notarial services to other persons, when participating in financial or real property transactions concerning—

(a) the buying and selling of real property or business entities

(b) the managing of client money, securities or other assets

(c) the opening or management of bank, savings or securities accounts

(d) the organisation of contributions necessary for the creation, operation or management of companies

(e) the creation, operation or management of trusts, companies, foundations or similar structures.”

The Law Society of Scotland (LSS) is the professional body AML supervisor for Scottish solicitors. This status has been ratified by His Majesty's Treasury through Schedule 1 of the MLRs and is discharged through the use of the powers set out in the Solicitors (Scotland) Act 1980.

MLR r.46A sets out the basis and requirement for this report prescribing that self-regulatory organisations such as the Society must also publish an annual report containing information regarding:

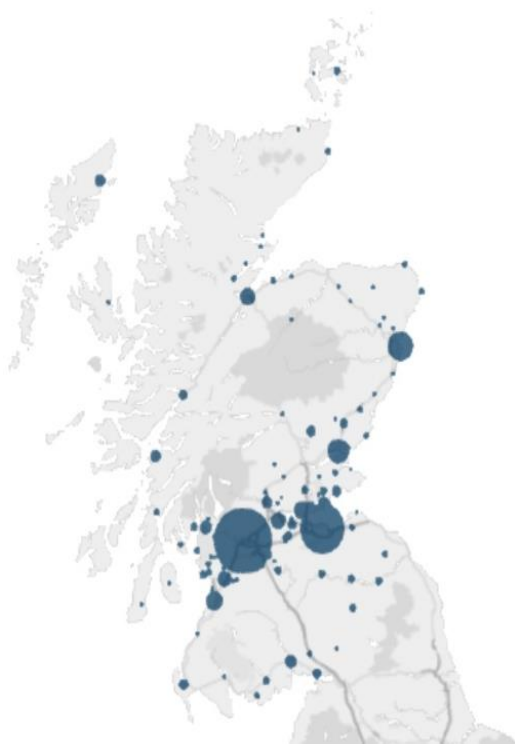
- *measures taken by the self-regulatory organisation to encourage the reporting of actual or potential AML breaches*
- *the number of reports of actual or potential breaches received by that self-regulatory organisation*
- *the number and description of measures carried out by the self-regulatory organisation to monitor, and enforce, compliance by relevant persons with their obligations the MLRs, the Terrorism Act 2000 (TA) and the Proceeds of Crime Act 2002 (POCA).*

This report follows our last report published in October 2024. It highlights key changes and enhancements we have made to our supervisory approach, along with the work we have undertaken to fulfil our obligations under the regulations during the reporting period.

Overview of our supervised population:

For the relevant period of April 2024 – April 2025, our supervised population comprised of **625** practices.

The majority these are sole practitioners or smaller partnerships operating across Scotland – in urban, semi urban, and rural areas. Roughly **18%** of this population can be found in the Glasgow area, with roughly **14%** in the Edinburgh area. Other areas of larger population include Aberdeen, Dundee, Fife, Perth, Inverness and Ayr. *(This is demonstrated in the below graphic).*



On average, each practice has around 11 LSS-member staff, including partners. The majority of our population (**c.87%**) operate with between **1-12** partners and employees. Practices range from takings of minimal AML-related fees to over **£73,000,000**.

88% of the population self-assess their inherent AML risk level as Low & Medium Risk with **12%** considering themselves to be High Risk. This is shown in the graphs that can be found from page 14 of this report.

These figures largely correspond with LSS' own internal assessment of AML inherent risk ratings of practices – i.e. roughly the practices that we deem to be Low, Medium, or High risk correspond with their own risk ratings.

The practices offer a range of legal services, predominantly centred around conveyancing and trust or company service provision (TCSP), but also wills/executry, Power of Attorney, tax, trusts, and succession planning.

Our annual AML Certificate process requests information on practices' interactions with individual private clients and legal entities inside and outside the UK – primarily across conveyancing and TCSP activities.

This annual exercise highlights the extensive global reach of a sub-section of the supervised population, which spans a number of higher risk and so-called secrecy jurisdictions.

During the period under review, **94** practices carried out work with links to a High Risk Third Country, while **26** had connections with jurisdictions commonly regarded as “secrecy” locations. These connections took various forms, including clients' resident in those jurisdictions, companies incorporated there, or ownership structures routed through them.

Our key regulatory requirements

MLR r.46 sets out the Society's primary duties and responsibilities in respect of AML supervision, including:

- *adopting a risk-based approach to the exercise of its supervisory functions;*
- *basing the frequency and intensity of its on-site and off-site supervision on the risk profile of our supervised population*
- *keeping a record in writing of the actions it has taken in the course of its supervision, and of its reasons for deciding not to act in a particular case*
- *taking effective measures to encourage its own sector to report breaches of the provisions of these Regulations to it.*

MLR r.49 sets out further duties upon the Society:

“Self-regulatory organisations must make arrangements to ensure that:

- *their supervisory functions are exercised independently of any of their other functions which do not relate to disciplinary matters*
- *sensitive information relating to the supervisory functions is appropriately handled within the organisation*
- *they employ only persons with appropriate qualifications, integrity, and professional skills to carry out the supervisory functions*
- *contravention of a relevant requirement by a relevant person they are responsible for supervising renders that person liable to effective, proportionate, and dissuasive disciplinary measures under their rules”.*

“Self-regulatory organisations must:

- *provide adequate resources to carry out the supervisory functions*
- *appoint a person to monitor and manage the organisation’s compliance with its duties under these Regulations.”*

The requirement for effective segregation of duties is reflected in the allocation of staff responsibilities and our committee structure.

Under the Solicitors (Scotland) Act 1980, all regulatory functions of the Society are delegated by the Society Council to the Regulatory Committee. The Regulatory Committee is independent from the Council and is required by statute to have a non-solicitor convener.

The Society’ Regulatory Committee and regulatory sub-committees are required by statute to consist of 50% solicitor and 50% non-solicitor members.

Responsibility for AML supervision is further delegated by the Regulatory Committee to the AML Sub-Committee (AMLSC).

The aims and responsibilities of the AMLSC are:

- To fulfil all functions delegated to it by the Regulatory Committee
- To ensure LSS-wide compliance with the requirements of the Money Laundering Regulations (including as reflected in the OPBAS Sourcebook and/or equivalent)
- To protect the profession and the public interest by dealing properly and promptly with significant cases of non-compliance with the Money Laundering Regulations
- To promote high levels of compliance with the Money Laundering Regulations
- To ensure that the Society’s AML approach remains fit for purpose
- To aid strategic development of the Society’s AML approach.

The Office for Professional Body Anti-Money Laundering Supervision (OPBAS)

In January 2018, new regulations were introduced that led to the establishment of the Office for Professional Body Anti-Money Laundering Supervision (OPBAS). This regulatory body was created with the specific purpose of enhancing and standardising the approach to AML supervision carried out by the 25 designated professional body supervisors (PBS) across the UK. These PBS organisations oversee AML compliance within their respective professions and locations and OPBAS plays a crucial role in ensuring that the supervision provided by these bodies is consistent, effective, and aligned with national standards.

OPBAS achieves this by providing detailed guidance and setting clear expectations for PBSs regarding how they should perform their supervisory duties under the MLRs. This guidance is formally documented in the 'OPBAS Sourcebook,' which serves as a comprehensive framework outlining the principles, processes, and best practices that PBSs must follow. Compliance with this Sourcebook is mandatory, meaning that professional bodies, including the Society, are required to integrate these standards into their AML supervisory activities.

In addition to setting standards, OPBAS actively monitors and reviews the AML supervisory work carried out by each PBS to ensure continuous improvement and adherence to regulatory requirements. The Society undergoes regular assessments and audits by OPBAS to evaluate the effectiveness and robustness of its AML supervision. This ongoing oversight helps to identify any areas for enhancement and ensures transparency and accountability in the Society's approach to AML.

We fully support and welcome the involvement of OPBAS, recognising that its oversight contributes significantly to the integrity and credibility of the AML regime within professional sectors. Over time, the Society has fostered a professional, positive, and constructive working relationship with OPBAS.

OPBAS

OFFICE FOR PROFESSIONAL BODY AML SUPERVISION
FINANCIAL CONDUCT AUTHORITY

3. Our AML supervisory work

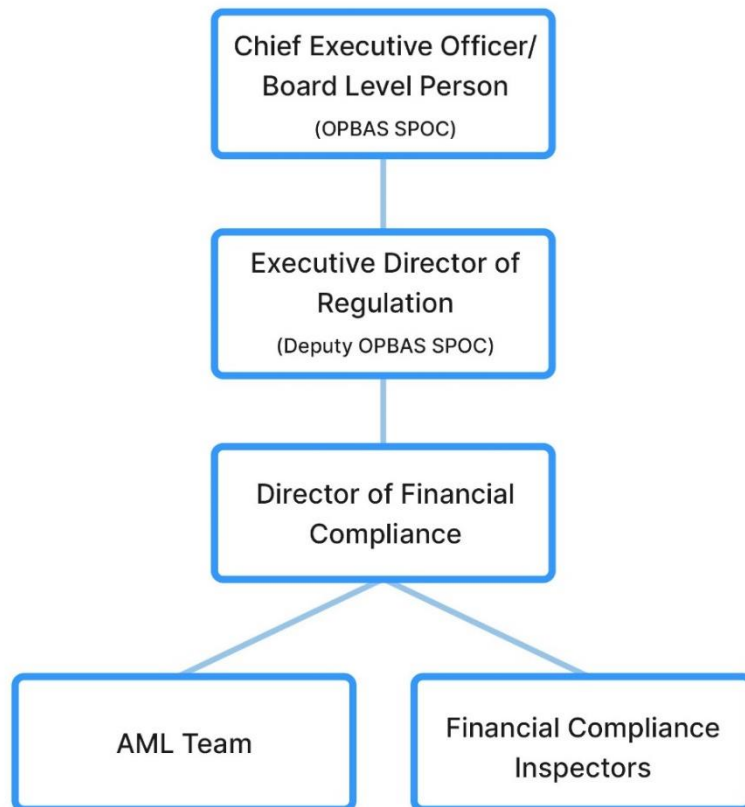
AML team – resourcing changes and structure

Over the past year, the team has experienced some staffing turnover, with one AML Manager and the Head of AML departing the organisation in late 2024. The Society proactively managed this transition by ensuring effective knowledge transfer and providing comprehensive training, thereby minimising any impact on our supervisory work.

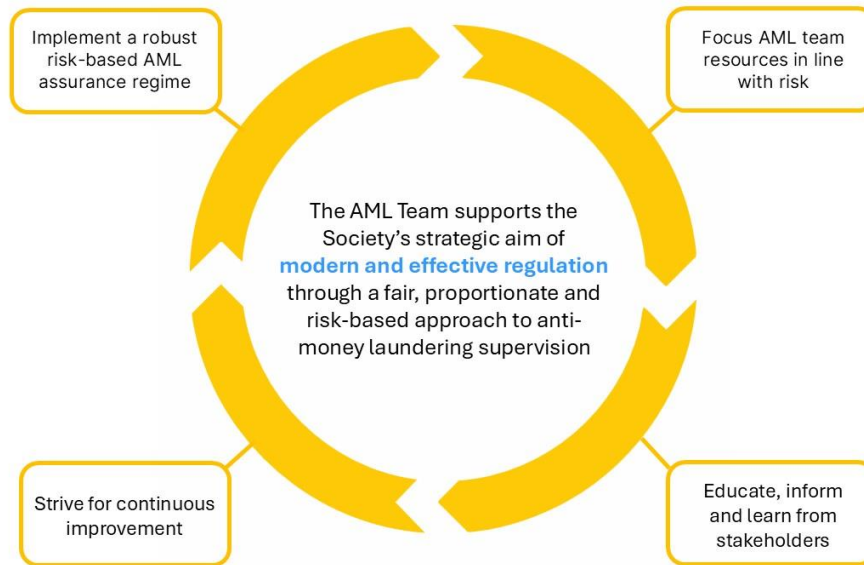
We successfully recruited a new Head of AML in January 2025, followed by the addition of an AML Risk Manager in February 2025. This maintained the AML team's full-time headcount at five, comprising the Head of AML and four AML Managers who oversee AML supervisory and assurance activities across the profession.

Currently, the AML team is re-evaluating internal processes to enhance efficiency and to maximise outputs from the available resource.

Fully embedded within and supported by the Society's broader financial compliance (focused on the protection of client funds) and regulatory functions, the team prioritises assurance and supervisory activities using a risk-based approach, aligned with responsibilities under r.46.



AML team mission statement and objectives



4. The AML Certificate and our risk-based approach to supervisory assurance

The Society issues the AML Certificate annually as a mandatory questionnaire to practices conducting work within the scope of regulation 12 of the MLRs.

The certificate contains approximately 70 questions addressing inherent AML risk factors, aligned with the MLRs, the UK National Risk Assessment, and the latest Sectoral AML Risk Assessment. It focuses on a practice's exposure to higher-risk clients and areas such as conveyancing and trust and company service provision, while also capturing geographic and delivery channel risks.

The AML team analyses the collected data to build a comprehensive risk profile of our supervised population. This profiling enables the identification of AML risks, trends, and issues across the sector.

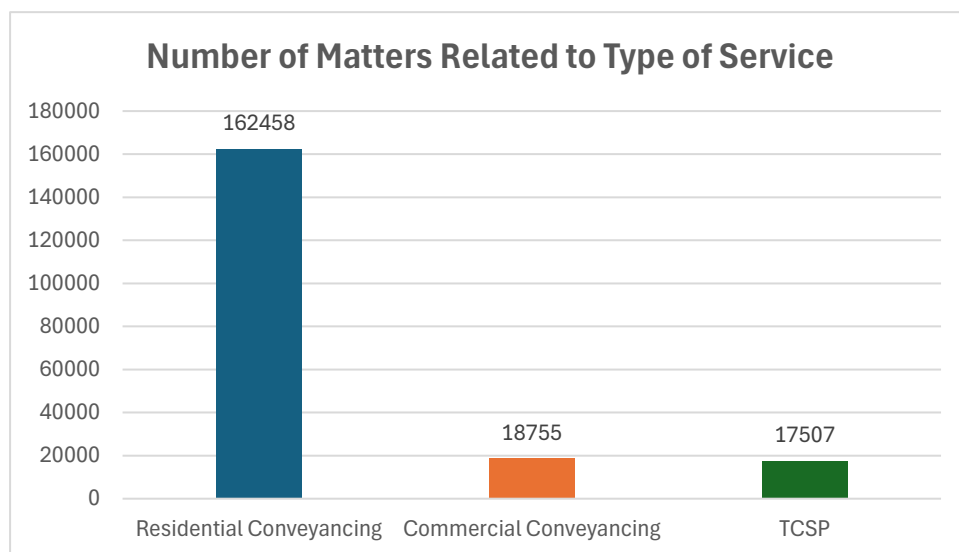
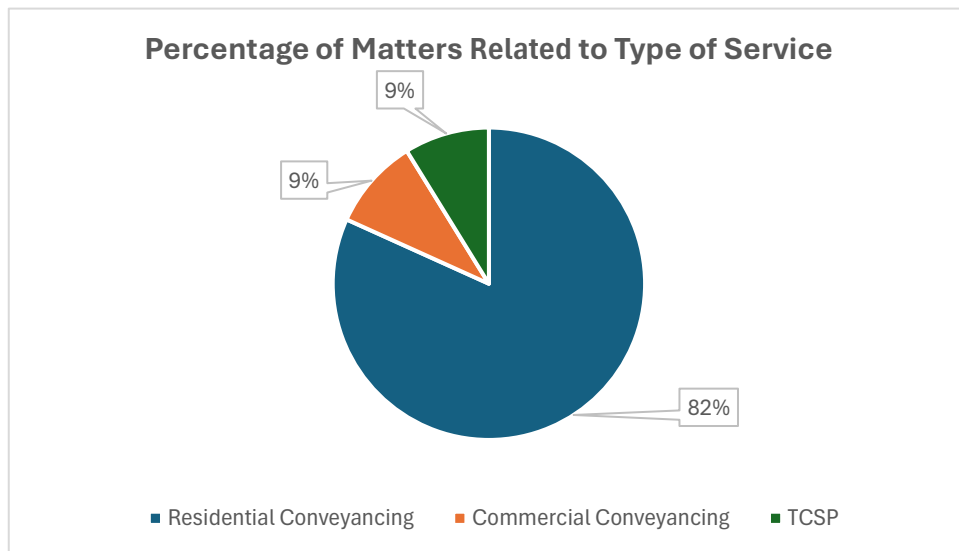
This risk profiling mechanism supports the Society in meeting the requirements of regulation 46 by applying a risk-based approach that adjusts the frequency and intensity of supervision according to the risk profile of our supervised population.

The graph below illustrates the population breakdown as a percentage based on self-declared inherent AML risk within practice units.

In addition to the identification of overall trends and issues across the supervised population, analysis of the AML Certificate data also highlights:

- Conveyancing transactions (residential and commercial) account for 91% of AML-regulated matters reported, totalling 181,213 out of 198,720

- Further breakdown reveals 162,458 reported matters relate to residential conveyancing, with commercial conveyancing totalling 18,755 reported matters
- Trust or corporate service provider work represents 9%, or 17,507 out of 198,720 reported matters.



Continual improvement of the AML Certificate process

Building on the improvements highlighted in the 2024 Annual Report, we have further enhanced our AML Certificate profiling process by incorporating new risk identifiers aligned with the latest Sectoral Risk Assessment. Additionally, we have introduced attestation-style questions based on the Legal Sector Affinity Group (LSAG) Guidance Key Compliance Principles.

In the 2024 AML Certificate, we streamlined the residential conveyancing value bands - previously segmented by thresholds such as below £100k and above £1m - into a single question without compromising risk identification. We also expanded the questionnaire to include broader questions aligned with LSAG's Key Compliance Principles, which we expect will provide greater insight into governance requirements.

These new risk identifiers, combined with other risk factors and red flags, create a "multiplier effect" that sharpens our focus on clients and work areas presenting the highest inherent AML risk. Examples include:

- Identifying practices that provide higher-risk services such as conveyancing with connections to higher-risk jurisdictions
- Identifying practices engaging with politically exposed persons (PEPs) linked to higher-risk jurisdictions
- Identifying practices offering trust or company service provision to privacy jurisdictions.

Weighted risk

As part of our ongoing efforts to enhance risk assessment across the supervised population, we have refined the methodology for analysing data submitted by firms.

Our updated, weighted approach distinguishes between firms with isolated high-risk matters and those with systematic exposure to high-risk jurisdictions. This enables us to identify risk concentrations with greater accuracy and supports proactive supervisory engagement with practices presenting elevated aggregated jurisdictional risk.

These improvements deliver a clearer, more reliable view of the inherent risk profiles of regulated practices and strengthen our ability to allocate supervisory resources effectively.

Improvements to the AML Certificate.

The 2024 AML Certificate has been significantly enhanced to provide a more comprehensive view of each practice's AML compliance, risk profile, and alignment with LSAG guidance.

Key improvements include the integration of additional LSAG Key Compliance Principles to increase awareness of these requirements, alongside the consolidation of some questions to reduce the overall questionnaire length for firms.

The introduction of additional risk flags in the AML Certificate analysis enables more sophisticated and granular risk ratings across seven bands, ranging from Low-Low to High-High. This allows the AML team to apply a more targeted, risk-based approach to assurance, employing varied methods such as attestations, thematic reviews, and desk-based engagements tailored to different segments of the supervised population.

The Society outlines its overarching approach to risk-based supervision and expected outcomes in the latest [Risk Appetite Statement](#).

Each year, the AML team produces an infographic summarising key statistics and insights from the AML Certificate returns. The latest Infographic can be located [XXXXXXXXXX](#) with key statistics from the latest Certificate including:.



61: Practices reported conveyancing matters with a link to China.

56: Conveyancing matters (residential & commercial) were reported involving clients who were considered to be a Politically Exposed Person.

38: Practices have reported conveyancing transactions involving Cryptocurrency.

356: Practices reported that they use electronic software to support or aid with AML Compliance.

11: Practices reported that they conducted AML regulated matters with a nexus to countries subject to sanctions, or similar measures.

5. The Scottish legal profession – inherent risks and risk profile

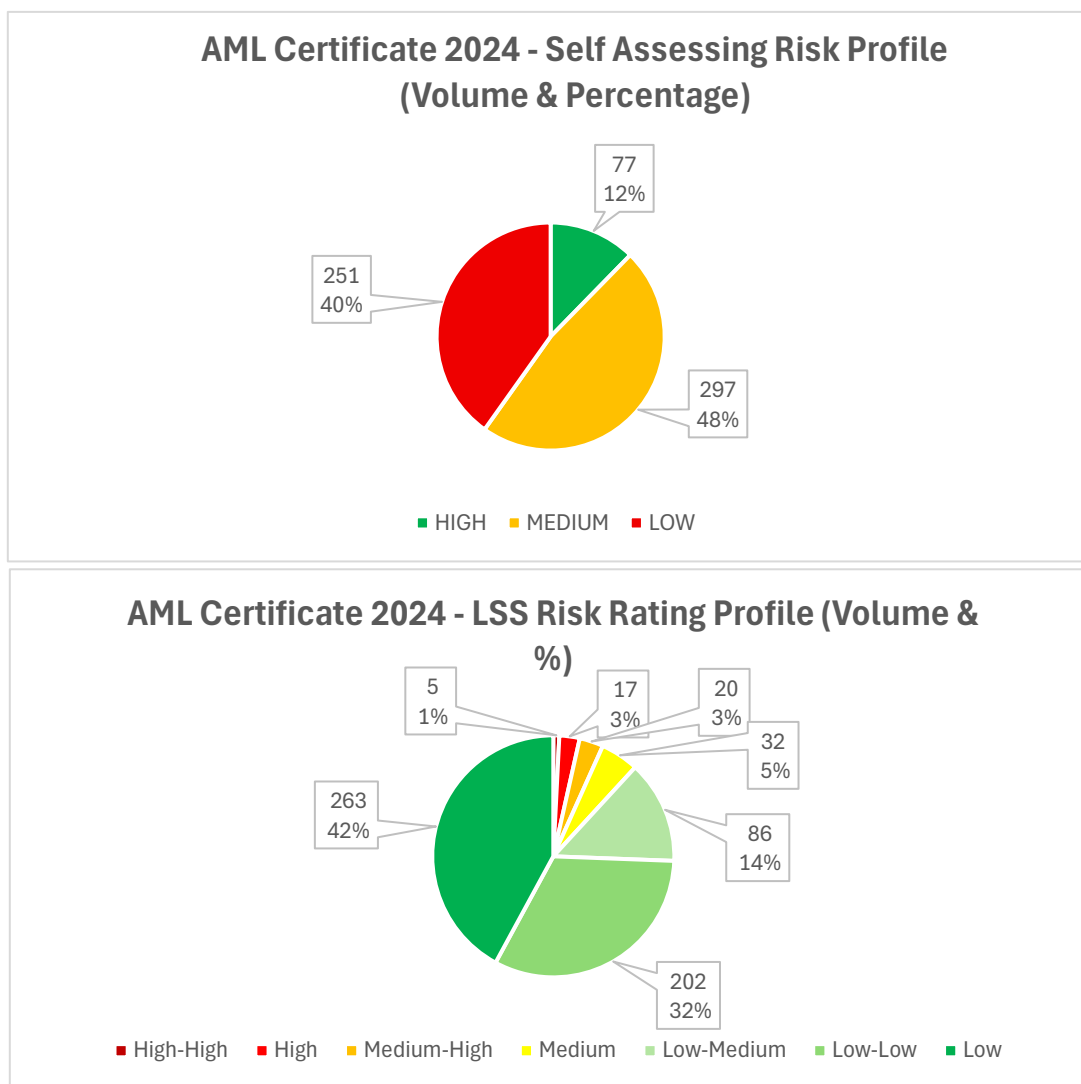
We received **625** AML Certificate returns for the 2024 reporting period (1 January 2024 – 31 December 2024).

One practice missed the submission deadline but later provided a paper copy of their AML Certificate. This represents an improved level of compliance compared with last year, when 12 practices failed to meet the deadline. The improvement reflects stronger processes and greater awareness of this key requirement across the profession.

Owing to the failure to meet the submission deadline, the Money Laundering Reporting Officer (MLRO) was referred to the AMLSC for a complaint regarding a breach of rule B9.5 of the Society Practice Rules.

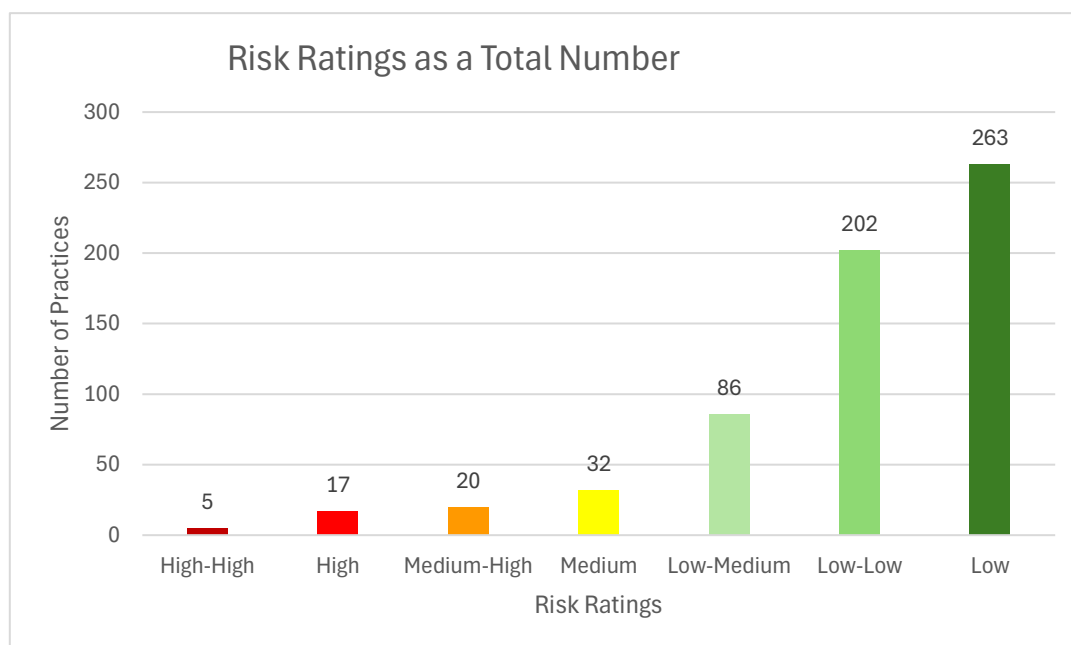
This practice will be incorporated into future risk profiling exercises.

Through analysis of the returns, we have built a risk profile of the supervised population as reflected in the below charts.



6.

7.



6. AML assurance

Risk-based assurance processes in detail

Our risk-based AML assurance approach is designed to maximise effectiveness by focusing resources on areas of inherent higher risk, while minimising the impact on practices under inspection and ensuring efficiency.

In line with MLR r.46, the AML team adjusts the frequency and intensity of assurance activities based on the risk profiles developed through the AML Certificate process, as outlined in this report.

The scope of our assurance work and inspections remains flexible. For example, if a practice initially assessed as higher risk is found to be lower risk during inspection, we adjust the scope of our activities accordingly to reflect these findings.

Inherently High – High/High Risk rating assurance processes

Depending on the circumstances, intelligence received, and specific risks identified through the AML Certificate, assurance reviews may cover full-practice assessments or focus on specific clients, matters, or areas of a practice's business.

Full assurance reviews evaluate the adequacy of a practice's Practice Wide Risk Assessment (PWRA), Governance, and Policies, Controls, and Procedures (PCPs). We measure compliance against core Money Laundering Regulatory requirements and the HM Treasury-approved LSAG guidance, particularly its 36 High-Level AML Compliance Principles.

These reviews also assess the effectiveness of AML controls 'on the ground' by testing adherence to regulatory requirements and the practice's own PCPs

through a detailed review of selected client and matter files, with emphasis on higher-risk areas.

AML Certificate returns guide client and matter file selection, enabling the AML team to sample efficiently and effectively in line with our risk-based approach, prioritising higher-risk or other AML-relevant matters.

Additionally, full assurance reviews include an overall evaluation of AML control effectiveness, covering culture, expertise and awareness, quality of training, and governance within the practice. Supervisory interviews with the MLRO/MLCO, key partners, and staff support this comprehensive assessment.

Findings from these reviews inform future inspection planning and risk modelling.

Inherently Medium – Medium/High Risk rating assurance processes

Practices assessed with Medium to Medium/High inherent AML risk profiles may also undergo assurance reviews or inspections. These are often conducted by members of the wider Financial Compliance team as part of ongoing onsite Account Rules inspection processes.

These inspections play a vital role in our overall regime, primarily focusing on file-level AML compliance within the broader context of client accounting matters. When issues arise that suggest elevated AML risk, they are escalated to the AML team, which applies the appropriate risk-based assurance procedures.

Additionally, practices rated Medium to Medium/High risk may be subject to single file assurance reviews by the AML team. This process tests adherence to fundamental regulatory requirements and LSAG standards.

Client and matter files are selected and sampled based on our risk-based approach, enabling efficient and effective review of higher-risk or AML-relevant matters. This targeted approach may substitute for a full practice assurance review, which is generally reserved for practices with higher inherent risk.

AML Certificate returns support file selection, focusing on indicators of elevated inherent risk such as connections to higher-risk jurisdictions, service types, or combinations of services and risks.

Inherently Low/Low – Low Risk rating assurance processes

While practices with lower risk profiles generally do not undergo in-depth or full assurance reviews like those in the Medium–High or High categories, the AML team ensures that appropriate assurance activities are applied where relevant within these risk bands.

Assurance activities at this level of inherent risk include:

- Financial Compliance team reviews focused on file- and matter-level compliance, which can be escalated to the AML team for specialist input when necessary
- Reviewing AML Certificate returns and conducting follow-up work with practices to verify information as needed
- Requiring submission of Low-Risk supervisory attestations regarding the quality of PCPs, followed by sample-based reviews of the attested information
- Sampling “AML Exempt” practices using open and closed source information. Practices that appear to fall within scope despite claiming exemption are engaged through various assurance techniques
- Potentially conducting single AML file reviews, consistent with the processes described for Medium–Medium/High risk ratings.

Intelligence-based AML supervisory assurance

In addition to assurance work driven by the risk profiles developed through the AML Certificate process, we proactively target other areas of concern highlighted through intelligence sharing, including information from law enforcement and our reporting concerns helpline.

Currently, the AML team is conducting several inspections initiated both from data analysis of AML Certificate returns and intelligence received through these channels.

Thematic reviews

The AML team employs thematic reviews as a key tool to assess specific AML risks and evaluate the effectiveness of AML controls within our regulated population. These reviews target selected practices based on existing data, helping to deepen our understanding of sector-wide risks and controls.

Broadly, thematic reviews involve:

- Developing a structured questionnaire focused on a specific AML topic;
- Distributing the questionnaire to a targeted group of practices identified through AML Certificate responses or other AML team data;
- Reviewing and analysing questionnaire responses;
- Engaging with individual practices for further review, such as sampling files or additional information gathered during the thematic process;
- Documenting overall findings and outcomes, which are published to inform the wider supervised population and support risk mitigation efforts;
- Using tools like targeted “Dear MLRO” letters to provide open feedback to the broader population.

The team published the initial findings of the [AML SARs thematic](#) in August 2024, with the [DAML spotlight](#) findings being released in September 2024.

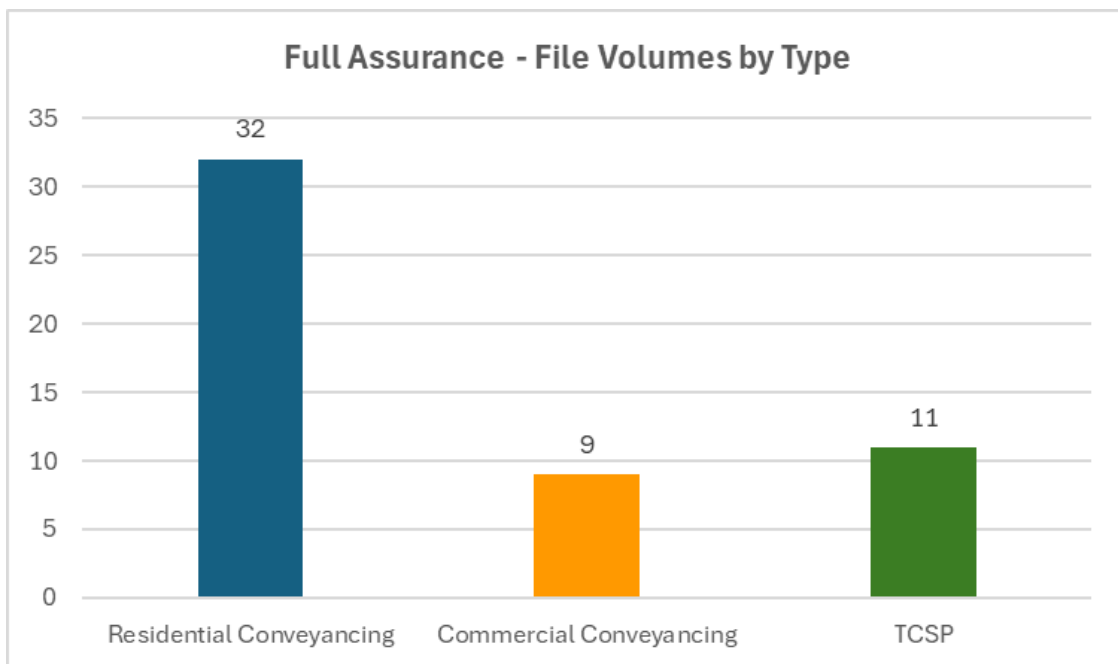
The final report is yet to be published and will be covered within next year’s annual report.

Supervisory assurance volumes

High Risk rating assurance volumes

From April 2024 to April 2025 the AML team conducted **11** high-risk assurance reviews. These were all full assurance reviews and were driven by either risk profiling or intelligence received.

As part of the **11** full assurance reviews the effectiveness of the practices AML controls 'on the ground' was tested, through a review of selected client/matter files across **52** files in the following categories:



In addition to the **11** completed inspections, the AML team also initiated an additional **2** assurance reviews within the relevant period and these will be included in figures reported within the 2025 Annual Report.

High-risk single file review volumes

In the same period, the AML team also initiated and completed **6** single file reviews out with the full assurance review process.

Medium and low-risk ratings, and thematic assurance volumes

From April 2024 to April 2025, **c.56** practices were subject to assurance reviews undertaken in line with the Financial Compliance team Accounts Rules inspection process.

These inspections were either conducted on-site or moved to partially on-site later within the process dependent on the risk ratings of the practices and initial findings of the review.

During the relevant period, the AML team gathered **39** Low Risk attestations from practices as part of lower risk assurance, with **7** practices having their AML PCPs sampled and reviewed as a result.

Supervisory assurance ratings and outcomes

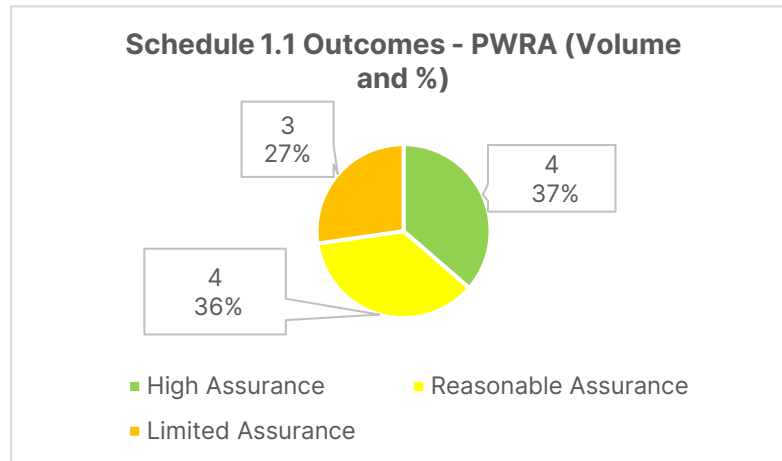
Assurance compliance ratings

The AML team assess the PWRA, AML Governance and AML PCPs utilised by each practice against the relevant AML requirements at the time to ascertain the level of compliance met. The compliance levels are categorised as:

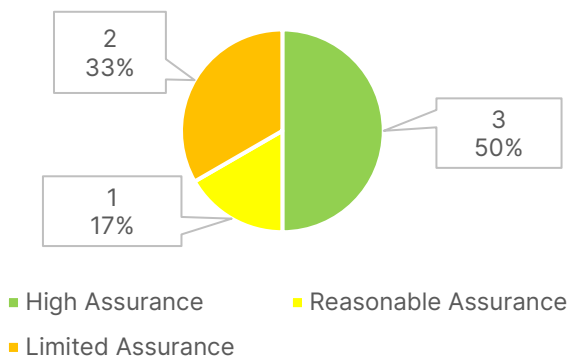
High assurance	There is a high level of assurance that the documentation reviewed is delivering compliance against the AML requirements, duties or responsibilities of the practice unit. The review has identified only limited scope for improvement in existing arrangements and as such it is not anticipated that significant further action is required to reduce the risk of non-compliance.
Reasonable assurance	There is a reasonable level of assurance the policy, control or procedure reviewed is delivering compliance against the AML requirements, duties or responsibilities of the practice unit. The review has identified some scope for improvement in existing arrangements to reduce the risk of non-compliance with these requirements
Limited assurance	There is a limited level of assurance that the policy, control, or procedure reviewed is delivering compliance against the AML requirements, duties or responsibilities of the practice unit. The review has identified considerable scope for improvement in existing arrangements to reduce the risk of non-compliance with these requirements.
Very limited assurance	There is a very limited level of assurance that the policy, control, or procedure reviewed is delivering compliance against the requirements, duties, or responsibilities of the relevant MLRs. The review has identified a substantial risk that the objective of MLR compliance will not be achieved. Immediate action is required to improve the control environment.

High Risk assurance ratings

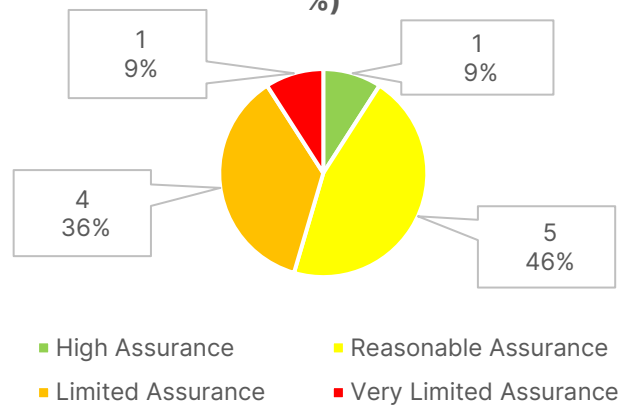
Across the **11** full assurance reviews conducted in the reporting period, the below graphs demonstrate the spread of assurance gradings found when assessing each practice's PWRA, Governance and AML PCPs.



Schedule 1.2 Outcomes - Governance (Volume and %)

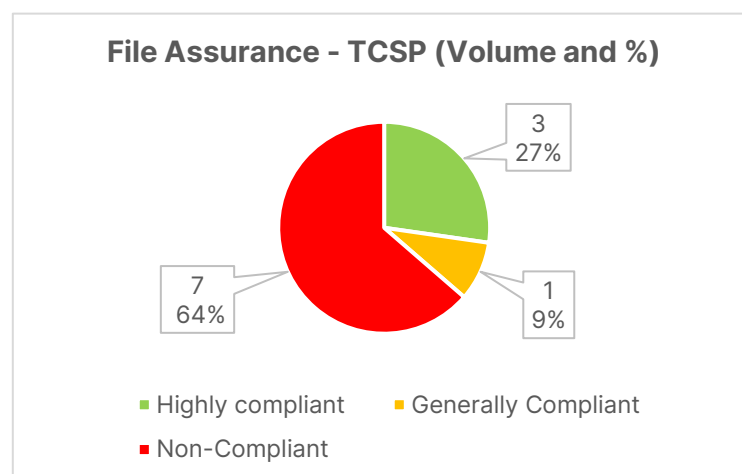
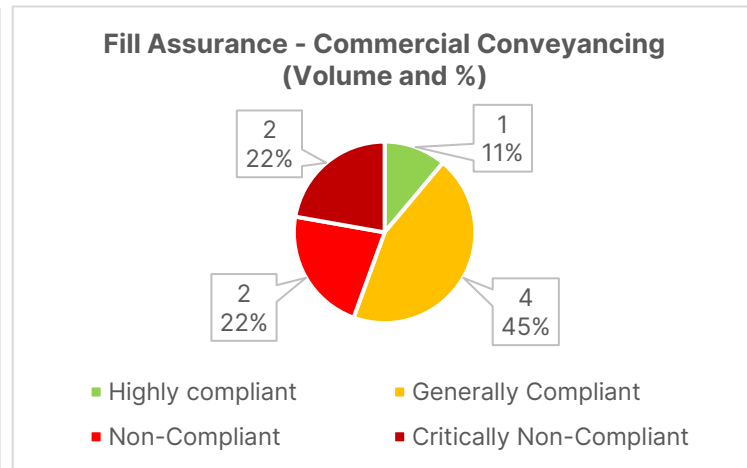
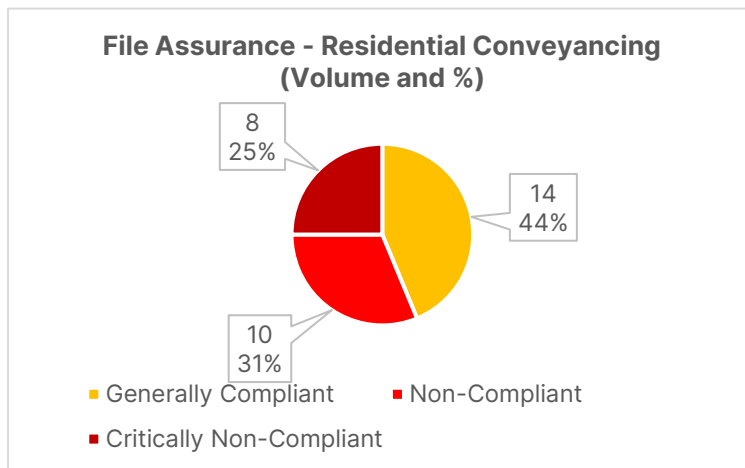
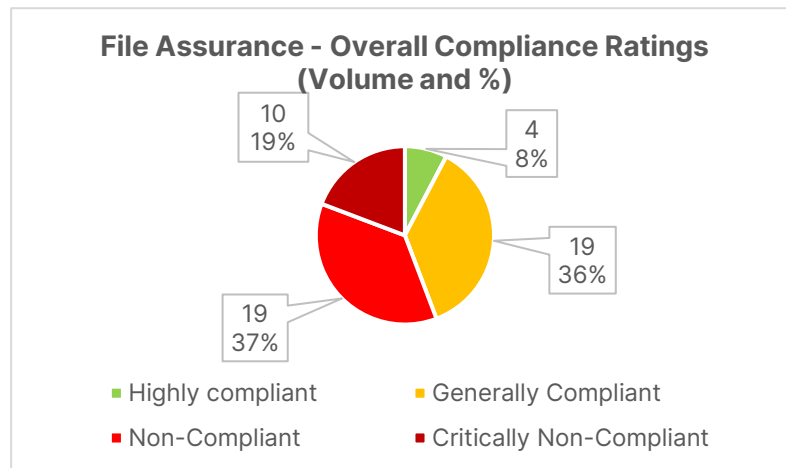


Schedule 1.3 Outcomes - PCPs (Volume and %)



These **11** full assurance reviews included **52** file reviews undertaken across the higher risk areas of residential and commercial conveyancing and trust or company services, such as provision of registered office/company secretary.

The below graphs demonstrate the spread of assurance gradings in relation to file assurance ratings and also as split by file type.



High-Risk disciplinary outcomes

When deciding whether to refer practices to the Society's AMLSC, the AML team considers factors such as:

- The significance of identified non-compliance – considering any systematic non-compliance as well as non-compliance on individual matters
- The duration of any non-compliance
- The practice's attitude and conduct during the findings and assurance process
- Whether the practice unit has failed to address weaknesses which had been raised in previous reviews.

The AMLSC also uses these factors to determine outcomes, including potential disciplinary sanctions.

Possible sanctions include:

- No further action
- Additional inspection (including full inspections and limited scope inspections focusing on a specific area or areas) at the Society's expense
- Reinspection of the practice at their own expense
- Referral of a conduct complaint for breaches of the Money Laundering Regulations
- Ordinary interview
- Suspension interview
- In certain cases, application to the Court of Session for appointment of a Judicial Factor over a practice unit.

Dependent upon the issues raised, it is possible for more than one sanction to be applied at any one time.

During the relevant period, the following actions were taken:

- **5** of 11 practices subjected to full assurance reviews were referred to the AMLSC. This resulted in:
 - **2** members being invited for informal interviews, leading to planned re-inspections
 - **5** future re-inspections being scheduled, 3 of which will be at the practices' own expense.

Single file review ratings and disciplinary outcomes

5 single file assurance reviews (undertaken as standalone reviews out with the full high risk inspection process) were completed in full.

These file reviews related to the residential and commercial conveyancing workflows.

Outcomes:

- All **6** practices were referred to the AMLSC for failings identified. These referrals lead to **2** referrals of complaint against the MLRO, **2** re-inspections' being planned, with the rest resulting in no further action being taken.

Medium- and low-risk ratings, and thematic assurance outcomes

Of the **c.56** Medium and low-risk inspections completed:

- **7** practices were referred to the AMLSC for failings identified. These referrals lead to **5** referrals of complaint against the MLRO and **6** re-inspections' being planned.

Outcomes:

- **39** reviews of Low-Risk attestation documentation obtained from practices in lower risk categories have been conducted with advice and guidance provided to the practices. This process also led to 7 practices AML PCPs being sampled to test compliance with the LSAG Guidance Key Compliance Principles.

Assurance – general observations

The Society' AML team recognises that AML compliance is not a zero-failure regime. While we recommend disciplinary action when considered necessary, the broader aim of our supervisory work is to foster a Scottish legal sector that is actively engaged with AML issues, understands its risks and obligations, and consistently applies effective, compliant PCPs to combat financial crime.

Through ongoing AML assurance activities and frequent engagement with the profession, the AML team continues to identify areas where understanding and compliance require improvement.

Recurring themes from assurance reviews, PCP thematics, and Low Risk attestations include:

- Lack of senior management or partnership engagement with AML matters, such as reviewing and formally approving PCPs
- Insufficient detail in PWRAs, limiting the effectiveness of risk-based approaches

- Absence of PCPs that demonstrate holistic, tailored customer due diligence to mitigate client- or transaction-specific risks, resulting in inadequate identification and management of those risks
- Failure to properly assess and document risk at the client or matter level, including consideration of nature, background, and circumstances
- General misunderstandings about the additional measures required for higher-risk situations, including what constitutes effective Enhanced Due Diligence
- Inability to clearly demonstrate understanding of the definitions and appropriate application of Source of Funds and Source of Wealth checks
- Misunderstandings around beneficial ownership, including definitions, dilution issues, and the concept of 'ultimate beneficial ownership,' along with related Client Due Diligence requirements
- Deficiencies in maintaining contemporaneous, comprehensive, and compliant AML-related record-keeping and document management
- Limited understanding of AML technology deployed within practices.

As noted above a particularly high level of non-compliance has been identified on files reviews of TCSP and commercial conveyancing work. It may be that practitioners in these areas are less likely to have a sufficiently strong understanding of compliance requirements

Continuing supervisory action to address weaknesses

The AML team maintains ongoing engagement with the Scottish legal profession to promote improvements in AML compliance. This engagement includes:

- Leveraging observations and findings from assurance work and thematic reviews to develop supervisory publications and guidance materials, such as FAQs, toolkits, blogs, and targeted "Dear MLRO" letters on specific topics
- Maintaining continuous dialogue with practices throughout supervisory assurance reviews
- Delivering AML presentations, conferences, and seminars
- Addressing general queries and concerns received via the AML team mailbox and call queue.

8. AML training, competency and continuous improvement

To maintain the ongoing competence of the AML team and others involved in AML supervision, we continuously upskill, engage with training providers, and undertake relevant training as appropriate.

External Training

During the reporting period, the team arranged for the UKFIU to deliver a suspicious activity report (SAR) awareness workshop session which emphasised the importance of raising a SAR and outlined the elements of a quality report. To share learnings and insights, we extended invitations to the AMLSC, relevant teams within the Society and other public body supervisors (PBS).

Additional training

The team's additional training and upskilling activities during the period include:

- Engagement with external contacts at HMRC
- One team member holds the International Compliance Association (ICA) AML Diploma, with ongoing participation in continued professional development and AML-specific training courses
- Another team member is currently progressing through the ICA AML Diploma
- The remaining two team members, not yet trained to ICA Diploma level, are scheduled to undertake this training in the future
- Attendance at a full-day intelligence training session with Police Scotland in June 2024
- A meeting with representatives from the Office of Financial Sanctions Implementation (OFSI) in October 2024
- Delivery of LSS-wide AML training in November 2024, combining video materials with in-person knowledge assessments
- Regular participation in webinars, most recently focusing on Companies House Authorised Service Providers.

9. Intelligence sharing and participation in national AML supervisory forums

The Society actively participates in key national AML supervisory forums, including:

- The national AML Supervisory Forum (AMLSF), alongside stakeholders such as law enforcement, professional body supervisors, HMRC, the Financial Conduct Authority, HM Treasury, and OPBAS
- The Legal Sector Regulators Forum
- The Legal Sector AML Affinity Group (LSAG)
- The National and Regional Legal Sector Information Sharing Working Groups (ISEWGs)
 - The Legal Sector ISEWG enhances information sharing on AML risk trends and specific threats between law enforcement and AML supervisors, supporting our risk-based approach
- OFSI's Legal Sector Engagement Forum on Sanctions
- The Financial Crime Information Network (FIN-NET)

Membership in these forums enables the Society to monitor sectoral and national AML developments, issues, and trends, while promoting collaborative working, information sharing, and consistent supervisory efforts across the sector. It also ensures the maintenance of productive relationships with key stakeholders.

The AML team at the Society previously led the development and publication of fully revised legal sector AML guidance and remains actively involved in relevant elements of the UK Government's Economic Crime Strategy.

Additionally, the Society holds intelligence and data sharing agreements with Police Scotland and the Regional HMRC FIS unit based at Gartcosh. These agreements complement the provisions of rule 52 of the MLRs, and their proactive application will be explored in future annual reports.



10. Reporting concerns

In accordance with our obligation under rule 46 to encourage the sector and others to report concerns of money laundering, the Society operates a dedicated reporting concerns hotline.

This hotline enables any individual- whether members of the public, solicitors, or others within the legal sector - to anonymously disclose concerns via a telephone line or a dedicated online contact form. This hotline continues to be a valuable source of intelligence. This channel is monitored and managed by the Society's public communications team, with established escalation procedures to the Director of Financial Compliance.

Reporting Concerns – Key Numbers

- *15 reports received by Director of Financial Compliance.*
- *4 reports highlighted fraud concerns that were followed up utilising our inspection/investigation powers.*
- *1 report required follow up with practice unit to gather assurance on the matter raised.*
- *Other reports were not related to money laundering and covered a variety of topics including possible cases of "holding out" as a solicitor.*

All reported concerns undergo assessment for AML relevance. During the relevant period, some reports were found unrelated to AML and, where appropriate, reporters were advised to direct their complaints to the Scottish Legal Complaints Commission (SLCC).

Additionally, other official and unofficial reporting channels remain available to the profession. For example, the AML Certificate includes a specific section inviting respondents to share relevant information or intelligence to assist the Society in mitigating AML risks within the sector.

11. Suspicious activity reporting by the Law Society of Scotland

Under Regulation 46(5), we are obligated to submit SARs when we have knowledge, suspicion, or reasonable grounds to suspect money laundering. This remains a key aspect of our supervisory role and an essential means of sharing intelligence with law enforcement.

SAR reporting – key numbers

- 18 SARs were submitted to the UKFIU
- 13 SARs raised following internal SAR reports from staff to the MLRO (6 in 23/24) with 5 arising through other MLRO/staff engagement.
- 11 SARs were linked to matters reported to the Society via its intelligence sharing arrangements.

SAR subjects

- 7 SARs featured suspicion relating to funds flowing from China for conveyancing.
- 7 SARs featured suspicions arising from other conveyancing matters.
- 4 SARs related to miscellaneous fraud concerns – fraud against clients, insurance matters, benefits and taxation.
 - 2 SARs related to technical breaches.
 - 1 SAR submitted was a DAML.

During the reporting period, the Society submitted 18 SARs to the UK Financial Intelligence Unit (UKFIU) primarily arising from inspection findings and other supervisory activities. An increase in SARs linked to intelligence-sharing arrangements highlights the vital importance of these partnerships in strengthening our collective response to financial crime. We are committed to further enhancing collaboration to protect the integrity of the Scottish legal profession.

12. Guiding the profession

The AML team continues to engage with the Scottish legal profession in order to provide guidance and ensure that relevant areas of improvement toward AML compliance requirements are delivered and understood.

Ways in which the AML team meets this objective include, but are not limited to:

- Extensive AML support section and sub-sections on [the Law Society of Scotland website](#)
- AML presentations, conferences and seminars including requested local faculty visits/roadshows across Scotland
- General queries and concerns raised through the AML team mailbox and call queue
- The launch and continued upkeep of [refreshed Client and Matter Level Risk Assessment \(CMLRA\) templates](#) for both natural and non-natural clients and matters and accompanying guidance notes to assist with completion
- Launch, and continued upkeep of a new set of [templates for the profession](#) to use covering AML PCPs
- We have contracted the use of ICAEW video “All too Familiar”, which is used to draw attention to regulatory concerns and common missteps within AML regulated businesses. This has now been shared with our entire membership
- A range of ‘Spotlight on’ [blogs](#) which covered topics such as human trafficking, terrorist financing, holistic due diligence, training, Regulation 21 Internal Controls and Regulation 39 Reliance.

The AML team also continues to make the most of their extensive presence on social media platforms such as LinkedIn, issuing and promoting relevant AML-related information, new website content, sources of support and other topical information to both the profession and the wider stakeholder community.

The team recognises that the non-assurance work undertaken is also of significant importance in the context of the wider support the Society offers its supervised population and, as illustrated here, this can range from specific assistance to practices on AML matters, ad hoc queries, webinars, conferences and national projects.

Case studies:

The importance of intelligence sharing

Intelligence received by the Society indicated that a solicitor's practice was engaged in higher-risk conveyancing transactions involving international funding. The nature of this work appeared inconsistent with the practice's usual business profile.

In response, the Society conducted an inspection, which uncovered significant non-compliance in the firm's handling of source of funds and source of wealth checks on foreign funds. The inspection also revealed links to another solicitor, raising further concerns.

A formal complaint regarding the solicitor's conduct has been submitted. The findings of the wider process will be reported in next year's annual report. This case underscores the value of timely intelligence sharing in detecting and addressing potential AML risks.

Beneficial Owners, Officers and Managers (BOOMs)

As part of our proactive supervisory programme, the AML team undertook a targeted project to confirm that all firms within scope of the Money Laundering Regulations had their BOOMs accurately registered in accordance with Regulation 26. The review identified a number of practice units with incomplete or out-of-date BOOM records. All of these practice units have since rectified the issues identified.

Several referrals were made to the AMLSC, with most of these considerations taking place after April 2025. The firms concerned remain subject to ongoing monitoring, and the lessons drawn from this review will inform our future supervisory priorities, ensuring that BOOM compliance continues to be a clear area of focus across the profession.

13. Supervisory reform and continuous improvement

Economic crime reform

We continue to await the outcome of the forthcoming HM Treasury consultation on the structure of the UK AML supervisory regime.

As outlined in last year's report, we remain open and receptive to reform that aligns with our commitment to modern, effective regulation. We believe such reform serves the public interest and maintains public trust in the profession.

We support granting additional powers to OPBAS and the consolidation of the professional body supervisory framework, if conducted on a devolved basis. However, we oppose national consolidation due to the distinct legal and regulatory frameworks governing the regulation of Scottish solicitors.

We also oppose the creation of a single professional services or all-encompassing AML supervisor, as we consider these options detrimental to the effectiveness of the UK AML infrastructure, posing significant cost, operational, and legal challenges. Furthermore, we have serious concerns about the independence of the legal sector should any such body be accountable directly or indirectly to the UK government.

While a decision remains pending, we remain firmly committed to fulfilling our AML supervisory obligations responsibly and effectively throughout the consultation process.

Continual improvement

During the relevant period, the AML team implemented further changes to enhance the delivery of our AML supervisory responsibilities.

We welcomed OPBAS oversight as a valuable component of our continuous improvement plan and engaged constructively with it regarding its findings. We continue to update and strengthen our processes based on OPBAS feedback.

In January, we appointed a new Head of AML, who has since collaborated closely with colleagues to review current supervisory processes and identify opportunities to improve both effectiveness and efficiency. This ongoing work demonstrates our commitment to continual improvement and ensures our approach remains responsive, proportionate, and fit for purpose.

Recognising the constantly evolving AML landscape, we proactively develop our processes to address current and future challenges. Further enhancements will be introduced in the coming year to strengthen our supervision and provide a more streamlined experience for those we regulate.

A look ahead into 2026

Inspection prioritisation & delivery

Having completed our initial cycle of reviews across higher-risk practices, we are increasingly reassured by the levels of compliance and the overall standard of AML PCPs across this population. In some cases, this improvement reflects remediation measures implemented by practices following inspection findings. Building on this foundation, we now intend to spend less of our available resource on in-depth review of PCPs in the higher-risk population.

Instead we will dedicate more resources to assessing the practical implementation of AML controls — scrutinising case files and examining higher-risk areas within the profession to evaluate how PCPs are applied in practice.

We will take steps to maximise the benefits of our intelligence-sharing arrangements (including our agreements with HMRC and Police Scotland) to drive inspection prioritisation and timely follow up on intelligence received.

The increased focus on file review as opposed to PCP review is likely to result in a greater focus on smaller practices which are deemed to represent a higher risk of AML non-compliance. This reflects the fact that intelligence received mainly concerns medium and smaller practices which is also consistent with findings from our own work on this section of the profession.

Some resource will be dedicated to the follow up of practice units where non-compliance has been previously identified to provide assurance that required improvements have been implemented.

National Priorities

The year 2026 will be significant for continuing the UK Government's Economic Crime Plan and preparing for the follow-up to the Financial Action Task Force's (FATF) 2018 Mutual Evaluation of the UK. We look forward to playing a full and active role in both initiatives. Our work will also support Companies House reform, including the phased implementation of the Authorised Corporate Service Provider (ACSP) regime.

Additionally, we remain closely engaged with the National Economic Crime Centre (NECC) as partners in the Cross-System Professional Enablers Strategy 2024–2026.

If the UK Government publishes its intentions for the future of AML Supervision during the year ahead we will cooperate as necessary with planning required to enable a transition to a different supervisory model should that be necessary.

Thematic Reviews

Following the successful completion of our thematic review on AML PCPs, the AML team carried out a further thematic project in collaboration with the UKFIU. This review examined the volume and quality of SARs submitted by Scottish solicitors regulated for AML purposes by the LSS, as well as the profession's overall understanding of SAR requirements. This thematic has now concluded with the final report being published in October 2025.

Looking ahead to 2026, we plan to adopt a broader, more strategic approach for our next thematic review. Instead of concentrating on a single technical issue, the review will explore the wider challenges firms face in maintaining effective AML compliance. This will cover a diverse range of firms - varying in size, geography, and legal practice areas - allowing us to gain deeper insight into where support is most needed and how best to provide it. While we do not have the authority to revise regulatory requirements, we remain fully committed to enhancing guidance and support to help firms navigate these requirements effectively.

Staffing

We are committed to strengthening relationships across our membership and the wider stakeholder community to ensure the Scottish legal profession remains a robust and inhospitable environment for laundering criminal proceeds.

With the support of the Director of Financial Compliance, the Head of AML is progressing the creation of an Operations Manager role within the AML Team. Once in place, the postholder will hold specific responsibility for the ongoing development, maintenance and completion of supervisory assurance work (in conjunction with other responsibilities).