



The Scottish Legal Profession – A Sectorial Assessment of Money Laundering & Terrorist Financing Risk

Assessment of the domestic and international risks of money laundering and terrorist financing affecting Scottish Solicitors

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Background

The Money Laundering Regulations (MLRs), specifically Regulation.17, require that the Law Society of Scotland (the Society), in our capacity as a Professional Body Anti Money Laundering (AML) Supervisor, identify and assess the international and domestic risks of money laundering and terrorist financing to which our members are subject.

Our previous Sectoral Risk Assessment was published in 2022 in response to the publication of the 2020 National Risk Assessment. This updated version is in response to the [2025 National Risk Assessment](#).

We have also identified the below publications as important points of reference for identifying and assessing the AML/CTF risks to which Scottish solicitors are subject:

- [Financial Action Task Force \(FATF\) Guidance for a Risk-Based Approach Guidance for Legal Professionals](#)
- [FATF Money Laundering and Terrorist Financing Vulnerabilities of Legal Professionals](#)
- [Serious Organised Crime Taskforce Progress Report 2024](#)
- [The Scottish Government's Serious Organised Crime Strategy](#)
- [The Scottish Crime Campus – Scottish Multi-Agency Strategic Threat Assessment 2022](#)
- [Serious Organised Crime Taskforce Progress Report 2024](#)

Who should use this document?

This sectoral risk assessment is designed for Scottish legal practices and solicitors that provide services within the scope of the MLRs, as set out in Regulations 11(d) and 12, and as such are supervised for AML purposes by the Society.

What should this document be used for?

All Scottish legal practices, including sole practitioners, that fall within the scope of the MLRs (and thus form part of the Society's supervised population) must comply with the regulatory requirements contained therein.

In accordance with regulations 18 and 18A of the MLRs, all in-scope legal practices must maintain a current and up-to-date practice wide risk assessment (PWRA). This enables practices to identify the inherent money laundering and terrorist financing (TF) risks to which they are exposed and supports the development and implementation of appropriate and effective policies, controls and procedures (PCPs) to mitigate those risks.

Regulation 18(2A) requires legal professionals to use this sectorial risk assessment to inform their PWRAs.

Further information regarding PWRAs can be found in s.5 of the [UK Legal Sector Affinity Group \(LSAG\) Guidance](#)

This document (along with other resources on our [website](#) including the LSAG Guidance) is aimed at providing information to Scottish legal practices to support with the implementation of robust, risk-based and proportionate AML measures.

High Level Money Laundering Risk Matrix – Scottish Legal Sector

The Society has sought to analyse key money laundering and terrorist financing risk factors relevant to the Scottish legal sector, based on information / data available from the 2025 National Risk Assessment, AML Certificate data (sourced from the Society’s annual AML data collection exercise), open and closed source intelligence, and findings from ongoing assurance work undertaken across in-scope legal practices. We have summarised the risk ratings from various sources according to the risk classification below:

High inherent risk
Moderate inherent risk
Low inherent risk

We have done this to facilitate and further enable our supervised population to take a risk-based approach to AML control, in line with our [Supervisory Risk Appetite Statement](#).

Practices must be aware that those factors rated as “low inherent risk” in the Scottish context may still be relevant and / or higher risk in the context, nature or circumstances of their practice, clients or matters undertaken.

The [2025 National Risk Assessment](#) states: “The Money Laundering risk for the sector is assessed to have remained high with no significant change in vulnerabilities since 2020. Criminals are often drawn to legal service providers due to the veneer of legitimacy legal professionals can offer due to perceptions of the sector's integrity. The nature of the services offered, and the volumes of money that can be moved through them also contribute to the sector vulnerabilities, although the speed of transfer can often be slower than in some other regulated sectors. Non-compliance levels remain relatively low across the sector, but the vulnerabilities the sector is exposed to and the scale of money laundering involving the legal sector have also remained high since 2020.”

2025 National Risk Assessment: Legal Sector Risk Overview

- The UK remains exposed to a high level of money laundering risk due to its position as a global financial and professional services centre, the scale and openness of its economy, and the continued prevalence of high-value domestic and international financial flows. These characteristics make the UK an attractive destination for the laundering of criminal proceeds generated from a wide range of predicate offences, including fraud, corruption, organised crime, tax evasion and cyber-enabled crime.
- The increasing use of new and emerging technologies, including digital payment mechanisms and virtual assets, has introduced new methods for moving and disguising illicit funds, with criminals seeking to take advantage of these evolving tools and platforms to move and conceal illicit funds, contributing to the overall risk landscape.
- There is growing convergence between money laundering, kleptocracy, and sanctions evasion. Sanctioned entities and individuals have sought to obscure links to their funds by exploiting established money laundering networks.
- Cash-based money laundering remains a high risk in the UK. While the use of cash in regulated activity has declined, criminals continue to rely on established methods, including cash smuggling, cash-intensive businesses, money mules and the exploitation of legitimate channels, to introduce illicit proceeds into the banking system. There is no evidence that criminals are moving away from cash; instead, they frequently combine cash-based laundering with other techniques to conceal and move funds.
- Conveyancing, trust or company services, and the misuse or exploitation of client accounts were identified as the legal services most vulnerable to money laundering abuse, and these services continue to be assessed as presenting the highest level of risk within the legal sector.
- The inherent risk of money laundering via professional services remains present, notwithstanding generally positive levels of compliance across the sector. Where complacency arises, or where a 'tick-box' approach to compliance is adopted, the risk of services being exploited for criminal purposes increases. Inherent risk is further elevated where there are gaps in sector-specific knowledge, insufficient training, or limited understanding of evolving money laundering threats.

- Sham litigation was identified as an emerging risk in the 2020 National Risk Assessment; however, limited enforcement activity to date suggests it is not currently widespread, although vigilance remains necessary.

Risk Assessment Overview

Key Risks Identified in the National Risk Assessment	
Conveyancing	High inherent risk
Trust or Company Services Provision (TCSP)	High inherent risk
Misuse and exploitation of Client Accounts	High inherent risk
Sham litigation	Low inherent risk
Terrorist financing	Low inherent risk

Client Risk Factors	
High-risk business sectors/industries	High inherent risk
Politically Exposed Persons (PEPs)	Moderate inherent risk
Familiar clients	Moderate inherent risk
Situations where underlying client identity is obscured	Moderate inherent risk
Intermediaries or agents	Moderate inherent risk
High client turnover	Low inherent risk

Transactional Risk Factors	
Volume, nature and value of transactions	High inherent risk

Delivery Channel Risk Factors	
Combination of services	High inherent risk
Non-face-to-face delivery channels	Low inherent risk
Clients who use both in and out of scope services	Low inherent risk

Geographic Risk Factors	
Clients/matters with links to higher risk jurisdictions	High inherent risk
Money laundering risks relating to China	High inherent risk
Direct investment activity & high value goods	High inherent risk

Emerging / Other Risk Factors	
Cryptocurrencies	Moderate inherent risk
Mergers and acquisitions	Low inherent risk
Artificial intelligence	Low inherent risk

Key risks specific to the Legal Sector within the National Risk Assessment 2025

Conveyancing: High inherent risk

The 2025 National Risk Assessment says

“OPBAS [the Office of Professional Body Anti-Money Laundering Supervision] continues to consider conveyancing as an inherently high risk activity and the risk that conveyancing services are abused for money laundering purposes remains high. It often involves legal service professionals who are essential for most property purchase in the UK. The purchase of property in the UK is attractive to criminals who seek to launder large sums of illicit funds in a single transaction, both to disguise their wealth and to benefit from the use or ownership of the property.

Conveyancers who deal with prime or super-prime property purchases are more likely to be exposed to higher risk persons such as PEPs, and overseas buyers where it may be more difficult to assess source of wealth. However, there remains a risk that smaller scale criminals will look to purchase properties with more modest values. This risk can be increased if insufficient controls are put in place. There has been an increase in firms found non compliant with the MLRs.”

Risk assessment

While most conveyancing transactions are legitimate and conveyancing services form a core component of the Scottish economy, the Society considers residential and commercial conveyancing to present the highest money laundering risk within the Scottish legal profession.

The Society concurs with the findings of the 2025 National Risk Assessment on the risks related to conveyancing and continues to observe potentially concerning or suspicious activity within this area of legal practice, particularly where the size, volume or nature of transactions gives rise to heightened risk.

Property transactions typically involve high-value assets, enabling the potential legitimisation of substantial sums of money within a single transaction. Property values generally appreciate over time, which contrasts with other laundering methods where criminals often incur losses.

Conveyancing transactions also frequently proceed at pace, allowing complex money trails to be established quickly and creating opportunities for the onward sale of property to present the appearance of legitimate income.

In addition, property may generate further quasi-legitimate income streams, such as rental income, or be used directly by the launderer or an associate as a residence.

Transfers of real estate without the exchange of funds can present risks comparable to those associated with property purchases and should be treated with equal caution.

The risk is further elevated where conveyancing activity is combined with additional risk factors, such as the source of funds originating from a high-risk country.

The inherent money laundering risks associated with conveyancing is high within the Scottish legal sector.

Practical considerations

Practice units should ensure that conveyancing-related inherent risks are fully and accurately reflected within their PWRAs, taking into account the scale, volume and nature of conveyancing activity undertaken and any additional risk drivers present. Client and matter risk assessments should record the relevant background, context and circumstances of each instruction, with specific reference to the conveyancing services to be provided.

Transactions involving substantial amounts of cash from clients or third parties, rather than funds originating from regulated loans or mortgages, warrant increased scrutiny of the source of funds and, where relevant, the source of wealth applied. Due diligence should clearly identify, explain and evidence the origins of the funds used in the transaction.

Trust or Company Service Provision (TCSP): High inherent risk

The 2025 National Risk Assessment says

“The provision of trust or company services is rated as high risk in this NRA.” Legal Service Providers “who offer those services should familiarise themselves with those sections and their supervisor’s assessments as providing TCSP services alongside traditional legal services heightens risk exposure.”

Risk assessment

While the vast majority trusts and companies established by Scottish solicitors are legitimate, the risk remains that legal expertise may be exploited to create, manage or administer complex corporate or trust structures designed to obscure or conceal beneficial ownership of assets. Criminals may seek to engage legal professionals to establish or manage such entities to confer an appearance of legitimacy and respectability.

Scottish Limited Partnerships (SLPs), many of which are incorporated and maintained using UK-based TCSPs, have been highlighted for their use in international money laundering schemes because they offer separate legal personality, overseas partners, and historically weak transparency, enabling the layering of illicit funds.

The recent reforms to SLPs aim to reduce their attractiveness for money laundering by closing long-standing anonymity and transparency gaps that criminals have exploited; however, it remains too early to assess the full impact of these changes.

The risk is further elevated where TCSP activity is combined with additional risk factors, including complex corporate or beneficial ownership structures that may, intentionally or otherwise, conceal or obscure beneficial ownership. These risks are particularly elevated where structures are linked to, or domiciled in, jurisdictions in which beneficial ownership information is unavailable or difficult to obtain.

The Society agree with the findings of the 2025 National Risk Assessment and continue to identify potentially concerning or suspicious activity in this area of practice.

The inherent money laundering risks associated with the provision of trust or company services is high within the Scottish legal sector.

Practical considerations

Practice units must ensure that inherent TCSP-related risks are accurately reflected within their PWRAs, with appropriate and detailed consideration given to the size, volume and nature of TCSP work undertaken and any additional risk factors present.

Client and matter risk assessments should document the background, nature and circumstances of the client or matter in question in light of the TCSP services to be

provided and should include, where applicable, details of how the relevant entity or arrangement is, or has been, funded.

Practice units should also be aware that the money laundering risks arising from TCSP work may be more difficult to identify than in other in-scope areas. This can occur where TCSP activity is incorrectly treated as ancillary to another related matter, whether in scope or out of scope, rather than recognised as a distinct in-scope service that carries specific AML compliance obligations. As such, practice units must ensure that TCSP work is treated as an integral component of the services provided, rather than as ancillary, secondary or supplementary to other work.

Misuse and exploitation of Client Accounts: High inherent risk

The 2025 National Risk Assessment say

“[Legal Service Providers] use designated and pooled client accounts to hold and move money on behalf of their clients for related legal services. Money may move rapidly and in large sums through these accounts. Client accounts continue to be assessed as high risk as they can be misused by criminals to both move illicit funds and to provide a veil of legitimacy to the proceeds of crime...”

Risk assessment

A solicitor operated pooled client account, which is lawful and essential to legal practice, can be exploited as a layering and legitimisation tool, particularly where a legal firm places undue reliance on client explanations, fail to apply robust matter-level controls, or does not actively challenge unusual fund flows.

Funds that pass through a solicitor’s client account can disrupt audit trails and add a veneer of legitimacy to transactions, which may reduce the likelihood of scrutiny.

Potential misuse includes the use of the client account as a de facto banking facility for clients. This may involve funds being paid into a client account and subsequently returned without an underlying legal transaction, or where the related transaction has been aborted.

The Law Society of Scotland has robust accounts rules and guidance in place regarding the operation of client accounts by Scottish solicitor firms. Each firm is required to appoint a Cashroom Manager who has personal responsibility for ensuring adherence to the accounts rules within the firm. Cashroom Managers are required to pass an assessment to confirm their understanding of the accounts rules including those rules designed to reduce the risk of misuse of the client account. The Society experiences high levels of compliance with the requirements of the accounts rules and allocates considerable resource to risk-based monitoring of compliance with the accounts rules.

The Society however agrees with the findings of the 2025 National Risk Assessment. We assess the inherent money laundering risks associated with the misuse and exploitation of client accounts as high within the Scottish legal sector.

Practical considerations

Practices must ensure that any funds received into a client account relate to a legitimate underlying transaction. Firms should implement robust controls governing staff access to, and the management of, client funds.

As a matter of good practice, practices should provide client account details only when necessary and avoid making such details routinely visible, for example by including them in engagement letters or publishing them on websites.

Cashroom Managers must take adequate steps to ensure compliance with the Society's accounts rules. This includes ensuring they have the skills to carry out their role including having an awareness of the potential for misuse of the client account.

Cashroom Managers must also ensure that adequate supervisory arrangements are in place over the operation of client accounts and that they take steps to ensure the competence of the firms staff regarding the operation of client accounts.

Cashroom Managers should work closely with MLROs to ensure that the firm operates a holistic control environment over the operation of client accounts.

Sham litigation: Low inherent risk

The 2025 National Risk Assessment says

“The 2020 NRA identified sham litigations as an emerging area of risks. Since then, there has been one prosecution related to this issue, indicating that while the risk persists and firms should remain aware, it is not currently assessed to be a widespread or common issue.”

Risk assessment

Sham litigation in the context of money laundering refers to the deliberate use of fake or exaggerated legal proceedings to disguise the movement, origin, or ownership of illicit funds and to give those funds an appearance of legitimacy.

Rather than seeking a genuine legal remedy, criminals use the form and credibility of court proceedings to launder money through the legal system.

Examples of sham litigation include fabricated disputes relating to debts that do not exist, or disputes that are resolved too quickly or in an atypical manner, which may indicate an absence of genuine legal contention.

Sham litigation may also arise where a client settles a matter before the practice has substantively acted. For example, an overseas client may instruct a UK practice to pursue a dispute against a UK business and transfer funds to cover advance fees. If the client subsequently advises that the matter has been settled without the practice's involvement and requests the return of funds, less a small fee, the returned monies may have been effectively laundered through the practice's client account.

The Society assesses the inherent money laundering risks associated with sham litigation as low within the Scottish legal sectoral context. Nevertheless, practices should remain aware of and vigilant to these risks.

Practical considerations

While it is appreciated that litigation is not a legal service that will bring a practice within the scope of the MLRs, practices should take the appropriate steps at the outset of each matter to gather an understanding of the client before any work is undertaken.

Practices can conduct due diligence and / or take actions such as undertaking supplementary checks regarding the underlying nature of any lawsuit, checking for any connections between litigant parties, and being alert to any sudden changes of instruction.

Practices should be mindful of clients instructing firms far from their home address. Consider the client's geographic location in relation to the law firm, and whether it makes sense for them to instruct you rather than somebody closer.

Terrorist financing: Low inherent risk

The 2025 National Risk Assessment says

“Consistent with the findings of previous NRAs, we continue to assess the terrorist financing risk as low, with limited appetite for terrorist finance actors to use legal services such as conveyancing and client accounts to move funds.”

Risk assessment

The NRA indicates that there is limited appetite among terrorist finance actors to use legal services, including conveyancing and client accounts, to move or store funds. As a result, the legal sector is assessed as presenting low exposure to terrorist financing when compared with other regulated sectors.

The Society agrees with the findings of the 2025 National Risk Assessment.

Client Specific Risk Factors

High-risk business sectors/industries: High inherent risk

The Society assesses the inherent money laundering risks associated with high-risk business sectors and industries as high within the Scottish legal sector. We continue to review matters involving potentially concerning or suspicious activity linked to high-risk businesses across a broad range of practices.

The Legal Sector Affinity Group (LSAG) Guidance details within section 5.6.1.3 the business sectors and industries that may indicate higher risk (and as such warrant enhanced scrutiny and the application of enhanced due diligence). These include, but are not limited to:

- domestic and international public work contracts and construction, including post conflict reconstruction;
- businesses utilising new or unproven technology, that might make them vulnerable to being used for money laundering;
- high value goods businesses;
- items of archaeological, historical, cultural and religious significance or of rare scientific value (this may be of particularly high risk in jurisdictions with exposure to terrorism or terrorist financing activities);
- aspects of the nuclear industry with vulnerability to proliferation risk;
- mining (including precious metals, diamonds or other gemstones and trading of these materials);
- arms manufacturing/supply and the defence industry;
- tobacco products;
- gambling;
- crypto-asset wallet providers and exchanges;
- unregulated charities (particularly those operating in higher risk jurisdictions);
- money transfer businesses;
- ivory and other items and materials related to protected species;
- real estate and property development; and
- the oil and gas industry (with the exception of the buying and selling of fuel for domestic consumption or retail).

The National Crime Agency (NCA) has identified that businesses such as car washes, nail bars and takeaways, live-in factories and care homes could also present an increased risk of being involved in modern slavery and human trafficking.

The LSAG guidance, specifically section 5.6.1.3, also calls out that newly established businesses, particularly those operating in sectors with high financial barriers to entry

or entering new or untested markets, should be treated as potentially higher risk. Where an entity has access to illegitimate sources of funding, it may be better positioned to establish itself within a challenging or capital-intensive business environment.

Practices must remain vigilant to such risks when compiling their PWRA and conducting client and matter risk assessments. Clients operating in business areas or sectors associated with elevated levels of money laundering or corruption present a heightened risk, and practices should always take the nature of a client's business into account when assessing and undertaking client matters.

Further information on clients operating in higher-risk sectors is set out in section 5.6.1.3 of the LSAG Guidance.

Politically Exposed Persons (PEPs): Moderate inherent risk

Politically Exposed Persons (PEPs), together with their family members and known close associates, present a higher level of risk than non-PEPs, as they may be more susceptible to abusing public office for private gain and may be exposed to bribery and corruption. In such circumstances, a PEP may seek to use legal services to launder the proceeds of that abuse of office.

In 2024, changes were introduced to the treatment of individuals entrusted with prominent public functions in the UK, referred to as domestic PEPs. These changes reflect the Government's position that regulated firms should adopt a more proportionate and risk-based approach when dealing with domestic PEPs. Under the Money Laundering Regulations, the starting point for regulated firms is therefore to treat domestic PEPs, and their family members or known close associates, as inherently lower risk than non-domestic PEPs.

The Society emphasises that per Regulation 33, enhanced due diligence must be applied to all PEP relationships regardless of whether they're domestic or non-domestic. Regulation 35 allows for discretion regarding the extent of these measures but cannot forgo them.

While enhanced due diligence continues to apply, it may not need to be as extensive or detailed as that required for non-domestic PEPs, unless specific risk factors indicate an increased level of risk. Domestic PEPs may nevertheless present significant risks depending on the nature of their public function and the circumstances of the matter, and practices must continue to assess risk on a case-by-case basis.

The Society assesses the inherent money laundering risks associated with PEPs as moderate within the Scottish legal sector.

Further information, including relevant definitions, risk assessment steps and appropriate controls such as screening measures, is set out in sections 5.6.1.2 and 6.19.3 of the LSAG Guidance.

Familiar clients: Moderate inherent risk

Familiar or longstanding client relationships can increase inherent money laundering risk, as familiarity may reduce professional scepticism and lead to inadequate or incomplete due diligence.

The Money Laundering Regulations do not permit the waiver of CDD requirements based on familiarity, and practices must continue to apply a robust, risk-based approach in all cases. Personal knowledge or trust does not remove the requirement for independent verification, and changes in a client's circumstances over time may introduce new risks.

This risk also extends to clients introduced through trusted third-party referrals; a referral from a known source does not, of itself, establish a client's legitimacy or trustworthiness.

The Society assesses the inherent money laundering risks associated with longstanding or familiar clients as moderate within the Scottish legal sector, with risk levels increasing where additional inherent risk factors are present. The Society continues to review transactions in which basic and requisite due diligence has not been completed due to a perceived familiarity between the solicitor or fee earner and the client.

Practices should therefore identify and appropriately challenge assumptions regarding the low-risk nature of clients where a non-professional relationship exists. Practices must also independently verify information that may already be known, or believed to be known, about a client to ensure that all required checks have been completed.

Situations where underlying client identity is obscured: Moderate inherent risk

Situations in which the underlying client or beneficial ownership is obscured present a higher inherent money-laundering risk. Underlying client or beneficial ownership details may be unclear for a number of reasons, including the use of complex ownership structures or jurisdictions where beneficial ownership registers are unavailable or inaccessible, as well as cases where clients are unable to provide satisfactory identity verification, such as individuals residing in care homes.

Advances in technology may assist in mitigating these risks, particularly through the use of verification tools and screening systems.

The Society views the inherent risk associated with situations where underlying client identity is obscured as moderate in the Scottish legal sector, although the risk is heightened if coupled with other inherent risk factors.

Care and consideration should always be taken at the beginning of a client matter to correctly identify all involved parties and the underlying client or beneficial owners related to the matter.

Intermediaries or agents: Moderate inherent risk

The use of intermediaries or agents, while often appropriate and legitimate, can increase inherent money laundering risk by making it more difficult to establish who the underlying client is and whether the intermediary or agent has proper authority to act. Such arrangements also create a risk that instructions are provided without the client's knowledge or consent.

The Society assesses the inherent money laundering risks associated with the use of intermediaries or agents as moderate within the Scottish legal sector, with risk levels increasing where additional inherent risk factors are present. Practices should exercise care at the outset of each matter to clearly identify the client and all other parties involved.

Advances in technology may assist in mitigating these risks, particularly through the use of verification tools and screening systems.

The Money Laundering Regulations, specifically Regulation 28(10) requires practices to identify and verify both the intermediary and the underlying client and to obtain appropriate evidence confirming the intermediary's authority to provide instructions on the client's behalf.

High client turnover: Low inherent risk

Practices with a high volume of client turnover may have limited opportunity to develop a detailed understanding of a client's background or circumstances. A shorter or less established client relationship, and reduced underlying knowledge of the client, can therefore increase inherent money laundering risk.

The Society assess the inherent money laundering risks associated with high client turnover as low within the Scottish legal sector, although the risk level increases where additional inherent risk factors are present.

To date, only a limited number of instances of potentially concerning or suspicious activity arising specifically from high client turnover has been identified. Nevertheless, practice units should remain aware of and vigilant to risks in this area.

Advances in technology may assist in mitigating these risks, particularly through the use of verification tools and screening systems.

Practices operating business models characterised by high client turnover should place particular emphasis on establishing and evidencing the source of funds and, where appropriate, the source of wealth involved in transactions. Open Banking solutions may also support practices in this area, although they do not provide a complete substitute for effective AML controls.

Practices should always consider the duration and nature of client relationships in the context of their business model. This assessment may vary across different practice areas and should be appropriately reflected in any risk ratings applied.

Transactional Risk Factors

Volume, nature and value of transactions: High inherent risk

Transactions that are large, complex, high-value or linked through unusually high volumes, particularly where they are inconsistent with the client's profile, sector or the wider context of the matter, may present an increased risk of money laundering. This risk is heightened where there is no clear commercial rationale for the value transferred, the volume or frequency of transactions, or the structure or pattern of the funding arrangements.

The Society assesses the inherent money laundering risks associated with the volume, nature and value of transactions as high within the Scottish legal sector.

Particular care should be taken where funding is provided by apparently unrelated third parties. Risk increases further where source-of-funds enquiries identify large values, high volumes or round-sum cash payments originating from such third-party sources.

Practice units must ensure that their risk assessments appropriately identify and give detailed consideration to the background, nature and circumstances of the relevant client or matter. Client and matter risk assessments should also explain and, on a risk-based approach, evidence the underlying sources of funds and source of wealth provided by both clients and any third parties involved in the transaction.

Delivery Channel Risk Factors

Combination of service: High inherent risk

The provision of multiple legal services to the same client, especially high-risk services, can increase inherent money laundering risk by creating additional complexity, enabling layering, and obscuring beneficial ownership.

For example, where a trust or company is established to facilitate a high-value conveyancing transaction involving an overseas Politically Exposed Person (PEP) as the beneficiary or beneficial owner.

Practices must therefore assess risk holistically and consider the cumulative impact of combined services, rather than viewing each service in isolation.

The Society assesses the inherent money laundering risks associated with the combination of services as high within the Scottish legal sector. We continue to review matters that present elevated risk due to higher-risk services being provided in combination, or where multiple higher-risk factors are present.

Non-face-to-face delivery channels: Low inherent risk

Non-face-to-face onboarding and ongoing client relationships, whether conducted online, by telephone, via mobile applications or similar channels, can increase the risk of identity fraud and facilitate anonymity. While the absence of face-to-face contact may be appropriate in certain transactions or circumstances, practices should treat unnecessary reluctance or evasiveness about meeting in person as a potential cause for concern.

Non-face-to-face clients should be considered in the context of a practice unit's standard client base. Where a practice typically knows or meets its clients in person, it should apply heightened consideration to new clients whom it is unable to meet. Practices should assess and document the reasons why such clients have chosen to provide instructions and whether there is a credible and reasonable explanation for maintaining an arm's-length relationship, recording this analysis within the client or matter risk assessment.

Practices should also be aware of risks arising from the use of artificial intelligence tools, including so-called "deepfakes", which can convincingly replicate an individual's appearance or identity. These developments increase the risk associated with reliance on video-based identification and verification. Where practices engage solely in remote onboarding or client interaction, they should understand whether their electronic due diligence measures adequately mitigate these risks and, where necessary, consider additional technological solutions designed to detect deepfakes.

The Society currently assesses the inherent money laundering risks associated with non-face-to-face delivery channels as low within the Scottish legal sector. To date, we have identified only limited instances of potentially concerning or suspicious activity arising explicitly from relationships conducted on a non-face-to-face basis. Nevertheless, practice units should remain aware of and vigilant to risks in this area.

In an increasingly digital environment, non-face-to-face onboarding should not automatically be regarded as high risk. However, where practices act for clients without meeting them in person, they must be satisfied that this approach is appropriate in the circumstances and that adequate measures are in place to mitigate the risk of identity fraud. Situations in which clients appear unnecessarily reluctant, or evasive about in-person contact should be treated as a higher-risk factor.

As an alternative to face-to-face documentary verification, practices may adopt or further utilise electronic identity and verification (EID&V) solutions where appropriate to the risks presented by the client or transaction. The use of EID&V is not without risk, including cyber, data security, fraud and privacy risks, and practices should understand both the benefits and limitations of such tools. While EID&V solutions can support AML

controls, they do not provide a guaranteed safeguard against money laundering or terrorist financing, nor do they, in themselves, ensure compliance with the Regulations.

Practices should continue to apply a risk-based approach, informed by their practice-wide risk assessment, policies, controls and procedures, and the specific circumstances of each client and matter.

Clients who use both in and out of scope services: Low inherent risk

Risks arise where clients access multiple services within a legal practice, particularly where the client relationship was originally established for out-of-scope work and the client subsequently instructs the practice to undertake in-scope services.

While it is permissible for practices, applying a risk-based approach, to operate different onboarding processes depending on whether services are in scope or out of scope, risks can arise where no additional due diligence is undertaken before in-scope work commences, including the completion of a new client or matter risk assessment.

The Society currently assess the inherent money laundering risks associated with clients using both in-scope and out-of-scope services as limited within the Scottish legal sector. To date, we have not identified instances of potentially concerning or suspicious activity arising specifically from practices providing both in-scope and out-of-scope services to the same client. Nevertheless, practice units should remain aware of and vigilant to potential risks in this area.

To mitigate these risks, practices should maintain clear and robust policies, controls and procedures (PCPs) governing the transition between out-of-scope and in-scope services. It is also at the discretion of the practice to apply fully AML-compliant customer due diligence regardless of the nature of the matter. This would facilitate the effective and compliant transfer of clients between a practice's out-of-scope and in-scope services.

Geographical Risk Factors

Clients/matters with links to higher risk jurisdictions: High inherent risk

When assessing geographic risk, practices should consider the countries or geographic areas where the client (and where applicable counterparties or beneficial owners) resides, and / or areas in which the client operates or receives funds from.

The assessment may also take into account social, cultural or language factors that strengthen a client's connection to a known higher-risk jurisdiction or geographic area.

Indicators of a higher risk jurisdiction include, but are not limited to:

- inadequate AML/CFT laws, controls, supervision and / or enforcement
- failures to implement Financial Action Task Force (FATF) recommendations
- elevated levels of corruption or organised crime
- jurisdictions that lack transparency in corporate or beneficial ownership registries or otherwise facilitate anonymity
- jurisdictions linked to the production or distribution of drugs;
- jurisdictions subject to sanctions, embargoes or similar measures; and
- countries identified by credible sources as providing support for terrorist activities or hosting designated terrorist organisations.

Practices should recognise that geographic risk is not limited to jurisdictions subject to a Financial Action Task Force (FATF) call for action or increased monitoring (the "black" and "grey" lists) but may also arise in other circumstances.

The Society continues to review matters presenting elevated geographic risk, particularly in relation to the geographic origin of funds used in transactions, a client's place of residence or domicile, and situations where beneficial ownership of trusts or entities extends through, or is linked to, higher-risk jurisdictions.

The Society assesses the inherent money laundering risks associated with clients / matters linked to higher risk jurisdictions as high within the Scottish legal sector.

It is critical that risk assessments fully identify, assess and document all relevant sources of geographic risk, and where necessary, Enhanced Due Diligence (EDD) is applied.

Money laundering risks relating to Chinese individual direct investment activity & high value goods: High inherent risk

China provides an example of a jurisdiction that imposes significant restrictions on its citizens' ability to invest overseas or transfer capital abroad. Chinese nationals face limits on both the value and permitted use of funds that may be taken out of the country, and Individual Direct Investment activity, such as purchasing overseas property for investment or letting purposes, is prohibited under Chinese law.

These restrictions have contributed to the use of alternative "shadow banking" networks or illegal money service dealers to move value out of China. Under such arrangements, an individual pays funds to a dealer in China, who then arranges for an equivalent amount to be paid into a UK bank account nominated by the individual. In these cases, the funds paid into the UK account are not the same funds provided in China; instead, the value transfers without the movement of the original money. These networks often serve a dual purpose: facilitating the circumvention of capital controls while also laundering criminal proceeds, as the funds introduced into UK accounts are frequently criminal in origin. Such arrangements may amount to illegal money transfer activity.

Practices should also be aware of "daigou" activity, which involves the purchase of high-value or luxury goods overseas for resale in China. While daigou is not inherently unlawful in the UK or China when conducted in compliance with applicable laws and tariffs, operators often encounter difficulties funding these activities and transferring proceeds back to China. In some cases, they may rely on criminal sources of funding or underground value-transfer networks, including to facilitate property purchases in the UK.

The Society assesses the inherent money laundering risks associated with Chinese Individual Direct Investment activity and high-value goods trading as high within the Scottish legal sector. The Society continues to review matters in which funds originating from China, or from sources with a nexus or other links to China, appear unusual, questionable or are not otherwise reasonably explained.

Where there is a risk that funds may have passed through such networks, robust identification and scrutiny of the source of funds is critical. Practices should identify the underlying origin of funds and evidence any relationship between third-party funders and the client.

Practitioners should remain alert to indicators such as multiple cash deposits from different sources, often in round amounts, which may reflect the use of networks of individuals to distribute and deposit criminal proceeds. When reviewing bank statements, practitioners should also consider patterns involving multiple payments to high-value goods retailers or luxury brands.

Where Chinese nationals use legitimate channels to transfer funds overseas, they will typically hold a Chinese overseas money transfer form, or similar documentation, setting out the amount transferred and the stated purpose. Practitioners should request sight of this documentation as part of their due diligence and verify that the actual use of funds aligns with the stated purpose.

Practices should exercise caution where discrepancies arise between the declared and actual use of funds.

Emerging / Other Risk Factors

Cryptocurrencies: Moderate inherent risk

As noted in the NRA 2025, “the risk of money laundering through cryptoassets has increased significantly since 2020 with cryptoassets increasingly appearing in money laundering intelligence over this period. Cryptoassets are increasingly used for laundering all forms of proceeds of crime. In addition, there have been increasing levels of cryptoassets obtained through illicit means such as cybercrime, ransomware and cryptoasset thefts which are then laundered. Whilst Bitcoin remains an attractive cryptoasset for illicit finance and serious and organised crime (SOC), stablecoins such as Tether are now most commonly used to launder money.”

The Society notes the NRA finding; however, we have seen only limited examples to-date of potentially concerning or suspicious activity in this area of legal practice. We currently view inherent risks associated with Cryptocurrency as moderate in the Scottish legal sector. Practice Units should continue to be aware of and vigilant to this risk, and the Society will also continue to monitor any developing risks in this space.

The anonymity offered by cryptocurrency also makes it an attractive weapon for criminals looking to conceal their identity. As cryptocurrency grows in prominence, it is important for legal professionals to understand the risks that it poses and how to best respond when encountering crypto assets in practice.

Caution should be exercised in such situations, and it is strongly recommended that each practice ensures that their AML policy and procedure cover all potential scenarios to ensure consistency of approach. Consistent training should be provided to staff as well to further embed established procedures and to alert staff to the money laundering risks which are present. Practices should strongly consider Enhanced Due Diligence (EDD) measures when sources of funds/wealth are derived from or via crypto.

Mergers / acquisitions: Low inherent risk

Money laundering risks arise where a practice merges with, or acquires, another practice and assumes responsibility for its existing client base, relationships and transactions. These risks increase where appropriate AML controls, including compliant risk assessments, customer due diligence and ongoing monitoring, have not been fully implemented or effectively applied.

The Society currently assess the inherent money laundering risks associated with mergers and acquisitions as low within the Scottish legal sector. To date, we have not identified instances of potentially concerning or suspicious activity arising specifically from the merger or acquisition of practice units. Nevertheless, practices should remain aware of and vigilant to risks in this area, particularly as further consolidation within the sector continues.

Where a practice acquires another practice's business or client portfolio, whether in whole or in part, the acquiring practice should understand the AML risks inherent within the acquired portfolio and evaluate the effectiveness of the controls previously in place to mitigate those risks. Due diligence undertaken by the acquiring practice should include sample testing to confirm that customer identification and verification procedures carried out by the acquired practice were completed correctly.

Practices should also consider the extent to which they can reasonably rely on any customer due diligence conducted by the acquired practice and assess whether remediation or additional AML measures are required following acquisition.

Artificial intelligence: Low inherent risk

Artificial intelligence (AI) has the potential to enhance the detection and prevention of money laundering; however, criminals may also exploit AI to circumvent AML controls or increase the scale and sophistication of their activities. In particular, AI may enable criminals to commit predicate offences, such as fraud, more easily and to move illicit funds more quickly and across wider networks.

The Society currently assesses the inherent money laundering risks associated with the use of artificial intelligence as low within the Scottish legal sector. Nevertheless, practices should remain aware of the risks posed by AI-enabled tools, including so-called “deepfakes”, which can convincingly replicate an individual’s appearance or identity. These developments increase the risks associated with reliance on video-based identification and verification.

Where practices conduct client onboarding or ongoing relationships exclusively on a remote basis, they should ensure that their electronic due diligence measures adequately mitigate these risks or consider the use of additional software solutions designed to detect deepfakes.

Conclusion

This Sectoral Risk Assessment confirms that the Scottish legal sector continues to face a high inherent risk of money laundering, consistent with the findings of the 2025 National Risk Assessment and with no material reduction in underlying vulnerabilities since 2020.

Criminals remain attracted to legal services due to the legitimacy associated with professional advisers, the nature of services provided, and the ability to move significant sums of money through transactions such as conveyancing, trust or company service provision, and the use of solicitor-operated client accounts.

While overall levels of regulatory compliance across the sector remain comparatively strong, high-risk practice areas, client typologies, transaction structures, delivery channels, and geographic exposures continue to present opportunities for misuse where controls are ineffective or applied in a perfunctory manner. Emerging risks, including those linked to technological developments, artificial intelligence, crypto assets and evolving international typologies, further reinforce the need for ongoing vigilance.

Scottish legal practices must therefore continue to apply robust, risk-based and proportionate AML/CTF measures, informed by this assessment, their own practice-wide risk assessments, and matter-specific risk analysis. Enhanced scrutiny, effective governance, targeted training, and continual review of policies, controls and procedures remain essential to mitigating both established and emerging risks and to safeguarding the integrity of the legal profession.