

News

MLRs consultation response: what it means for law firms

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HM Treasury has released its [response to the 2024 consultation](https://assets.publishing.service.gov.uk/media/6878c1b42bad77c3dae4dd25/MLRs_Consultation_Response.pdf) [https://assets.publishing.service.gov.uk/media/6878c1b42bad77c3dae4dd25/MLRs_Consultation_Response.pdf] on the Money Laundering Regulations (MLRs), outlining a series of proposed amendments to how law firms approach their anti-money laundering (AML) compliance. These changes aim to reduce unnecessary regulatory burdens and enhance the effectiveness of the UK's AML framework.

Key Proposed Changes

- Changing an enhanced due diligence trigger from 'a transaction is complex or unusually large' to 'unusually complex or unusually large'. This allows firms to take a risk-based approach on what is usual or unusual for them.
- Restricting high-risk third countries, and the mandatory measures associated with them, to those on the FATF call to action list, currently Iran, Myanmar and North Korea. This allows firms to take a risk-based approach to overseas jurisdictions, using the risk factors set out in Regulation 33.
- Exploring the potential for guidance to include illustrative examples to clarify the requirement to undertake source of funds checks 'where necessary' — for example, where the client's funds do not fit their profile.

Other changes include:

- Changing all references to Euros to Pounds Sterling on a 1:1 basis.
- HMT working with other government departments to produce guidance on digital identity.
- Sales of off-the-shelf companies to be included in the definition of Trust or Company Service Providers.

Implications for law firms

The government's proposed changes are designed to simplify compliance for law firms, particularly those with significant AML obligations. The removal of some requirements will allow firms to allocate resources more efficiently.

HM Treasury will circulate a draft statutory instrument in the coming months and hope to lay it before Parliament before the end of 2025. The SRA will work with other AML supervisors to update the LSAG guidance in accordance with the changes and obtain HMT approval.

Law firms involved in AML-related activities should stay up to date with these changes and review their AML policies and procedures accordingly. The SRA will continue to monitor these developments and provide further guidance as the regulatory landscape evolves.