

Thematic review of source of funds and wealth compliance

5 November 2025

Executive Summary

Introduction

It is our regulatory responsibility to supervise law firms for compliance with anti-money laundering (AML) regulations. This involves:

- making sure that firms have appropriate controls in place to prevent money laundering
- assessing risk management practices
- encouraging the reporting of potential breaches.

As part of this, law firms are required to conduct source of funds checks where necessary and, in certain cases, source of wealth checks to help prevent the facilitation of financial crime. This comes under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017) and other relevant legislation.

MLR 2017 has been in place for over seven years and there is a wide range of guidance available in this area. However, we have been concerned by the continued levels of non-compliance in relation to source of funds and source of wealth checks. Our findings are based on a substantial body of data gathered through our proactive supervision work over the past three years. This has consistently shown that:

- compliance with source of funds requirements remains a concern
- many firms need to strengthen their approach
- regulatory action is necessary to address these gaps.

To supplement this, we engaged with a sample of 19 firms to gather more current insights and test emerging themes.

HM Treasury recently published outcomes from the consultation on the MLR 2017. It proposes targeted reforms to simplify compliance and strengthen the UK's AML framework. These changes include clarifying when source of funds checks are required. They also encourage a more proportionate, risk-based approach. As the regulatory landscape evolves, we will continue to support firms in understanding and implementing these requirements effectively, including through updates to guidance and supervisory engagement.

This report details our findings from a review of how regulated firms are complying with source of funds/wealth requirements. It also provides regulatory best practice, case studies and further resources available for firms in scope of MLR 2017.

The regulations

Source of funds and source of wealth checks are two distinct requirements under MLR 2017. Although there are circumstances when they overlap as required under regulation 33 and 35 MLR.

These checks are one of the foundations of effective AML risk management. This is because solicitors and law firms are often targeted by criminals because they are trusted, can process large amounts of money in one transaction, and can make the transfer of money or assets appear legitimate.

Conducting thorough checks can be crucial in preventing money laundering and terrorist financing. It is a vital way to protect law firms from being used by criminals to legitimise the proceeds of crime.

Carrying out proper source of funds/wealth checks could:

- limit the opportunities for criminals to benefit from their criminal property and legitimised criminal assets
- protect firms from exploitation by criminals, by making sure that transaction funds and/or assets have not come from criminal activity
- protect firms from committing a money laundering offence by unknowingly legitimising criminal property through a transaction
- help firms to demonstrate that they have undertaken appropriate due diligence if the need arises.

Carrying out source of funds checks in a transaction can be one of the most effective controls available to law firms. Checking the source of wealth can help to understand an individual or entity's financial background. This may also assist in identifying inconsistencies with a client or third parties' source of funds and/or inconsistencies with the transaction instructed on.

What we did

We analysed data from our recent proactive supervision work and directly engaged with a representative range of firms. The review also looked at wider best practice and the views of representative bodies and other regulators.

- We reviewed three years of data from our proactive supervision work (AML inspections and desk-based reviews), as well as our own Money Laundering Reporting Officer (MLRO) annual report.
- We spoke to other AML supervisors and representative bodies.
- In addition, and to include more current input, we engaged with 19 law firms. These ranged from sole practitioners to the largest firms we supervise).
- We reviewed and tested the way we communicate with the profession about source of funds and source of wealth.

Key findings

Compliance

Whilst awareness is good, there was evidence of non-compliance with source of funds and source of wealth checks. This included:

- Inadequate scrutiny of documents as firms often collect, but do not assess, evidence.
- Record-keeping issues, missing audit trails and lack of rationale for decisions.
- Out of more than 5,800 files reviewed in 2024-2025; 11% lacked source of funds checks and 18% showed inadequate scrutiny.
- In 8% of cases, the source of funds recorded in the ledger was not supported by the evidence collected.

Challenges faced by the profession

There is a clear need for greater clarity on when and how source of funds and source of wealth checks should be carried out. While the regulations require firms to adopt a risk-based approach, many firms we engage with continue to express uncertainty about what constitutes a 'necessary' check under the MLR 2017. This feedback, also reflected in HM Treasury's recent consultation response, highlights a broader call from the profession for more illustrative and practical guidance. We recognise that professional judgment remains central to applying the rules in context, but we will be working with HM Treasury and stakeholders to examine the existing guidance to help firms apply that judgment with greater confidence and consistency. Ultimately, it will be for firms to ensure they apply the guidance appropriately within their own risk-based frameworks.

Other challenges include:



- Time and resource pressures that make thorough checks difficult, especially for smaller firms.
- Client reluctance to share financial information due to cultural or privacy concerns.
- Fee earner hesitation about offending long-standing clients.

Next steps

This thematic review was initiated in response to our own data, but also the persistent challenges firms have reported to us in conducting source of funds and source of wealth checks. While it draws on our observations over the past three years, its purpose is forward-looking. The review highlights where improvements are needed now and in the future. Some of this work is already underway. Importantly, the review also reinforces our expectations of firms and the consequences of failing to meet them.

Alongside the review, we have been working to improve the way we communicate with compliance officers. This has involved using new ways of presenting source of funds content in our compliance newsletter, looking at tone, frequency and style. The data and results from this will inform how we communicate key compliance information in the future.

A key outcome of this review has been to produce resources that support the profession in confidently carrying out checks. The resources are now in place and will be publicised across the profession.

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The review

We carried out a review to understand how firms were complying with the source of funds and source of wealth requirements and to identify good and poor practice. This involved:

- Reviewing three years of data from our proactive supervision work (AML inspections and desk-based reviews) to identify how well source of funds checks were carried out at matter level.
- Engaging with 19 law firms of various sizes (from sole practitioners to the largest firms we supervise) to better understand how these checks are carried out in practice and the challenges currently encountered by firms.
- Engaging with other AML supervisors and representative bodies to identify any best practice that could be shared.

Engagement with firms

Our engagement with firms indicated that source of funds and source of wealth checks were routinely conducted as part of the customer due diligence process.

We further observed that some firms showed a robust approach to conducting source of wealth checks by conducting these checks as standard practice; regardless of the level of risk associated with the client or matter.

Firms identified the following challenges and requirements when conducting source of funds and/or source of wealth checks. These are broadly grouped into four areas: guidance, time, clients and fee earners.

Guidance

Firms felt there was limited or no guidance available on how the term 'where necessary' as per regulation 28(11)(a) MLR 2017 should be interpreted. In the government's [consultation response \(PDF 48 pages, 333KB\)](#)

[\[https://assets.publishing.service.gov.uk/media/6878c1b42bad77c3dae4dd25/MLRs_Consultation_Response.pdf\]](https://assets.publishing.service.gov.uk/media/6878c1b42bad77c3dae4dd25/MLRs_Consultation_Response.pdf) dated 1 July 2025, the Treasury confirmed the wording of the regulation would remain unchanged to allow for a risk-based approach. The Treasury also called on supervisory bodies to provide sector specific guidance on source of funds.

- Firms need a better explanation and case studies on what checks they should be doing practically on a matter level.
- More clarity on what should be recorded on client files to reflect the checks that have been conducted.
- Clearer explanations of the distinction between source of funds and source of wealth.

Time

Checking the source of funds and/or source of wealth in a transaction could be time consuming. This was particularly difficult for firms with limited resources.

- The costs of customer due diligence (eg identification and verification or source of funds checks) could vary depending on the type of client and level of money-laundering risk they posed.
- Not all firms were aware that they may pass the costs of customer due diligence on to their clients; however, these costs must be clearly stated in the firm's terms and conditions.

Clients

There could be a reluctance among clients to disclose financial information due to their cultural beliefs regarding the discussion of money and personal wealth. Where firms used electronic tools to conduct source of funds checks, some clients were reluctant to use these tools. This makes it harder to get the information needed.

Fee earners

There were instances where fee earners were concerned about upsetting their clients. This was because they were long standing clients or because of the cultural beliefs of the clients.

Findings from our proactive work

As part of this review, we looked at data and information from the last three reporting years. We looked specifically at mentions of source of funds and source of wealth in inspections and desk-based reviews.

2022-2023

During this reporting period, we completed an AML inspection or a desk-based review on 209 firms and reviewed 1,245 files.

- We provided feedback on source of funds and source of wealth to 63 firms (30%) where we identified inadequate evidence on the files we reviewed.
- Thirty-three firms (16%) were referred to our AML Investigations Team for further action after source of funds and/or source of wealth issues were identified.

2023-2024

During this reporting period we completed an AML inspection or a desk-based review on 495 firms and reviewed 3,048 files. Out of these files, 2,701 (89%) required source of funds and/or source of wealth checks to be completed.

- A quarter (678) of the 2,701 files did not contain information or evidence of source of funds and/or source of wealth checks.
- We provided feedback on source of funds and source of wealth to 167 (34%) of firms where we identified inadequate evidence of source of funds and source of wealth checks on the files we reviewed.
- Sixty-two firms (13%) were referred to our AML Investigations Team for further action after source of funds and/or source of wealth issues were identified amongst other AML failures.

2024-2025

During this reporting period, we expanded on our analysis on how source of funds and wealth checks were being completed. We completed an AML inspection or a desk-based review on 833 firms and reviewed 5,873 files. Some 5,026 of those files required source of funds and/or source of wealth checks to be completed.

- Of the 5,026 files, 11% (648) did not contain any source of funds checks.
- We provided feedback on source of funds/source of wealth to 41% of (343) firms.
- Feedback was given where we identified inadequate evidence of source of funds/wealth checks on the files we reviewed. At times we found fee earners were aware of the source of funds but there was no evidence trail of the enquires made or why the fee earner deemed it was not necessary.
- We found that the source of funds and/or source of wealth was not adequately scrutinised on 18% of the files we reviewed.
- On 8% of files we reviewed, we found the information gathered as part of firms' source of funds checks did not match information contained on the ledger. Indicating a disconnect between the information collected and where the funds originated from.
- Fifty firms (6%) were referred to our AML Investigations Team for further action after source of funds and/or source of wealth issues were identified amongst other AML failures.

The results show that compliance has been improving in this area and there has been a decrease in the number of matters being referred to investigations where source of funds is a concern. However, further improvements are needed, particularly in record keeping.

Money Laundering Reporting Officer report

We also reviewed the [2024 \(PDF 7 pages, 144KB\)](https://media.sra.org.uk/globalassets/documents/sra/board-meetings/2024/july/annex-1---mlro-annual-report-ye-april-2024.pdf) and [2025 \(PDF 7 pages, 223KB\)](https://media.sra.org.uk/globalassets/documents/sra/board-meetings/2025/july/annex-1-mlro-annual-report.pdf) annual reports prepared by our Money Laundering Reporting Officer (MLRO). These reports outline the suspected money laundering related activities seen and reported to the National Crime Agency (NCA) by way of Suspicious Activity Reports (SARs), as well drawing out key themes.

We noted that of the 42 suspicious activity reports (SARs) we submitted to the NCA 73% of these SARs related to conveyancing transactions.

Both reports highlighted that some firms were holding source of funds information but had failed to adequately scrutinise information. If the information held was scrutinised, it ought to have raised concerns. This highlights the importance of ensuring source of funds checks are not limited to simply collecting documentation.

This observation aligns with the findings from our proactive supervision work. In 8% of the files we reviewed between April 2024- April 2025, the documented source of funds did not match the information on the ledgers. Unexplained or last-minute changes to how a transaction is funded can be a red flag. In such cases firms should evaluate whether there is a reasonable explanation and whether the changes alter the risk profile and the level of checks required.

Understanding source of funds and source of wealth

Source of funds and source of wealth checks are two distinct requirements under The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017), although there may be some overlap in their practical application. This is because it may be difficult in some circumstances to understand the source of funds without understanding the source of wealth. For example, the source of funds in a transaction may be savings derived from rental income. This information may not make sense without understanding that the source of wealth is derived from a property portfolio.

The extent to which firms should obtain, review and evidence source of wealth will be dependent on the risk profile of the client and/or matter.

Source of funds

Source of funds refers to the funds that are being used to fund the specific transaction in hand. Checking the source of funds in a transaction should not be limited to knowing that the funds exist. It requires an understanding of where the money came from. For example, this might involve obtaining and reviewing documents such as payslips, inheritance documentation, sale agreements, or business earnings.

In circumstances where a third party contributed to funds for a transaction, firms should seek to understand the underlying source of funds in the same way they would for a client.

The information/documents obtained should be substantive and establish a reason for the person/entity having the funds/assets in question.

It is not enough to know that funds will come from a regulated UK financial institution. This is because money that has been layered or integrated through the financial system may appear legitimate on the surface. Using a risk-based approach, there may be exceptions to this. For example, where a bank and/or regulated financial institution is providing financing for the transaction (for example, a mortgage).

Thorough source of funds checks will help to:

- understand where those funds came from
- confirm how they were accumulated by the client or relevant party
- make sure, on a risk-based approach, that the funds are not the proceeds of crime.

The extent to which firms should obtain, review and evidence source of funds will be dependent on the risk profile of the client and/or matter.

Source of wealth

Source of wealth is looking at where a person or entity's total wealth comes from, rather than a specific portion of it. The purpose of obtaining source of wealth information is to assess whether it aligns with your knowledge of the individual or entity, the nature of the matter and the associated money laundering risk.

Checking source of wealth requires taking steps to understand:

- why and how the individual or entity has the amount of overall assets they do and
- how they accumulated/generated those funds and/or assets.

The requirements

Guidance has been issued in line with our obligation to provide information on money laundering and terrorist financing practices to law firms working in the regulated sector under Regulation 47 MLR 2017.

Under the MLR 2017, source of funds checks must be completed:

- as part of ongoing monitoring obligations. This includes 'scrutiny of transactions, including the source of funds, where necessary; to ensure that the transaction is consistent with your knowledge of the client, their business and their risk profile' (Regulation 28(11)(a), MLR 2017).
- if the client is a politically exposed person (regulation 35 MLR 2017)
- if the client is established in a high-risk third country (HRTC) or where either of the parties to the transaction is established in a HRTC (regulation 33 MLR 2017).

Under the MLR 2017, source of wealth checks must be completed:

- when funds will come from a politically exposed person (PEP) or the close relative or associate of a PEP (regulation 35 MLR 2017) or
- where the client is based in a high-risk third country (regulation 33 MLR 2017).

Under regulation 33 MLR 2017, enhanced due diligence must be applied in matters identified as a high risk for money laundering and terrorist financing. This includes conducting source of funds and wealth checks. Source of wealth checks should also be undertaken if the source of funds causes concerns or raises further questions.

A solicitor commits a principal money laundering offence under the Proceeds of Crime Act 2002 (POCA) in circumstances where:

- they conceal, disguise, convert, transfer and remove criminal property (s327);
- they enter or become concerned with an arrangement which they know, or suspect facilitates (by whatever means) the acquisition, retention, use or control of criminal property by or on behalf of another person (s328);
- they acquire, use and/or have possession of criminal property (s329).

Failing to identify where funds have derived from or obtain evidence to substantiate the enquiries made, could put a solicitor at risk of committing an offence under POCA. Carrying out a source of funds check helps the solicitor to understand whether funds are legitimate or suspicious.

The requirement to do source of funds checks could apply even if no money is coming through the client account. For example, if a transaction only involves the movement of assets from party A to party B for nil consideration. Or where they are only instructed to assist in the drafting of documentation that transfers property.

This can pose a high risk of money laundering because it can be used by criminals to move their assets to other parties to obscure the link between the assets and themselves. Ultimately, this may prevent the transferred asset from being confiscated by the authorities under POCA 2002.

While no funds will pass through the firm's client account, if the transfer involves criminal property this can put a firm at risk of an arrangement offence. An arrangement offence refers to a criminal offence under Section 328 of the POCA in the UK. It involves entering into or being concerned in an arrangement that facilitates the acquisition, retention, use, or control of criminal property by or on behalf of another person.

Support, guidance and expectations

We recognise the challenges raised by firms in carrying out source of funds and source of wealth checks. This thematic review sets out how we expect firms to comply.

Understanding source of funds is a key control in protecting firms from being used by criminals and preventing those individuals from benefiting from their crimes.

Conducting effective source of funds checks supports the understanding of the overall risk in a transaction. It helps to spot red flags, determine the appropriate actions including any evidence that should be collated, and which risk factors require monitoring.

When conducting source of funds checks, firms should seek to answer the following key questions:

- Where did the money for the transaction come from?
- How did the client acquire the money used in the transaction or business relationship?
- Do the documents provided match the explanation given?
- Does the transaction make sense in the context of the client's profile?
- Was it necessary to carry out the checks based on the level of risk?
- Has the firm clearly documented the checks undertaken, or documented why checks were not necessary and why the approach was proportionate to the risk involved?
- Is there anything unusual or suspicious about the source or movement of funds?



Reminder: The costs of customer due diligence, including source of funds and wealth checks, can be passed on to clients, however the cost will need to be clearly stated in the firm's terms and conditions.

We expect firms to have a clear audit trail

Between 30 and 40% of firms received feedback on their source of funds controls over the last three years. While there has been a positive downward trend in matters being referred for investigation due to lack of source of funds checks, we do expect continued improvement in this area.

Firms should maintain a clear and documented audit trail setting out their approach to source of funds on each matter. This should include a rationale explaining why the approach taken was proportionate to the degree of risk. Where source of funds checks are not carried out, the audit trail must include an explanation of why the firm considered the checks unnecessary.

In accordance with Regulation 40(2) MLR 2017 firms must keep records of any documents and information obtained. This will satisfy the customer due diligence requirements in regulations 28, 29 and 33. This includes the documents collected for source of funds. Records must be sufficient to enable the transaction to be reconstructed.

Regulation 28(16) MLR 2017 requires firms to be able to demonstrate to their supervisor that the extent of the customer due diligence or enhanced due diligence measures applied were appropriate to the level of risk in each case. This includes source of funds checks.

We have [created a form \(DOC 8 pages, 39MB\)](https://media.sra.org.uk/globalassets/documents/sra/research/sof-w-form-guidance.docx) [\[https://media.sra.org.uk/globalassets/documents/sra/research/sof-w-form-guidance.docx\]](https://media.sra.org.uk/globalassets/documents/sra/research/sof-w-form-guidance.docx) to assist firms in recording these decisions. Use of the form is not mandatory as firms may choose to use file notes or their case management systems to record this information.

The type and the quantity of information and/or documentation required to complete source of funds checks in each matter, and the level of scrutiny, should be proportionate to the client and matter risk profile.

- If a firm is unable to apply customer due diligence measures (including source of funds checks), Regulation 31 MLR 2017 states that the firm must:
 - not carry out any transaction through a bank account with the customer or on behalf of the customer
 - not establish a business relationship or carry out a transaction with the customer otherwise than through a bank account
 - terminate any existing business relationship with the customer.
- make a disclosure to the NCA, either directly or through the firm's MLRO, if the firm knows or suspects or has reasonable grounds to know or suspect that the client is engaged in money laundering.

We expect firms to comply with ongoing monitoring obligations

During the period of April 2024 – April 2025, we found that on 8% of the files we reviewed the source of funds that were received on the ledger did not match the evidence on file. Recording the firm's understanding of the source of funds and/or source of wealth checks and the checks conducted — will support compliance with ongoing monitoring obligations under Regulation 28(11) MLR 2017.

Firms should verify that the funds received are consistent with expectations, investigate any discrepancies, and report concerns to the appropriate person.

There are several ways in which this change can occur. For example:

- Funds were expected from a mortgage provider but instead arrive from a private individual.
- Funds were expected from company x, but are received from company y.



- The client was due to receive a bridging loan but unexpectedly tells the firm they are now settling the balance in full.

This is not an exhaustive list. There may be legitimate reasons for such changes, but they should be investigated, and the client and matter risk assessment may need to be updated accordingly.

We expect firms to scrutinise transactions

Our MLRO reports highlighted that on occasions, source of funds documents were collected but had not been scrutinised.

Firms must scrutinise transactions on a matter-by-matter basis, with the objective of understanding the source of funds for transactions. Firms should encourage staff to review the documents received and understand the evidence obtained as opposed to collecting documents as a tick box exercise.

Documenting what source of funds information/evidence has been obtained and the conclusions derived from these checks can help bridge the gap between obtaining a document and ensuring the document has been reviewed and understood.

Transactions that are high risk for money laundering

Under Regulation 33 of MLR 2017, firms are required to apply enhanced customer due diligence measures and enhanced ongoing monitoring in addition to the standard customer due diligence measures required under Regulation 28. These enhanced measures must be applied in matters identified as high risk within the firm's firm-wide risk assessment and the SRA's sectoral risk assessment.

When assessing whether source of funds checks are required and the extent of those checks firms must consider:

- their firm wide risk assessment (which must take into account the information we have published such as our [sectoral risk assessment](https://media.sra.org.uk/sra/research-publications/aml-risk-assessment/) [https://media.sra.org.uk/sra/research-publications/aml-risk-assessment/].)
- the level of risk the client poses to the firm and
- the level of risk the matter poses to the firm.

The higher the risk involved in a matter, the more detailed and robust the checks should be.

For example, we continue to observe high risk matters such as conveyancing being undertaken with no evidence of source of funds checks on file. This is concerning, as conveyancing remains attractive to criminals seeking to launder money through property transactions.

The UK's [National Risk Assessment](https://assets.publishing.service.gov.uk/media/5fdb34abe90e071be47feb2c/NRA_2020_v1.2_FOR_PUBLICATION.pdf) [https://assets.publishing.service.gov.uk/media/5fdb34abe90e071be47feb2c/NRA_2020_v1.2_FOR_PUBLICATION.pdf], our [sectoral risk assessment](https://media.sra.org.uk/sra/research-publications/aml-risk-assessment/) [https://media.sra.org.uk/sra/research-publications/aml-risk-assessment/] and the [Office for Professional Body Anti-Money Laundering Supervision \(OPBAS\)'s letter](https://www.fca.org.uk/publication/correspondence/opbas-conveyancing-risk-letter.pdf) [https://www.fca.org.uk/publication/correspondence/opbas-conveyancing-risk-letter.pdf] published in November 2024 all identify conveyancing as a high-risk area for money laundering.

Our MLRO's report also highlighted that 73% of the SARs we submitted to the National Crime Agency between 5 April 2023 – 5 April 2025 related to conveyancing matters.

Firms need to remain vigilant when working on matters that are inherently high risk for money laundering. The SRA expects firms to carry out source of funds checks on such matters to mitigate the associated risks.

If a firm decides to treat a risk as lower than indicated in its firm-wide risk assessment, it must clearly document the reasons for this decision. The firm's client and matter risk

assessment should support and reflect the decision.

Examples of good and poor practice

During our thematic review we observed the following good practice:

- The level of source of funds and/or source of wealth checks conducted on files correlated with the risk profile of the client and/or the matter.
- Steps were taken as early as possible to understand the source of funds in a transaction before undertaking any substantial work.
- Files contained clear evidence of source of funds, what was reviewed, when, what judgment was reached, and why.
- Clear and documented understanding of source of funds checks that were carried out, and why.
- Where there was a change in funding, details of the changes were identified, documented and action was taken to mitigate newly identified risks before proceeding with the transaction.
- Some firms had controls to prevent fee earners continuing work on a file if the source of funds and/or source of wealth had not been established.

Poor practice

During our thematic review we observed the following poor practice, sharing this may help firms better understand this area.

- Firms making a written note of how the transaction will be funded but not obtaining any documents in support or making further enquiries.
- Source of funds completed as a tick box exercise. For example, having a blanket policy to request a bank statement simply showing the funds exist without understanding how the client obtained the funds.
- No consideration to other factors such as the risk level presented by the client and/or matter.
- No enquiries made on matters where the firm have been instructed by a new client, where the firm have no previous knowledge of the client's source of funds or wealth.
- Accepting funds into the client account before understanding the origin and legitimacy of the funds.
- Assuming funds are legitimate because they came from a UK bank account.
- Firms not checking source of funds to avoid offending clients, particularly long-standing clients and individuals known in a personal capacity.
- The evidence of source of funds on file does not match the narrative on the file. For example, the client may state that the funds are from long term savings. The evidence on file may show that the funds came from a third party.
- The evidence on file shows that the client did not have sufficient funds to fund the transaction at hand. For example, obtaining bank statements which show significantly less money than is required for a transaction without making further enquiries.
- Source of funds checks are completed at a late stage in a transaction for no good reason (for example, on the day funds are expected into the client account).

Resources

We recognise the challenges raised by firms in carrying out source of funds and source of wealth checks. Following this review, we have developed the following resources to support firms in addressing these issues.

Source of Funds and Source of Wealth FAQs

A list of frequently asked questions we receive relating to source of funds and source of wealth along with our response.

[Read source of funds and wealth FAQs](https://media.sra.org.uk/solicitors/resources/money-laundering/aml-questions-answers/#source) (<https://media.sra.org.uk/solicitors/resources/money-laundering/aml-questions-answers/#source>)



Source of funds checks - information gathering form with guidance

A form for fee earners, designed to be provided to clients. This will help firms to gather information and evidence on source of funds and source of wealth.

[Download: Source of funds form \(DOC 4 pages, 22KB\)](https://media.sra.org.uk/globalassets/documents/sra/research/sof-record-form.docx)
[<https://media.sra.org.uk/globalassets/documents/sra/research/sof-record-form.docx>]

Source of funds checks - record of evidence

A form to help firms to keep an internal record of what source of funds checks have been carried out on a matter. This will help document the approach taken and why it was appropriate for the degree of risk.

[Download: Source of funds checks - record of evidence \(DOC 8 pages, 39KB\)](https://media.sra.org.uk/globalassets/documents/sra/research/sof-w-form-guidance.docx)
[<https://media.sra.org.uk/globalassets/documents/sra/research/sof-w-form-guidance.docx>]

Case studies and scenarios

These case studies provide examples of factors for firms to consider when conducting source of funds and source of wealth checks in different scenarios.

[Read case studies](https://media.sra.org.uk/sra/research-publications/thematic-review-source-funds-wealth-compliance/#collapse_c3091) [https://media.sra.org.uk/sra/research-publications/thematic-review-source-funds-wealth-compliance/#collapse_c3091]

Proof of source of funds: information for clients

We provide [information for consumers to help](https://media.sra.org.uk/consumers/choosing/aml/) [<https://media.sra.org.uk/consumers/choosing/aml/>] explain why identity and financial checks are required under the Money Laundering Regulations. You can share this with clients who want to understand why solicitors are required by law to carry out checks before providing certain legal services.

Case studies - guidance

The case studies have been produced to help you identify some of the factors you can consider when conducting source of funds and source of wealth enquiries. The scenarios are for illustrative purposes only and are not an endorsement of an approach to a specific type of client or matter. Each case needs to be considered on its own facts.

You must be able to demonstrate to us, as your supervisory body, that the extent of the measures you have taken are appropriate to the level of risk in each matter you work on.

Case study one: Third party funding for individuals

Your firm has been instructed by a client to purchase their first home. The client's parents are gifting your client £30,000 for the deposit. The remainder will be funded using a mortgage from a bank.

Points to focus on when assessing the source of funds and or source of wealth might include obtaining evidence to:

- Verify that the mortgage loan is from a regulated bank.
- Verify the identity of the giftors and confirm their relationship to your client. Assess whether the giftors identity raise any concerns. For example, are they known locally for engaging in dubious activities.
- Confirm that the £30,000 is a gift. For example, by obtaining a gift deed or a signed letter from the giftors.
- Understand the giftors underlying source of funds in the same way you would on the client themselves.

Case study two: No funds passing through client account



Mr Tandy would like to transfer 50% of the equity in his property to his friend, Mr Smith. Mr Tandy purchased the property 12 years ago for £150,000. The property is now valued at £302,000.

Mr Tandy would like an agreement drafted for Mr Smith to pay him £150,000 over three years. While no funds will pass through your firm's client account, you should take measures to ensure that your involvement in this matter will not constitute an arrangement offence under the Proceeds of Crime Act 2002.

You should consider:

- If this transaction is consistent with your knowledge and risk profile of Mr Tandy (if applicable).
- Asking further questions to understand why Mr Tandy wishes to transfer his friend 50% of the equity in his property. Does the reason provided make sense?
- Is there a mortgage on the property? If not, does it make sense?
- Taking a risk-based approach to understand how Mr Tandy obtained the funds to purchase the property. For example, did he purchase in cash or with a mortgage? Was he employed or unemployed at the time he purchased the property? The answers to these questions will assist you to understand whether further questions or checks are required.
- Does it make sense that Mr Smith will pay back the sum in three years? How will he do this?

Case study three: High net worth individual

Mrs Richard instructs your firm to act in the purchase of a second home for £3.5 million. She will be funding the transaction with cash from her savings.

Mrs Richard is an existing client of the firm. She is the CEO of a well-known national brand; she has held this position for 11 years. You are aware that her annual salary is in the range of 11-15 million pounds annually as the firm previously acted in the purchase of her first property 26 months ago. The purchase price was £7,900,000. She purchased the property with cash accrued from savings from her earnings.

Mrs Richard advises that the transaction will be funded with income from her earnings from the last two years.

Points to focus on when assessing the source of funds and or source of wealth might include:

- Evidence of Mrs Richard's salary (or check that this has not changed since the firm last acted for her). Examples of appropriate documents may include, a screenshot of her employer's website stating her annual earnings, a P60 showing annual earnings, wage slips or a bank statement showing salary payments.
- Consider if it is reasonable for Mrs Richard to have accrued £3.5million in cash in the last two years based on her earnings or if she had excess savings when she last instructed the firm.
- Evidence of personal savings or investment accounts showing link to salary (if not previously obtained in the previous transaction).
- Conducting open-source checks to see if there is any information in the public domain you should consider. For example, googling the client may indicate if there is open-source information that might be of significance which should be factored into your assessment of the client.

Case study four: Last minute change in funding

Mr Snagsby is acting on the purchase of a house for Mr and Mrs Jarndyce. The property is on the outskirts of London, with a purchase price of £1m. Mr and Mrs Jarndyce have obtained a mortgage for £650,000 and are making up the balance with the sale of their previous house. Mr Snagsby acted on the sale and knows that the cash balance is from the sale.



The day before completion, Mr Snagsby sees that the sum of £650,000 has been deposited in his client account from an entity called U. Heep & Co. He then receives an email from Mr Jarndyce saying "Just to let you know we don't need the mortgage anymore, we have just had an old debt settled and arranged for the monies to be deposited in your client account. We need this to complete TOMORROW without fail."

There are a number of signals here that something is not right, and Mr Snagsby needs to ask further questions. Some of these are:

- A sudden and unexpected change of instructions.
- The involvement of a new and apparently unrelated third party.
- Monies deposited in the firm's account without prior warning from the third party rather than the client.

Mr Jarndyce is also putting pressure on Mr Snagsby to get the transaction completed – although this is not in itself unusual in conveyancing (and many other areas), combined with the other factors it heightens the risk level.

Some checks he could consider are:

- Establishing what type of entity U. Heep & Co is – for example, if it is a company incorporated in the UK, looking it up on Companies House. If not, seeking further information to make sure that it is legitimate such as open-source checks or similar.
- Asking Mr Jarndyce to describe his connection to U. Heep & Co and asking for proof that the debt existed and was in the sum provided.
- Seeking bank statements showing that the money was lent to U. Heep & Co.
- Flag the matter with the MLRO.

He should stop working until he is satisfied with any explanations given and may need to consider requesting a Defence Against Money Laundering from the National Crime Agency if he has suspicion.

Case study five: The funds do not fit the client

Mr Vholes is a solicitor instructed in a property purchase by Mr Cratchit. During client onboarding, Mr Cratchit describes himself as thirty-three years old and a clerk with earnings of £23,000 per annum. He wants to buy a London house costing £1.5m. He does not require a mortgage, and states that he will fund 25% of the purchase price in cash, with the remaining 75% in personal loans.

He wants to deposit his cash sum of £375,000 with the firm as soon as possible, plus any payable fees and stamp duty. The loan monies will follow shortly. He produces a bank statement showing £485,000 in his current account, though the statement does not go far back enough to show where this came from.

Mr Vholes should proceed with caution as the transaction does not fit with his knowledge of the client:

- Mr Cratchit's salary appears inadequate to have saved up £375,000.
- Mr Vholes should therefore ask for:
 - evidence of how Mr Cratchit's funds were accrued
 - details of the personal loans to fund the remaining 75% of the property purchase, including the identities of the lenders.

Depending on what comes back, Mr Vholes may need to make further enquiries as to the lenders and their source of funds, to satisfy himself that they are legitimate.

If Mr Vholes is unable to complete source of funds checks, he must not carry out the transaction. He must submit a suspicious activity report to the NCA if the information he obtains leads him to know or suspect or have reasonable grounds to know or suspect that Mr Cratchit is engaged in money laundering.

Case studies - enforcement

These case studies provide real examples of where enforcement action has been taken. They also help illustrate where source of funds or source of wealth checks have been missed and what our expectations are in each case.

Case study one - Funds from abroad

In a case heard before the Solicitors Disciplinary Tribunal (SDT) in October 2024 concerning a small London firm, the SDT found that the firm had not applied sufficient scrutiny on the source of funds concerning two files. This amounted to a failure to conduct adequate source of funds checks to enable it to assess the risk of money laundering posed under regulation 28(11)(a) MLR 2017.

In both matters, funds were received from China. Funds from abroad can be high risk in some cases.

On one file, the firm obtained bank statements but had not scrutinised the content. The bank statement showed five separate payments into the bank account totalling £84,474.00. There was no evidence of a regular income or evidence that information or documents were sought in connection with the receipt of those funds.

On the other file, the bank statements obtained showed funds transferred in from other accounts and it was unclear how the clients obtained/accumulated some of those funds.

What we expect

Given that both transactions were conveyancing matters, one was a cash purchase, funds came from abroad and involved third parties, we would have expected further scrutiny on the source of funds in these matters. All these features are highlighted as a high risk for money laundering in our [sectoral risk assessment](https://media.sra.org.uk/sra/research-publications/aml-risk-assessment/) (<https://media.sra.org.uk/sra/research-publications/aml-risk-assessment/>).

It is essential to not only obtain documentation on source of funds, but also to assess whether the information provided aligns with the documents received. This will help to identify inconsistencies, unusual sources, or complex financial arrangements that may be indicative of criminal behaviour.

Scrutiny of source of funds and or source of wealth documents allows you to assess whether your understanding of the source of funds is consistent with your client's/ relevant party's profile and the nature of the transaction. For instance, where a client states that funds will come from regular savings, supporting evidence such as bank statements showing consistent salary or rental income being used for savings can confirm this claim. Conversely, an absence of such patterns may warrant further enquiries.

To support fee earners, we have developed a source of funds and source of wealth form to assist with scrutinising the source of funds and wealth. It is designed to assist in the assessment and recording of relevant information when working on a file and to ensure ongoing monitoring of the source of funds is carried out.

Case study two - conveyancing purchase

In an AML desk-based review conducted in October 2023 by the AML Proactive Supervision team, source of funds concerns was identified on four files. The files concerned conveyancing purchase matters.

On two of the files, evidence of source of funds obtained, namely bank statements showed that the clients did not have sufficient funds in their bank accounts to complete the transaction. For example, on one file the client contributed £25,000 towards the transaction. However, the evidence of source of funds showed that the client had a balance of £500 in their bank account five months before the transaction completed.

A third file concerned the cash purchase of a property by two individuals living abroad. The firm provided bank statements which showed that £65,000 was paid into the client's UK bank from abroad along with a cheque for £115,279.87. The source of the cheque was unclear. No enquiries had been made by the firm as to the source of any of these funds.

On the fourth file, the client's parent provided a gift of £29,500 towards the deposit. While the firm obtained a bank statement showing the parent had sufficient funds, it did not enquire about the origin of the funds.

The matter was referred to the AML Investigation team for formal investigation. The firm was invited to explain why, in those cases, source of funds checks was not considered necessary.

In response, the firm suggested that individuals at the firm had longstanding relationships with two of the clients and that the funds came from UK banks in all transactions.

The AML Investigation team found that insufficient source of funds checks had been carried out on the four files.

The firm provided three additional files to the AML Investigation Officer to demonstrate the new measures the firm had put in place following its engagement with the AML Proactive Supervision team. The AML Investigation Officer found that one of the three files did not have sufficient source of funds checks.

The case was heard before SRA Adjudicators in January 2025. The Adjudicators decided that the firm had failed to ensure that adequate measures were taken to establish the source of funds, contrary to Regulation 28(11)(a) of the MLR 2017 in the matters set out above.

The Adjudicators concluded that 'it is imperative in each case that the firm is able to demonstrate the source of all the funds in order to guard against exploitation for money laundering and terrorist financing'.

What we expect

Given that all the transactions were conveyancing matters and some involving high risk factors as set out in our sectoral risk assessment such as cash, funds from abroad and third-party funds, we would have expected further scrutiny on the source of funds in these matters.

Further, there is no provision in the MLR 2017 for waiving the requirement to check source of funds because of longstanding personal or professional relationships or where funds come from a UK bank.