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Complementarity, tension and proportionality in the anti-money laundering regulation of law firm client accounts

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Abstract

The misuse of law firm pooled client (or trust) accounts is identified as a key money laundering risk for the legal profession. However, this risk may be mitigated in the UK by the multi-layered regulatory framework that has evolved to prevent the misuse of such accounts for money laundering purposes, and the multiple actors (both internal and external to law firms) with a role in their oversight. Drawing on an integrated analysis of case data, interviews and policy documents, and concepts of smart regulation, policy mixes and regulatory overlap, this article examines the complementarity of this multi-layered regulatory mix, demonstrating how gaps or weaknesses in individual instruments are compensated for by other components of the framework and how oversight actors can work cooperatively to enhance regulatory oversight. It also identifies tensions created by two regulated sectors having overlapping responsibility for client account oversight, with law firms and banks navigating potentially conflicting obligations following changes to the Money Laundering Regulations 2017. A proportionate approach to navigating these tensions is needed to balance money laundering prevention with the necessary role client accounts play in the provision of legal services and to reduce unnecessary regulatory burdens.

Keywords Money laundering · Legal profession · Client (trust) accounts · Smart regulation · Regulatory overlap · Policy mix

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Introduction

Law firms in the UK maintain pooled client accounts[1] for receiving, holding and transferring client funds. These accounts separate client funds from those belonging to the firm, thereby protecting client funds in the event of business insolvency and preventing their inappropriate use for business expenses or other purposes (HM Treasury, 2022). Pooled client accounts hold co-mingled funds relating to multiple clients, and play an important role in legal services provision. These accounts can also be exploited for illegitimate purposes, and their misuse has been identified as one of the primary areas of money laundering risk for the legal profession, alongside real estate transactions and trust and company service provision (e.g., FATF, 2013; IBA, 2014; HM Treasury/Home Office, 2020, 2025). However, little evidence is provided to substantiate or quantify this risk, and the money laundering 'risk' of client accounts may be better seen as a function of the client or funds involved (Benson & Bociga, 2024; see Ferwerda and Reuter (2019, 2024) for critique of AML risk assessments more broadly).

Client accounts can be involved in money laundering in various ways, either through purposeful exploitation (by the lawyer, client, or both) of the client account or of other legitimate processes in which the client account inevitably plays a role (for example, property purchases, commercial transactions), and/or due to a failure by the firm or individual lawyer to fulfil their professional or anti-money laundering (AML) regulatory obligations (Benson & Bociga, 2024). For example, the client accounts of multiple law firms in the UK and US played a role in property purchases and other transactions for Jho Low, the Malaysian financier implicated in the multi-billion-dollar 1MDB fraud and corruption case. London law firm, Macfarlanes, acted as conveyancer in the purchase of three high-end London properties by holding companies linked to Low between 2010 and 2014 (before the fraud was revealed). The purchase funds, which totalled nearly £100 million and are believed to have been proceeds from the 1MDB fraud, moved through the Macfarlanes client account during the purchases (Taylor & Beizsley, 2022). The client accounts of two New York firms, Shearman and Sterling and DLA Piper, were used to move $368 million dollars of 1MDB-related funds from a Swiss bank account into the US. Funds held in these accounts were used to buy a penthouse and a $200 million stake in the Park Lane Hotel in New York; to rent a private jet; and to pay multi-million-dollar gambling expenses at Las Vegas casinos (Ensign & Ng, 2016; Global Witness, 2018).

[1] UK law firms can also hold *designated* client accounts, for funds related to a single client, though these have become less common. We use the term 'client account' throughout to refer to pooled client accounts or their equivalent in other parts of the world. Most countries require law firms to hold client money separately to their operating funds, in either 'client accounts', 'trust accounts', or 'escrow accounts', though there are some differences in the way these operate. There are also differences in the management and regulation of such accounts – for example, in France, client funds are controlled by regional organisations known as CARPAs, which are supervised by their associated bar councils (Nougayréde, 2019); in Canada and Australia, trust accounts are regulated by the law societies/regulatory bodies of individual states/province; law firms cannot earn interest on client/trust account funds in e.g. Australia or the US, but can in the UK. We do not have the space to provide a comprehensive analysis of client money management across jurisdictions.

We have discussed elsewhere how the nature of law firm client accounts creates 'opportunity structures' for money laundering (Benson & Bociga, 2024). This article focuses on their regulation and oversight, examining the nature and interactions of the multi-layered regulatory 'policy mix' that has emerged (directly and indirectly) in the UK to prevent the misuse of client accounts for money laundering, which incorporates AML regulations, criminal law, professional rules and official guidance and involves oversight actors and responsibilities within both the legal and financial sectors.

There are consistent concerns about the legitimacy, effectiveness and proportionality of AML policies (e.g. Sharman, 2008; Van Duyne et al., 2018; Halliday et al., 2019; Pol, 2020) and challenges for evaluating how well AML interventions achieve their goals (Levi et al., 2018; Pol, 2018, 2019). It is not possible to measure the actual impact of AML measures for client accounts on levels of money laundering, or its harms, with available data. Instead, this article provides a novel contribution to the literature on AML policy by drawing on regulatory/policy theory to identify the strengths and challenges of these specific measures, through an integrated analysis of case data, policy documents, legislation/regulations, and interviews.

We argue that *complementarity* across regulatory instruments and cooperation between regulatory actors strengthens the AML regime for law firm client accounts. There are inevitable trade-offs and *tensions* within this regime, however, and a *proportionate* approach is needed to balance money laundering prevention with the necessary role client accounts play in the provision of legal services, manage conflicting obligations and reduce unnecessary burdens. This article is particularly timely as changes to the Money Laundering Regulations 2017 have increased tensions in the regulatory mix (Kebbell, 2025) and UK regulators and government departments are consulting on amending the client account model (SRA, 2024; HM Treasury, 2025).

First, we contextualise the AML regulation of law firm client accounts in the UK, in relation to the wider AML regime and concerns about its effectiveness, impacts on regulated sectors and proportionality. Second, we draw on concepts of smart regulation, policy mixes and regulatory overlap to identify the importance of complementarity and collaboration between multiple regulatory instruments and oversight actors for effective regulatory outcomes. Third, we outline the data collection and analysis approach taken. Fourth, we examine the evolution of the multi-layered AML regulatory framework for client accounts that has emerged in the UK and the interactions between the instruments in this regulatory mix. Fifth, we identify the multiple actors – both internal and external to law firms – that have a role in client account oversight, and discuss the tensions created by overlapping oversight responsibilities and regulatory changes and how these tensions are being navigated. We finish with a Discussion and Conclusion.

Contextualising AML regulation of law firm client accounts in the UK

AML policy in the UK has evolved markedly over the last four decades, since – in line with the US, and primarily as a response to the 'war on drugs' – it began to enact legislation aimed at preventing offenders from profiting from their crimes through

confiscation of criminal proceeds and criminalisation of some forms of laundering (Alldridge, 2016; Turner & Bainbridge, 2019). The late 1980s saw the introduction of what has become a 'comprehensive, far reaching [and] deeply penetrating' (Halliday et al., 2019: 2) global AML regime.[2] Since that time, the focus of (inter)national AML policy has expanded to other forms of 'organised' crime, such as human trafficking (FATF, 2011) and environmental crimes (Scott, 2024); terrorism and proliferation financing (Levi, 2010; Sinha, 2013); corruption, capital flight and kleptocracy (Sharman, 2011; Reuter, 2012; Cooley et al., 2018), and tax evasion/avoidance.

In parallel, recognition that financial institutions were not the only private sector actors who could facilitate money laundering led to the expansion of customer due diligence, risk assessment and suspicious activity reporting obligations to other 'gatekeeper' sectors, including legal professionals, accountants, auditors, trust and company service providers, real estate agents, and high-value dealers. This was seen at the global/regional level in the extension of the FATF Recommendations (FATF, 2003) and EU Money Laundering Directives (Second EU Money Laundering Directive, 2001) to 'designated non-financial businesses and professions' (DNFBPs), and – in some countries - at the domestic level. AML regulation of the legal profession is one of the most varied components of the regime globally (Levi, 2020). The UK sits on one end of this spectrum, with an early-adopted, well-embedded AML regime for lawyers. At the other end, Australia, for example, has only recently legislated to bring DNFBPs under its AML regime, and the US has not yet done so. UK AML policy for the legal profession – as with other countries - has therefore evolved as an interaction between the global regime, regional frameworks, and domestic priorities, regulatory and professional contexts and policy agendas (Nougayréde, 2019; Tilahun, 2020; Benson, 2021).

AML policy has consistently been critiqued for its 'relentless' expansion, particularly into the private sector (e.g., Turner & Bainbridge, 2019: 215; Bergström et al., 2011; Reuter & Truman, 2004; Halliday et al., 2019); the costs of compliance (e.g., Magnusson, 2009; Pol, 2020; Sproat, 2023); lack of proportionality (e.g. Van Duyne et al., 2016, 2018); and limited evidence of its effectiveness (e.g. Sharman, 2008; Chaikin, 2018; Pol, 2018, 2020; Levi et al., 2018). 'Effectiveness' should be a key goal for AML policies and practices, to justify their costs and the impacts on those subject to them. However, evaluating the effectiveness of AML interventions is fraught with challenges. First, the goals of the AML regime are 'eclectic, unclear and potentially in conflict' (Halliday et al., 2019: 9; Pol, 2020). Second, the data available for accurately estimating levels of money laundering or its harms are lacking, meaning that reduction of these levels/harms 'is not a plausible outcome measure' (Levi et al., 2018: 307).

Another goal of AML policy should be proportionality – balancing, for example, costs vs. benefits, liberty vs. surveillance, and the intrusiveness and burdensomeness of AML obligations with actual risk and harm caused (Van Duyne et al., 2016, 2018; Kebbell, 2017). The concept of proportionality is essentially 'built-in' to the 'risk-based approach' to AML (Van Duyne et al., 2018), and policy documents regu-

[2] For brevity, we use 'AML regime' to encompass what is now more accurately an AML, counter-terrorism financing (CTF) and counter-proliferation financing (CPF) regime.

larly highlight the need to balance discouraging money laundering, protecting society from crime, and protecting the integrity of the financial system with managing burdens on business and enabling business growth (e.g. HM Treasury, 2019; FATF, 2025). However, Turner and Bainbridge (2019: 224) argue that this 'high-level nod to proportionality' can become 'lost in translation' as AML provisions make their way from global policy to practice in the regulated sector. They argue that the burdensome and disproportionate effect of AML policies on the private sector is in part a consequence of the discretion assigned (for good and bad) to those subject to these policies. Turner and Bainbridge (2019) therefore suggest that fully understanding AML proportionality requires examination of individual policies at the level of implementation.

The substantial concerns about AML measures mean it is important to critically evaluate all elements of AML policy design and implementation, to better understand their effectiveness, proportionality and impacts (positive and negative). It is not possible to evaluate the impact of AML regulation of law firm client accounts on levels of money laundering or other measures of 'effectiveness' with available data. Instead, this article uses what is known about the benefits and drawbacks of regulatory policy mixes to identify the strengths, challenges and proportionality of this particular aspect of AML activity. This heeds Pol's (2020) call for greater dialogue between AML analysis and public policy scholarship and practice.

Smart regulation, policy mixes and regulatory overlap

The AML regulatory regime for legal professionals in the UK comprises an array of regulatory actors and instruments, reflecting the pluralistic, decentred and diffuse nature of regulation in the 'age of governance' (Black, 2001, 2008; Scott, 2004). The regime specifically for preventing money laundering through law firm client accounts reflects the pluralism of the broader AML regime, with multiple regulatory instruments and actors interacting to create a regulatory policy mix. Policy mixes encompass various instruments for addressing policy problems and achieving policy goals, including regulations and measures to enforce them, but they are more than just a portfolio of instruments; they also include the processes by which these instruments emerge, are implemented, and interact (Flanagan et al., 2011; Rogge & Reichardt, 2016). Policy mixes exist within *policy subsystems*, that is, the networks of state and non-state actors and institutions that 'shape policies focused on a particular problem area in a particular jurisdiction at a particular time' (Cunningham et al., 2013: 3). They are *targeted* at the particular actors or processes to be influenced, and are shaped by policy *goals* or *objectives*, *rationales* for intervention, and normative *agendas* (Cunningham et al., 2013; Rogge & Reichardt, 2016; Koff, 2021). Policy mixes may be deliberately designed – and much of the literature on policy mixes is focused on how to design them effectively, efficiently and equitably (e.g., Verweij et al., 2021; Kosow et al., 2022) – but there are very few examples of deliberate designs of policy mixes. Most policy mixes tend to emerge over time, non-linearly, as policy goals, rationales and instruments 'emerge, evolve, are institutionalised, or fade away' and interact with wider political and economic dynamics (Cunningham et al., 2013: 4).

The various instruments within a policy mix will interact, in positive, negative or neutral ways (Bouma et al., 2019), driven by trade-offs, tensions or complementarities between policy goals, rationales and the instruments used for implementation (Flanagan et al., 2011). Policy mixes and their interactions have primarily been examined in literature on innovation policy (e.g., Cunningham et al., 2013; Meissner & Kergroach, 2019), policy analysis (e.g., Howlett & Rayner, 2007), and environmental policy and regulation (e.g., Gunningham & Sinclair, 1999; Sorrell & Sijm, 2003; Rogge & Reichardt, 2016; Verweij et al., 2021; Kosow et al., 2022). The concept of 'smart regulation', first advocated by Gunningham et al. (1998), suggests that 'in the majority of circumstances, the use of multiple rather than single policy instruments, and a broader range of regulatory actors, will produce better regulation' (Gunningham & Sinclair, 2017: 133). When combinations of policy instruments - including regulations - are complementary, rather than counterproductive, they can compensate for inherent weaknesses in standalone instruments and approaches (Gunningham & Sinclair, 1999, 2017). If they are complementary, overlapping regulatory rules 'create efficiencies, not redundancies' (Turk, 2020: 7) and 'smooth over […] statutory discontinuities' (Aagaard, 2011: 297). However, if not complementary, regulatory overlap of rules and/or regulatory actors can be problematic, leading to 'wasteful, inefficient and unduly burdensome' duplication (Aagaard, 2011: 238) which obscures policy objectives and creates 'conflicting rules with inconsistent standards' (Robb et al., 2023: 1131).

Regulatory mixes, therefore, should aim for consistency and coherence – that is, the regulatory instruments and other components should be aligned and mutually reinforcing, creating positive synergies or, at least, avoiding contradictions and conflicts (Rogge & Reichardt, 2016; Kirschke & Kosow, 2022). Coordination between those involved in regulatory policymaking and implementation processes can support this aim (Cunningham et al., 2013), but the complexity of regulatory mixes in real-world settings, characterised by dispersed, multi-actor and multi-level governance, can make such coordination a challenge (Flanagan et al., 2011). Considering one such real-world setting, this article examines the complementarity and coordination of the multi-layered regulatory framework and oversight processes for law firm client accounts in the UK, and the tensions that exist within this evolving regulatory policy mix.

Data and methods

This article is based on findings from an empirical project carried out between 2021 and 2023, which aimed to examine the evolving AML regulatory/supervisory landscape for the legal sector in the UK, and the role that law firm client accounts play in facilitating money laundering. It draws on an integrated analysis of multiple data sources, combining qualitative data from interviews, official documents, reports, regulations, and case transcripts with existing literature and theory in an iterative analytical process. Our aim in integrating various sources of data was both to enhance the explanatory account and to 'triangulate' (looking for both convergences and divergences) the perspectives of different groups of actors, and the perspectives of

these actors with the narratives of official documents and reports and with data from relevant cases (Bryman, 2006: 98). As such, our research design had both an 'integrative logic' – as we combined data sources using an integrated analytical approach to ask questions about connected aspects of a social phenomenon and so provide a fuller explanation of this phenomenon – and a 'corroborative logic' – as we used different forms of data to corroborate, and identify differences in, each other (though not to triangulate or corroborate 'measurements') (Mason, 2006).

Data

Dataset of cases

We identified 50 cases where a UK law firm pooled client account had been used for money laundering purposes, was suspected of being used for money laundering purposes, was involved in a transaction that bore the hallmarks of money laundering, or in which regulatory rules in place to prevent the use of client accounts for money laundering purposes had been breached. Data on the use of client accounts in money laundering are not collected by criminal justice or regulatory bodies in a systematic way, so we searched for cases through the Solicitors Disciplinary Tribunal (SDT) [3] website and Westlaw UK legal database.

We searched 2040 transcripts from January 2000 to October 2022, using the PDF word-search function to identify cases in which 'client account' AND 'money laundering' OR 'proceeds of crime' were found. The resulting 139 transcripts were read and relevant cases in which the allegations related to breaches of relevant SRA Accounts Rules *and/or* related to use of the client account to conduct 'transactions that bore the hallmarks of money laundering or fraudulent transactions' were included in the case dataset (n=36).

We identified UK cases from the Westlaw legal database that contained the terms 'client account' AND 'solicitor' or 'client account' AND 'legal profession'. The case digest and summary or full judgment (where available) were read, and cases against law firms and/or legal professionals in which it was alleged that the client account was used for money laundering purposes *and* cases in which it was alleged that a third party (usually the client) had used or attempted to use a law firm client account for money laundering purposes were included in the case dataset (*n*=14).[4]

Official reports, policy documents, guidance

Official reports and policy and guidance documents on money laundering and its prevention in the legal sector, from international bodies, UK government, and legal sec-

[3] The SDT adjudicates on alleged breaches of the rules and regulations applicable to solicitors and their firms in England and Wales, see: https://www.solicitorstribunal.org.uk/about-us.

[4] The difficulty in identifying relevant cases, and lack of a single comprehensive source, made the case identification process complex and time-consuming, and so we do not claim to have identified all relevant cases. In addition, the level of detail within the case transcripts varied considerably; we extracted as much relevant data for each case as was possible, and cross-referenced this with other data sources where possible.

tor professional and regulatory bodies, were searched for reference to client accounts. All relevant documents (*n*=26) were included in the analysis.

Interviews

11 semi-structured interviews were carried out, with members of legal sector professional and regulatory bodies in the UK (*n*=4; SUP1-4); law firm compliance officers or AML leads (*n*=3; COMP1-3); AML experts or consultants to the legal sector (*n*=3; AML1-3); and a compliance officer for a UK-based retail bank (*n*=1; BANK1). Legal sector interviewees (selected for their expertise on AML regulation and supervision of the legal sector in the UK) were asked open questions about the purpose of client accounts in legal services, their risk of being misused for money laundering, what measures were in place to prevent misuse, and the strengths and weaknesses of these measures. A bank interviewee was included as the changing role of banks in the oversight of client accounts became evident. Only one potential bank interviewee responded to a social media invitation to participate, reflecting the lack of engagement with this changing role at that point (discussed later). Interview audio-recordings were transcribed prior to thematic analysis.

Data analysis

Analysis of the data involved multiple stages, conducted both simultaneously and subsequent to the data collection (Bryman, 2006: 98). Interview transcripts, official reports, and policy/guidance documents were analysed thematically. Data were coded using NVivo software, both to initial themes that had emerged during data collection and literature review and to new themes that emerged from the analysis. (Themes related to the role of client accounts in money laundering are explored in Benson and Bociga (2024)). Simultaneously, an Excel spreadsheet was created to organise the case data, containing pertinent information about the details of the case and the regulatory action taken. Analysis of interview transcripts and documents was also used to identify a series of questions to ask of the case data, thus using the results of one analytical method to inform another (Greene et al., 1989). Early emerging themes indicated the evolving, multi-layered, multi-actor AML regulatory framework for law firm client accounts, and so the theoretical framework combining concepts of smart regulation, policy mixes and regulatory overlap was employed to make sense of this framework. The analysis thus took an 'adaptive' approach, with prior theoretical models providing 'orienting' concepts and a 'theoretical scaffold' which adapted as data were collected and initial themes emerged (Layder, 1998).

The multi-layered regulatory framework for law firm client accounts

A multi-layered regulatory framework for preventing the misuse of client accounts has emerged in the UK, comprising professional rules, regulations, official guidance, and criminal law, targeted at both the legal and financial sectors (Fig. 1). The individual instruments within this mix are not targeted wholly or exclusively at the

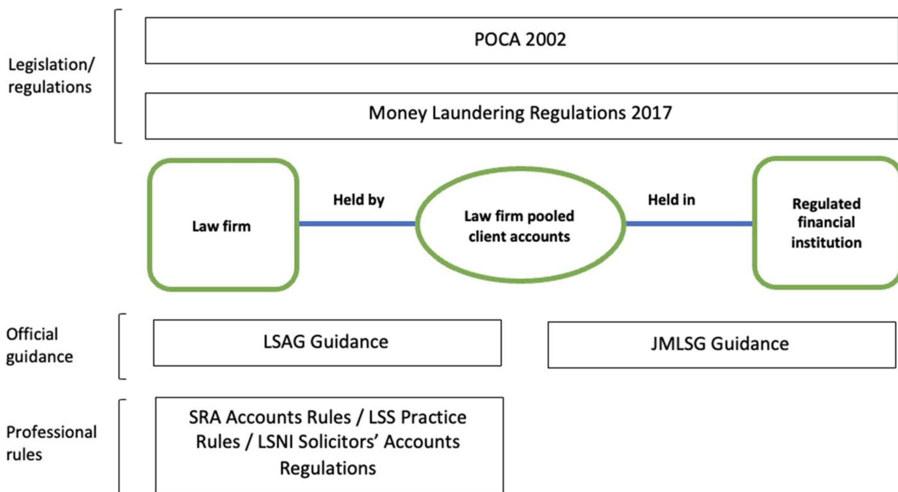

Fig. 1 The multi-layered AML regulatory framework for law firm client accounts in the UK

prevention of money laundering through law firm client accounts, but each contains elements which, when combined, create the regulatory framework for such.

As with most policy mixes (Cunningham et al., 2013), this framework has not been deliberately designed to create a multi-layered AML regulatory mix; it has emerged gradually as both AML policy and legal sector regulatory policy have emerged, evolved and interact (Table 1). Evolution of the regulatory mix is presented here; its interactions are explored in the following section.

AML legislation/regulations

In 2002, the introduction of the Proceeds of Crime Act created a legal obligation for members of sectors subject to the UK Money Laundering Regulations (MLRs) to disclose suspected money laundering. MLR 2003 – the third iteration - included legal professionals and other DNFBPs for the first time, requiring the legal sector to implement risk assessment, customer due diligence (CDD) and record-keeping measures and maintain adequate risk-based policies, systems and procedures to prevent their services being used for money laundering or terrorist financing. Financial institutions had been subject to the MLRs since their introduction in 1993, and so must apply CDD measures to pooled client accounts to comply with their own AML obligations (Kebbell, 2025).

Prior to MLR 2017, the client accounts of law firms in scope of the MLRs[5] automatically qualified for *simplified* due diligence (SDD) by banks. This meant that banks had no obligation to carry out due diligence on the underlying clients whose money was held in the account, though were expected to carry out 'ongoing monitoring of the operation of the account' (HM Treasury, 2022: para 3.42). This approach was justified, firstly, because 'doing due diligence on each client [of a law firm] is

[5] Under the risk-based approach to AML, only certain legal services are covered by the MLRs.

Table 1 Elements and evolution of the AML regulatory framework for law firm client accounts in the UK

Regulatory instrument	Overview	Relevance to AML regulation of client accounts
AML legislation/regulations applicable to legal and financial sectors		
Proceeds of Crime Act (POCA) 2002	Establishes the primary criminal money laundering offences that apply to all persons and a 'failure to disclose' offence, which creates a legal obligation for members of sectors subject to the Money Laundering Regulations to disclose suspected money laundering.	Allows criminal prosecution of legal professionals if money is laundered through client account, under one of the primary offences (e.g. entering into or becoming concerned in an arrangement facilitating the acquisition, retention, use or control of criminal property, s.328) or the 'failure to disclose' offence, s.330.
Money Laundering Regulations (MLRs) (1993, 2001, 2003, 2007, 2017)	The MLRs implement the preventative element of the UK's AML regime, by requiring members of designated financial and non-financial sectors to implement risk assessment, customer due diligence (CDD) and record-keeping measures and maintain adequate risk-based policies, systems and procedures to prevent their services being used for money laundering or terrorist financing. The MLRs have applied to financial institutions since 1993. Since 2003, the MLRs have directly applied to 'independent legal professionals' when carrying out certain activities.	Within the legal sector, most client account transactions will be subject to the MLRs. Therefore, CDD should be carried out on funds coming into the client account (unless for fees or disbursements) and the source of these funds (client/third party), where the services are in scope of the Regulations. Prior to MLR 2017, client accounts of regulated law firms in the UK automatically qualified for simplified due diligence. Banks had no obligation to conduct CDD on each of the clients whose money was in the account, but were expected to carry out ongoing monitoring of the operation of the account. Under MLR 2017 (reg. 37(5)), pooled client accounts no longer automatically qualify for SDD. SDD can only be applied where the business relationship between bank and law firm presents low money laundering risk. Banks are expected to assess the money laundering (and terrorist financing) risk of the firm and client account. If assessed as low risk, SDD may be applied; if not, measures must be taken to identify/verify owners of funds or to decrease the risk until SDD can be applied.
Legal and financial sector official guidance		
Legal Sector Affinity Group (LSAG) Guidance (2021, 2023)	LSAG comprises the regulatory and representative bodies that act as AML supervisors for the legal sector in the UK. It publishes official guidance on AML for the sector and MLR 2017 stipulates that judgments on compliance must take into account whether this guidance has been followed. LSAG Guidance provides practical information for legal practices to aid their compliance and to effectively protect against ML/TF risks, and aims to communicate supervisors' expectations.	LSAG Guidance sets out expectations around understanding the money laundering risks posed by client accounts; managing them to reduce these risks and prevent breaches of Accounts Rules; and maintaining appropriate records of their use. It also recommends ways of preventing client account misuse.

Table 1 (continued)

Regulatory instrument	Overview	Relevance to AML regulation of client accounts
Joint Money Laundering Steering Group (JMLSG) Guidance (1990–2024)	The JMLSG has been producing Money Laundering Guidance Notes for the financial sector since 1990, though the current form of the Guidance has been produced since 2006. The Guidance sets out what is expected of firms and their staff to fulfil their obligations under UK AML/CTF law and regulations.	In 2022, JMLSG revised its guidance on the treatment of pooled client accounts (held by law firms and other sectors), following changes to automatic simplified due diligence in MLR 2017. Banks are expected to assess the money laundering and terrorist financing risk of the firm holding the account. If assessed as low risk, SDD may be applied; if not, measures must be taken to verify the owners of the funds in the client account or decreases the risk until SDD can be applied.
Legal sector professional rules		
Solicitors Regulation Authority (SRA) Accounts Rules (2011, 2019)	Not AML specific; part of the Principles for solicitors in England and Wales. Set out requirements for when law firms receive or deal with money belonging to clients, with the aim of keeping client money safe and ensuring client accounts are only used for appropriate purposes. (Similar requirements exist in Scotland (Law Society of Scotland Practice Rule B6) and Northern Ireland (LSNI Solicitors' Accounts Regulations)).	Rule added in 2011 in response to growing concern about the misuse of client accounts, prohibiting the use of client accounts for providing banking facilities and requiring that payments into, and transfers or withdrawals from, a client account must be in respect of instructions relating to an underlying transaction or to a service forming part of normal regulated activities. Rule amended in 2019, removing reference to 'instructions relating to an underlying transaction', clarifying that payments, transfers or withdrawals must be in respect of the delivery of regulated services.

neither commercially nor practically viable' for financial institutions (HM Treasury, 2022: para 3.43) and, secondly, because MLR regulated law firms are themselves AML-regulated and subject to professional rules, including on the operation of the client account (Kebbell, 2025). This was not a licence 'to operate anonymous bank accounts' (Kebbell, 2021: 141) however, and previous iterations of the MLRs stipulated that 'information on the identity of the persons on whose behalf monies are held in the pooled client account [must be made] available on request' (MLR 2007, reg. 13(4)(b).

However, revisions in MLR 2017 removed pooled client accounts' *automatic* qualification for SDD by banks, following updates to international standards to 'highlight the money laundering risks increasingly associated with' these accounts (HM Treasury, 2024: 35). Simplified due diligence can now only be applied where the business relationship between the financial institution and the law firm is assessed as presenting low money laundering risk (MLR 2017, reg. 37(5); see Kebbell (2025) for discussion of the ramifications of the disapplication of automatic SDD for banks and law firms). The tensions created by this change, and the pragmatic approach emerging to navigate them and maintain proportionality, will be discussed in Sect. 7.

Official guidance

MLR 2017 (and the 4th EU AML Directive 2015 which shaped it) provided the impetus for the first Legal Sector Affinity Group (LSAG) Guidance in 2021 (since updated in 2023; LSAG, 2023). LSAG Guidance constitutes official guidance, and has full standing under MLR 2017, which stipulates that judgments regarding compliance with the MLRs must consider whether the Guidance has been followed. Amongst other topics, LSAG Guidance sets out expectations around understanding the money laundering risks posed by client accounts; managing client accounts to reduce these risks and prevent breaches of Accounts Rules; and maintaining appropriate records of client account use (LSAG, 2023).

AML guidance is provided to the financial sector by the Joint Money Laundering Steering Group (JMLSG), a private sector body 'made up of the leading UK Trade Associations in the financial services industry' (JMLSG, n.d.). As with LSAG guidance for the legal sector, the JMLSG guidance is not legally binding, but it has government approval and compliance with the guidance is considered closely by the Financial Conduct Authority (FCA) in the context of any disciplinary action or criminal prosecution taken against financial institutions during their AML supervisory work (JMLSG, 2022). JMLSG guidance on the treatment of pooled client accounts (in any sector) was revised in 2022, following the disapplication of automatic SDD in MLR 2017. Banks are now expected to assess the money laundering/terrorism financing risk of the firm and client account. If assessed as low risk, SDD may be applied; if not, measures must be taken to verify the owners of the funds in the client account or decreases the risk until SDD can be applied (JMLSG, 2022).

Professional rules

Alongside broader provisions governing entry into, and conduct while operating within, the legal profession (e.g. SRA, 2023c), UK lawyers are subject to specific rules related to the management and use of client accounts. The Solicitors Regulation Authority (SRA) Accounts Rules apply in England and Wales; Law Society of Scotland (LSS) Practice Rule B6 (Accounts, Accounts Certificates, Professional Practice & Guarantee Fund) applies in Scotland; and the Law Society of Northern Ireland (LSNI) Solicitors' Accounts Regulations 2014 apply in Northern Ireland. We focus on SRA Accounts Rules in this article due to limitations of space and because the case data is primarily related to England and Wales.

In 2011, a rule was added to the SRA Accounts Rules in response to growing concern about the misuse of client accounts.[6] This was primarily driven by a 2002 Solicitors Disciplinary Tribunal (SDT) case of solicitors cashing cheques for their clients and making payments at their direction. While no money laundering was involved in this case, the Tribunal found that an 'unscrupulous person' could seek to

[6] As well as for money laundering, client accounts can also be misused to, for example, improperly hide assets in a commercial or matrimonial dispute, add credibility to 'questionable investment schemes' (SRA, 2023a), or help a client avoid their obligations in an insolvency situation (see, for example, Fuglers LLP v SRA [2014] EWHC 179 (Admin).

utilise the facility as a 'vehicle for money laundering' (SDT Case No. 8669/2002). Accounts Rule 14.5 prohibited the use of client accounts for providing banking facilities and required that payments into, and transfers or withdrawals from, a client account must be in respect of instructions relating to an underlying transaction or to a service forming part of normal regulated activities. Updated 2019 Accounts Rules removed the reference to 'instructions relating to an underlying transaction', clarifying that transactions into or out of a client account must be in respect of the delivery of regulated services[7] (SRA, 2019, Rule 3.3). SRA (2023a) Warning Notices on the improper use of client accounts as a banking facility state that compliance with Rule 3.3 'offers an important "first line of defence" against clients or others who seek to use your client account to launder money', reflecting the centrality of AML concerns to this Rule.

In November 2024, the SRA launched a consultation on potential changes to the management of client monies by law firms. The focus is on protecting consumers and safeguarding client money, and one of the proposals is to move away from the client account model towards a system whereby firms would use Third Party Managed Accounts (TPMAs) instead (SRA, 2024). (Firms are currently permitted to use TPMAs as an alternative to client accounts, but there has been limited take up of this option). Funds held in TPMAs are not covered by the Accounts Rules, but firms using them must still carry out their AML obligations under MLR 2017. TPMAs must be FCA-regulated and therefore have their own due diligence obligations.

Complementarity in the regulatory mix

As argued in Sect. 3, the use of multiple complementary (rather than counterproductive) policy instruments, and a broader range of regulatory actors, will 'produce better regulation' (Gunningham & Sinclair, 2017: 133). A complementary instrument mix should compensate for inherent weaknesses in standalone policies and approaches and smooth over regulatory gaps and discontinuities (Gunningham & Sinclair, 1999, 2017; Aagaard, 2011). This section demonstrates that, while there are gaps or weaknesses in each of the regulatory instruments outlined above, these are compensated for by other instruments within the mix, creating a more comprehensive framework than could be achieved by each of the instruments alone.

SRA Accounts Rules 2019

The Accounts Rules set out various requirements for when firms 'receive or deal with money belonging to clients, including trust money or money held on behalf of third parties', with the aim of keeping client money safe and ensuring client accounts are only used for appropriate purposes (SRA, 2019a). Rule 3.3 states:

[7] 'Regulated services' refers to: 'the legal and other professional services that you provide that are regulated by the SRA and includes, where appropriate, acting as a trustee or as the holder of a specified office or appointment' (SRA, 2023a).

> 'You must not use a client account to provide banking facilities to clients or third parties. Payments into, and transfers or withdrawals from, a client account must be in respect of the delivery by you of regulated services' (SRA, 2019a: Rule 3.3).[8]

Accounts Rule 3.3 did not define 'providing banking facilities', creating the potential for misinterpretation (an example of the discretion which can create burdens for regulated actors (Turner & Bainbridge, 2019)). To try and clarify the meaning and application of this rule, therefore, the SRA has issued a series of Warning Notices (SRA, 2023a) and case studies (SRA, 2023b). Being the subject of Warning Notices 'carries the assumption that solicitors are on notice that breach of Rule 3.3 is a serious regulatory issue, and so carries significant weight in prosecutions' (Bray, 2021). Providing banking facilities can involve agreeing to hold money in or process it through the client account (for example, to pay for goods or services), simply on the basis of having a retainer with a client and when it could be transferred directly from the client to a third party, or holding funds to pay routine outgoings on behalf of a client, for example if they are long-term private clients or are based abroad (SRA, 2023a). Such service provision is no longer necessary with the widespread use of online banking and ease of making international transfers, and is considered 'objectionable in itself' as law firms are 'not regulated as a bank to provide such facilities' (SRA, 2023a).

The second part of Rule 3.3 recognises that holding and moving money for clients may not be a breach 'where doing so is related to proper instructions regarding a transaction on which you are acting in connection with the delivery of regulated services' (SRA, 2023a). Therefore, funds may only be received into the client account where there is *a proper connection* between receipt of the funds and the delivery of regulated services. It is not sufficient for there to be an 'underlying transaction' but no connected provision of regulated services (SRA, 2023a); firms 'must also (a) be providing a regulated service and (b) be satisfied that the money is sufficiently connected with that service' (Bray, 2021).

21 of the cases in the dataset identified a breach of the SRA Accounts Rules or SRA Principles. Due to the time period of the cases in our dataset, the majority of these cases related to breaches of Accounts Rule 15 (1998) (n=11) or Accounts Rule 14.5 (2011) (n=7) or both (n=1). There were no breaches of Accounts Rule 3.3 (2019) within the dataset. This is likely to be due to the length of time it takes to complete disciplinary procedures – any decisions relating to enforcement under Accounts Rule 3.3 (2019) would be expected to show up after the cut-off date of our dataset. For example, the most recent case in the dataset to involve a

[8] Rule 3.3 is not solely to protect against the misuse of the client account for money laundering purposes. Client accounts can also be misused to, for example, help someone avoid their obligations in an insolvency situation, improperly hide assets in a commercial or matrimonial dispute, or add credibility to 'questionable investment schemes' (SRA, 2023a). See, for example, Fuglers LLP v SRA [2014] EWHC 179 (Admin). 'Regulated services' within Rule 3.3 means: 'the legal and other professional services that you provide that are regulated by the SRA and includes, where appropriate, acting as a trustee or as the holder of a specified office or appointment' (SRA, 2023a).

breach of Accounts Rule 14.5 (2011) was a case prosecuted in 2021, in which the activity under question occurred between 1997 and 2019.[9]

In most cases where a breach of SRA Accounts Rules was found, funds were deposited into the client account, by the client or a third party, with the intention of (re)payment to the client or other parties, and the transactions did not relate to the provision of regulated legal services.[10] Other cases involved the client account being used for administrative purposes, such as making payments for various expenditures (including payment of council tax and property insurance premiums)[11] or to purchase luxury cars.[12] In one case, funds were transferred between different client ledgers within the same client account without any clear legal justification.[13] A case in which an unjustified surplus of funds was transferred to the client account in connection with a legitimate property purchase constituted a breach of Accounts Rule 15 (1998) because, although there was an underlying transaction related to the provision of regulated services, this did not account for the entire sum of money transferred.[14]

The strength of Accounts Rule 3.3 in money laundering prevention is that it prohibits activities that could facilitate money laundering and provides a means for the SRA to enforce against misuse of the client account. However, as SRA guidance makes clear, Rule 3.3 'is not intended to prevent usual practice in traditional work undertaken by solicitors, such as conveyancing, company acquisitions, the administration of estates or dealing with formal trusts' (SRA, 2023a), and money laundering could still take place even when the client account is being used within the requirements of the Accounts Rules. For example, in cases where the client account itself is not the primary target, but other legitimate business processes in which the client account inevitably plays a role - such as property purchases or various commercial transactions - provide the mechanism for money laundering (see Benson & Bociga, 2024). In such cases, there will be a 'proper connection' between the movement of funds through the client account (the 'underlying transaction') and the delivery of regulated services, and yet criminal proceeds can be used as purchase funds. For example, cases in the dataset involve solicitors acting in conveyancing transactions in which the purchase funds are suspected of being linked to property fraud and/or money laundering.[15] This 'gap' in the Accounts Rules' ability to prevent money laundering is compensated for by MLR 2017 and LSAG Guidance.

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[9] SDT Case No. 1244-2021, Frankel.

[10] SDT Case No. 10150-2008, Barth; SDT Case No. 9677-2007, Hadcroft; SDT Case No. 10069-2008, Afolabi; SDT Case No. 10879-2011, Davies; SDT Case No. 10800-2011, Desakin and Doherty; SDT Case No. 11302-2014, Henty; SDT Case No. 11388-2015, Roddan; SDT Case No. 12029-2019, Poddar; SDT Case No. 12034-2019, Ete.

[11] SDT Case No. 12244-2021, Frankel.

[12] SDT Case No. 10694-2011, Powell.

[13] SDT Case No. 12091-2020, Bujakowski.

[14] SDT Case No. 10340-2009, Islam.

[15] SDT Case No. 10937-2012, Jimoh; SDT Case No. 12071-2020, Levinzon; SDT Case No. 11996-2019, Nsimba.

Money Laundering Regulations 2017

Most client account transactions are subject to MLR 2017 and the Accounts Rules. Therefore, customer due diligence should be carried out on funds coming into the client account (unless they are for fees or disbursements) and the clients or third parties providing these funds, where the services are in scope of the Regulations.

In 2020, the law firm Taylor Vinters was fined by the SRA under a regulatory settlement agreement[16] for failing to undertake proper money laundering checks on £1.68 million paid into its client account as deposits on off-plan property plots in London, purchased by 88 overseas clients. Though the SRA agreed there was no reason to suspect that money laundering had actually taken place, Taylor Vinters admitted failing to conduct adequate customer due diligence before the receipt of the funds into the client account; adequate monitoring, including source of funds checks; or adequate enhanced ongoing monitoring, which should have been carried out as money laundering risk had been assessed as high (Rose, 2020). This case demonstrates how MLR 2017 addresses the gap left by the Accounts Rules – the funds that moved through the client account had a proper connection to the delivery of regulated services, but sufficient customer due diligence was not carried out.

12 of the cases in the dataset referred to a breach of MLR 2003, 2007 or 2017. In some of these decisions, breaches of Accounts Rule 15 (1998) or 14.5 (2011) or of the SRA Principles were also highlighted.[17] In other cases, the breach highlighted in the decisions related only to the Accounts Rules or Principles, but it seems clear that the activity would also have constituted a breach of the MLRs. For example, where the solicitor failed to conduct source of funds and/or source of wealth checks and/or carry out customer due diligence obligations appropriately.[18] Similarly, there were cases where a breach of the MLRs was identified but there was no reference to the Accounts Rules or Principles being breached, even though it seems clear that the activity would also constitute a failure to adhere to one or both of these.[19] All violations of the MLRs by a solicitor should represent a breach of one or more of the SRA Principles. It is not always clear from the data why particular rules or regulations were or were not enforced against. The specific circumstances of the case, the evidence available to the prosecuting authority, and the ease of proving a particular breach are likely to play a role.

LSAG Guidance

LSAG Guidance sets out expectations around understanding the money laundering risks posed by client accounts; managing client accounts to reduce these risks and

[16] This case was not included in our primary dataset as it was settled directly by SRA regulatory processes rather than being referred to the SDT.

[17] E.g., SDT Case No. 10358-2009, Fry; SDT Case No. 10427-2010, Obatolu; SDT Case No. 10791-2011, Wong; SDT Case No. 11302-2014, Henry; SDT Case No. 11464-2016, Goldberg; SDT Case No. 12206-2021, Ogbonna.

[18] SDT Case No. 12084-2020, Kinch; SDT Case No. 12091-2020, Bujakowski.

[19] E.g., SDT Case No. 10238-2009, Mirza.

prevent breaches of Accounts Rules; and maintaining appropriate records of client account use (LSAG, 2023). It recommends ways of preventing client account misuse, for example advising firms to:

- avoid disclosing client account details until they are ready to accept a payment or transfer;
- discourage clients from sharing account details to third parties;
- ensure that clients only use the account details for agreed-upon purposes;
- prohibit or restrict cash payments into the client account, or, where cash payments are accepted as practice policy, to consider them high-risk within the practice-wide risk assessment and establish the source of funds for any cash payments;
- only return funds received into the client account related to a matter that is subsequently aborted if the risks have been assessed and, where appropriate, a Suspicious Activity Report has been submitted;
- only return such funds to the original depositors, except in exceptional circumstances; and
- ensure that customer due diligence is completed before funds are deposited into the client account.

(LSAG, 2023)

Before any *third-party* payments are accepted into the client account, appropriate checks – including source of funds checks – should be made and the rationale for the payment being made by a third party fully understood (LSAG, 2023: 89). While there is not an absolute obligation under MLR 2017 to apply full customer due diligence to third parties providing funding for a transaction, a recent amendment to the LSAG Guidance requires firms to seek to understand and obtain evidence relating to such third parties' source of funds (LSEW, 2023), providing an example of how the LSAG Guidance goes beyond the requirements of MLR 2017.

Proceeds of Crime Act 2002

A breach of the SRA Accounts Rules or MLR 2017 does not require evidence that money laundering has taken place. Indeed, it 'is no defence to, or mitigation of, a breach of rule 3.3 that there was no evidence of actual laundering' (SRA, 2023a). If there is evidence of money laundering, a prosecution under POCA 2002 would be expected (SRA, 2023a). We identified two cases of solicitors convicted under s.328 of POCA 2002 (entering into or becoming concerned in an arrangement facilitating the acquisition, retention, use or control of criminal property) due to the proceeds of fraud or corruption being moved through their firm's client account,[20] and five cases related to legal professionals (5 solicitors; 1 legal executive) convicted under s.93A of the Criminal Justice Act 1998 (assisting another to retain or control the benefit of

[20] SDT Case No. 10444-2010, Krestin; Court of Appeal [2013] EWCA Crim 815, 2013 WL 2,110,666, Gohil.

criminal conduct) or s.52 of the Drug Trafficking Act 1994 (failure to disclose knowledge or suspicion of money laundering), which preceded POCA 2002.[21]

Previous research has identified some of the challenges of prosecuting legal professionals under POCA 2002 and why regulatory action can be more appropriate, even when criminal activity is suspected (Benson, 2020). Challenges include difficulties with proving the guilty knowledge of the professional and their connection to the criminal proceeds; wariness by prosecuting authorities; the complexity and specialist nature of money laundering investigations; and complications created by legal professional privilege. It may also be the case that criminal prosecution of legal professionals suspected of involvement in facilitating money laundering on behalf of others is not pursued because investigators see those involved in the primary criminality as a greater priority (Benson, 2020). A regulatory response, using MLR 2017 or Accounts Rules, can overcome these challenges faced by criminal justice agencies and allows for a broader range of sanctions (Middleton, 2005; Middleton & Levi, 2004, 2015).

Multi-actor oversight: Collaboration and tension

Multiple actors – both internal and external to law firms – can play a role in monitoring adherence to the above regulatory framework and preventing money laundering through law firm client accounts (Fig. 2). While *external* oversight of processes that provide opportunities for organisational misconduct is important (Shover & Hochstetler, 2006), it will always have limitations – oversight by external bodies may be credible but still unable to prevent misconduct where 'the circumstances are beyond the regulator's sphere of control' (Weismann, 2012: 6). In the context of this article, external actors cannot monitor every individual client account transaction within law firms; therefore, *internal* oversight mechanisms, and how extensively and effectively they are deployed, are also critical (Shover & Grabosky, 2010).

This section details the role of these various actors in client account oversight, and how different actors can collaborate to create multiple, complementary layers of control - therefore also highlighting areas where a lack of coordination could weaken oversight. This section also identifies tensions created by two regulated sectors having overlapping responsibility for client account oversight and by changes to the domestic regulatory framework driven by changes to international standards. These changes challenged previous intentions of proportionality, and demonstrate how AML policy set at the global level can create challenges and burdens at the level of regulated sectors. A pragmatic approach appears to be emerging to maintain proportionality.

[21] Court of Appeal [2003] EWCA Crim 2053, 2003 WL 21,729,190, Glatt; High Court of Justice [2004] EWHC 419 (Admin), 2004 WL 960,954, Duff; Court of Appeal [2009] EWCA Crim 8, 2009 WL 6150, Winter Morris; Court of Appeal [2005] EWCA Crim 1972, 2005 WL 1,997,761, Young; Court of Appeal [2008] EWCA Crim 966, 2008 WL 1,968,924, Ford.

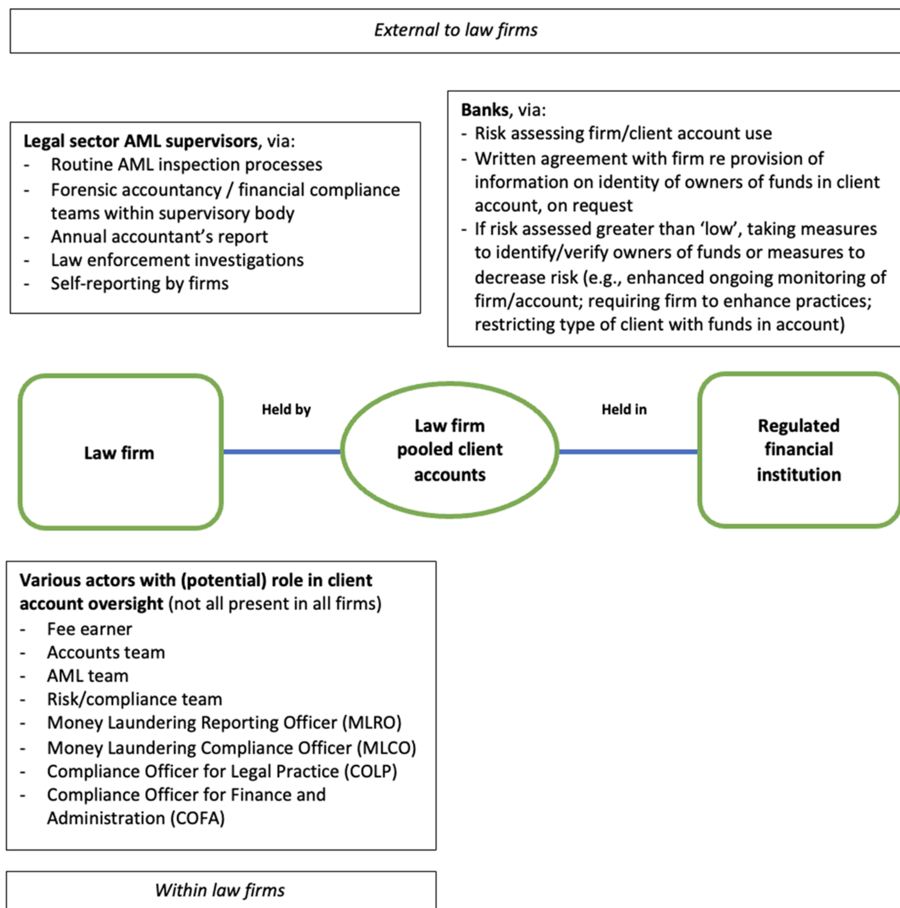

Fig. 2 External and internal actors involved in oversight of client accounts

Internal oversight

Within law firms, oversight of client account transactions begins with the fee earner (the lawyer) making the decision to take on a particular client or matter and authorising the receipt of funds. This decision may be taken in collaboration with actors working within accounts, AML and/or compliance within the firm. The size and structure of legal practices in the UK varies considerably.[22] In very small firms and sole practices, there is unlikely to be separate accounts, AML or compliance teams or departments, as is often seen in larger firms, and required roles such as Money Laundering Reporting Officer (MLRO), Compliance Officer for Legal Practice (COLP)

[22] Within England and Wales, sole practitioners (private practice firms with only one practicing certificate holder who is a partner) made up 43.2% of all registered firms in 2022, with a further 43.8% being 2-4 partner firms. The remainder consisted of 5-10 partners (8.4%), 11-25 partners (2.4%), 26-80 partners (1.4%), or 81+partners (0.7% - 66 in total) (LSEW, 2022<

and Compliance Officer for Finance and Administration (COFA) may be held by a single person (including a lawyer) without specialist expertise. The extra capacity and specialisation in larger firms can allow for extra layers of oversight, thereby reducing fee earners' autonomy over how the client account is used or managed. For example, a compliance officer from a mid-sized law firm (11–25 partners) described the system they had in place to ensure multiple layers of control over client account deposits within their firm, with incoming funds having to be authorised by the fee earner, their supervisor and – when over £5,000 – the risk and compliance team (COMP1). An interviewee from a similar sized firm (26–40 partners) highlighted the role of the AML team in carrying out the initial customer due diligence processes before funds were authorised to be accepted into the client account (COMP2).

The accounts team is responsible for ensuring that incoming funds match the client, matter and expected deposit; allocating these funds to the correct ledger; and maintaining appropriate records (AML1; AML2; LSAG, 2023). This is important as once client account details have been given out, the firm cannot control from where and by whom funds are deposited (Benson & Bociga, 2024). For example, funds may have come from a different individual or account to those on which customer due diligence has been carried out (AML1). Client account details are often displayed freely on letterheads or firm websites and are provided to clients when onboarded or billed (LSAG, 2023: 46), though firms are advised to 'be careful and keep circulation of the details to a minimum, informing clients that payment into this account is only for previously agreed purposes' (LSEW, 2023).

Client accounts can be exploited for money laundering purposes by clients making overpayments or unsolicited deposits and then requesting refunds to themselves or a third party (LSAG, 2023; Benson & Bociga, 2024). Firms may breach the Money Laundering Regulations if they repay funds without submitting a Suspicious Activity Report (SAR) when suspicions arise. They are therefore advised not to return funds received into the client account related to a matter that is subsequently aborted without considering the need for a SAR, and to return funds only to the original depositor, except in exceptional circumstances (LSAG, 2023: 55). Therefore, in discussion with the fee earner and/or compliance or AML officers, accounts teams should 'hold the money' while ensuring thorough checks have been conducted, including confirming the source of wealth and source of funds (AML2). Even in the absence of red flags, firms must assess the risks and decide what actions to take with the funds (AML2). One compliance officer explained that they hold money in a suspense account if they are 'not happy to allocate it to the client account', so that the money is 'not available for the fee earner to use' while further checks are being made (COMP1).

External oversight – legal sector AML supervisors

Breaches of Accounts Rules or other problems with client account use or management can be identified by AML teams within the AML supervisors for the legal sector in the UK (known as the professional body supervisors (PBSs)), through both routine inspection processes and when a problem is highlighted to them (SUP1; SUP2). These teams have a proactive, risk-based supervision process involving on-site visits, desk-based reviews and thematic reviews. These mechanisms are intended, in the first

instance, to be preventative – 'aimed at bringing firms into compliance' (SUP2) – but can lead to investigation and potential enforcement if problems are found, including problems with the use or management of the client account. Client account transactions and record-keeping processes may be checked as part of wider assessments of policies, controls and procedures during on-site visits and desk-based reviews. Decisions on which firms to review are primarily risk-based or intelligence-based (SUP1; SUP2; SUP4).

Potential money laundering issues may also be identified by non-AML teams within the PBSs, in the course of wider monitoring or supervision processes or investigations into breaches of the Accounts Rules. For example, forensic accountancy teams looking at client account ledgers may 'see something that doesn't quite look right' and notify the AML team (SUP2). Financial compliance teams will scrutinise client accounts as part of a general financial compliance process (for example, 'to ensure the solicitor isn't running away with the clients' money or cooking the books' (SUP1)). This process would involve 'getting the ledgers, day books etc. and tying money through the ledger to underlying transactions' (SUP1), and so could identify and lead to further questions about any funds that were not related to an underlying transaction. The role of non-AML teams is important because, as one interviewee pointed out, 'often the bad thing that happens at a firm spreads itself messily over several categories' (SUP4). This cooperation is not a legislative requirement, but based on internal policy and evolved practice.

In addition, law firms are required (with some exceptions) to obtain an accountant's report each year, which includes auditing client account transactions. Breaches of the Accounts Rules is one of the things that the accountant should be looking for, and these reports are a route by which breaches of this rule are often made known to supervisors (SUP2) – accountants' reports must be submitted to the SRA if they show a failure to comply with the Rules (SRA Accounts Rules, Rule 12). (One of the proposals in the current SRA consultation is to reintroduce mandatory accountants' report submission for all firms holding client money). Potential cases of client account misuse for money laundering purposes also come to the supervisors through information from the National Crime Agency or other law enforcement partners, or from firms self-reporting problems (SUP1; SUP2). There is, therefore, multiple avenues for the detection of regulatory breaches or misuse of the client account by legal sector AML supervisors.

External oversight – banks

There were considerable concerns that the changes to the due diligence obligations of banks holding pooled client accounts enacted by MLR 2017 (see Sect. 5) would mean banks having to conduct customer due diligence on every individual who had funds in the client account – both clients and third parties (SUP3) - or requesting 'underlying client level data, to satisfy [themselves] that the [law firm] had done their own due diligence' (BANK1). This would have created significant challenges for law firms, as they would not routinely have informed clients that their information could be passed to banks and sending any kind of confidential information to a third-party without prior agreement would have data protection implications (COMP1; AML2;

BANK1). Furthermore, not all law firm clients are in scope of MLR 2017 and so customer due diligence may not have been carried out on all clients whose funds pass through the client account (AML1). It would also have created significant challenges for banks, and may have led banks to stop operating pooled client accounts altogether as ‘it would just become unsustainable to offer those products’ (BANK1).

The potential implications of this change highlight the tensions created by two regulated sectors having overlapping responsibility for AML oversight of client accounts, and having professional and business imperatives to maintain client accounts. These tensions have been navigated through consultation between representatives of the legal and financial sectors following introduction of MLR 2017 and a pragmatic approach that appears to be emerging within banks (see also Kebbell, 2025). Aagaard (2011) argues that regulatory overlap need not cause problems if it is explicitly managed by the involved bodies. For example, following the consultation process, the JMLSG’s revised guidance on the treatment of pooled client accounts does not require banks to carry out due diligence on all underlying transactions related to client accounts it holds (JMLSG, 2022). Instead, banks are expected to assess the money laundering (and terrorist financing) risk of the firm and its client account. If assessed as low risk, simplified due diligence may be applied; if not, measures must be taken to verify the owners of the funds in the client account or to decrease the risk until simplified due diligence can be applied (JMLSG, 2022). This still presents challenges for banks and law firms in evidencing their low-risk status (Kebbell, 2025).

The compliance officer we interviewed from a UK-based retail bank considered the removal of automatic simplified due diligence for client accounts as ‘proportionate - it’s probably something we should [already] have been looking at’ (BANK1). While the issue of client accounts had been ‘kicking about’ for the previous year or two, the bank had just recently mobilised a specific programme of work due to ‘increased scrutiny from [the Financial Conduct Authority]’ (BANK1). The bank compliance officer highlighted the ‘broad range’ of customers that hold client accounts, including accountancy practices, letting agents, local councils, churches, charities and care homes, as well as law firms (BANK1). Client accounts will be treated differently based on whether or not they are held by regulated entities under MLR 2017, and this would feed into the risk rating of the customer, alongside the purpose of the business and their transactional behaviour – ‘are they transacting with high-risk jurisdictions, for instance?’ (BANK1).

Within this particular bank, the question of whether to ask customers with client accounts for the underlying data had been considered, but this was judged to be unfeasible for logistical and data privacy reasons. Instead, the bank ‘places reliance on the fact that [law firms] are regulated and they’re doing the underlying due diligence’, if there are no factors that would otherwise rate the firm as high-risk (BANK1). Existing customers with client accounts will be risk-rated and, if the bank is not satisfied that they hold all the information they need to assess that risk and confirm the firm is fulfilling its customer due diligence requirements, it may ‘need to go out to uplift that information’ (BANK1). New customers wishing to open client accounts will ‘need to sign up to terms and conditions’ accepting expectations of complying with MLR 2017 and the possibility of the customer relationship being ended if these

expectations are not met (BANK 1). Law firm compliance officers and legal sector supervisors confirmed that, so far, there do not seem to have been significant impacts from the changes to MLR 2017 (COMP1; SUP1), and a lack of de-risking of law firm customers supports the suggestion that banks are taking a pragmatic approach (Kebbell, 2025). However, as this is a recent change its impact should continue to be monitored, and further analysis/empirical examination is required (see Conclusion).

Discussion

Law firm client accounts are subject to a 'broad array of scrutinies' (Levi, 2022: 136) in the UK, due to the multi-layered regulatory mix that has evolved (directly and indirectly) to address the problem of client accounts being misused for money laundering purposes. This mix contains: a range of interacting regulatory instruments containing elements targeted towards preventing money laundering through client accounts; measures within law firms and financial institutions for providing oversight of client account transactions, to prevent their misuse and/or to comply with the regulatory instruments; and various external regulatory oversight processes to identify breaches of the regulatory instruments or the misuse of client accounts. While not deliberately designed, the regulatory mix has been shaped by state and non-state actors and institutions over time (Cunningham et al., 2013), navigating the risk of client accounts being used to facilitate money laundering, the essential role client accounts play in the provision of legal services, and the business imperative for banks of being able to operate client accounts.

One of the strengths of this regulatory mix is the complementarity between regulatory instruments (Gunningham & Sinclair, 1999, 2017; Aagaard, 2011). While individual regulatory instruments contain gaps or weaknesses, these can be compensated for by other components of the regulatory framework. For example, SRA Accounts Rule 3.3 prohibits the use of client accounts with no underlying transaction or no proper connection between the funds and the delivery of regulated legal services, and enables regulators to take enforcement action against breaches of this rule, even if there is no suspicion of money laundering. The due diligence requirements of MLR 2017 address transactions through the client account in which there *is* an underlying transaction and a connection between the funds and delivery of regulated legal services, but which also have the potential to be used to facilitate money laundering. LSAG Guidance provides a range of recommendations and expectations for how law firms should manage their client account to prevent its misuse, and whether a firm or individual has adhered to LSAG Guidance can be taken into account in judgments on breaches of MLR 2017. Where evidence of criminal activity is suspected, POCA 2002 provides a framework for criminal prosecution, including under the 'failure to disclose' offence for regulated sectors. A regulatory response, using MLR 2017 or Accounts Rules, could be taken if criminal prosecution was not possible.

Regulatory oversight in various contexts is enhanced by the presence of multiple regulatory actors – as individual actors as less able to address all regulatory requirements and challenges, or provide comprehensive oversight – but they must be working collaboratively and cooperatively (Gunningham & Sinclair, 2017; Quéro &

Dupont, 2019). Within law firms, we found fee earners, accounts teams, risk/compliance teams and AML teams (where present) working cooperatively to ensure that initial customer due diligence and source of funds checks are carried out appropriately; that client account details are not disclosed until necessary; and that funds coming into the client account match the client, matter and expected deposit, and are allocated to the correct ledger. While the multiple oversight actors present in larger firms, but likely to be unavailable for sole and small practices, can reduce autonomy over decision-making and opportunities for misconduct, research on organisational (non-)compliance more broadly has shown that organisational complexity and 'diffusion of responsibility' (Chan & Gibbs, 2020: 194) in large organisations may be used to deny knowledge of or responsibility for illegal or unethical practices (Huisman, 2020). Oversight 'blind spots' or 'buck passing' can occur where overlapping oversight leads to ambiguity in task assignment or responsibility (Ni & Zeng, 2009, cited in Pontell et al., 2020: 354-5). It is important, therefore, that oversight actors within firms work collaboratively and avoid creating silos - for example, those with AML expertise operating separately to accounts teams. As one interviewee noted, while Accounts Rules compliance is focused on ensuring that money is allocated to the right ledger at the right time, that the right people know that the money is in the account, and that the funds have cleared, 'on the other side you've got the AML questions: do we know who it is? Do we know where the money came from', often without a process 'that meets the two in the middle' (AML1).

External to law firms, a collaborative approach would include AML and non-AML teams within professional body supervisors working together to identify potential misconduct or regulatory breaches; accountants effectively auditing law firm accounts and working with supervisors to identify any problems; law enforcement informing supervisors of suspected misuse of client accounts; and banks working with law firms to gather sufficient information to risk assess their client account use and implement appropriate measures where risks are identified. We identified evidence of such collaboration, but further research is needed to understand how systemic this is and the barriers it faces.

Tensions and trade-offs are inherent in policy mixes (Flanagan et al., 2011) and the AML regulatory mix for law firm client accounts in the UK is no exception, as has been demonstrated in this article. It is neither proportionate nor practical for banks to have complete oversight of underlying law firm client data. A balance must be found between money laundering prevention and the necessary role of client accounts in legal service provision and business imperatives of law firms and banks. The increased tensions created by changes to MLR 2017 need to be navigated to ensure proportionality.

Conclusion

This article evidences the 'broad array of scrutinies' over law firm client accounts in the UK highlighted by Levi (2022: 136) and shows how the multi-layered, multi-actor regulatory policy mix that has evolved includes complementarities and cooperation between regulatory instruments and actors that should 'produce better regulation'

(Gunningham & Sinclair, 2017: 133). The inherent tensions and trade-offs in the policy mix should be mitigated as far as possible while maintaining proportionality (Van Duyne et al., 2016, 2018). Assessments of the money laundering risk presented by client accounts should take account of their evolving oversight structures, and the wider AML due diligence measures required on clients and funds.

The article presents the first in-depth empirical examination of the AML policy mix for law firm client accounts in the UK; as such, it has limitations and provides scope for further empirical research and policy analysis. At the time of data collection, the changes in MLR 2017 had barely started to 'trickle down' into banks' practice; the revised JMLSG Guidance was just published in 2022 and the issues it raised were not established, or even on the radar, for many banks in the UK. There was also no clear picture of if/how the changes were impacting law firms. Further empirical research is required to understand the tensions these changes have created and how banks and law firms are navigating them. The interactions between instruments within the policy mix would benefit from a more systematic evaluation than we could provide in this article, to further understand their synergies and contradictions across policy domain, governance space and time (Cunningham et al., 2013; Rogge & Reichardt, 2016). There are significant challenges in evaluating the interplay of instruments within policy mixes (as a result, evaluations are more often done on policy instruments in isolation), but 'the effort should be made' to do so (Cunningham et al., 2013: 6; Bouma et al., 2019). Comparative analysis between the UK approach and approaches to AML regulation of client (trust) accounts in other jurisdictions would also be of value. Many of the findings from this article will be applicable to other jurisdictions in which pooled client accounts are used, but readers from countries other than the UK should understand these findings within their local contexts.

In November 2024, the SRA launched a consultation on the management of client money in the legal sector, proposing various changes including restrictions on solicitors holding client money or even moving away from the client account model towards a system whereby firms would use Third Party Managed Accounts (TPMAs) instead (SRA, 2024). The Law Society of England and Wales argues that client accounts are 'fundamental to the efficient and effective delivery of most legal services' and that such a move would be 'disproportionate and [lacking] evidence of necessity' (LSEW, 2025). While the consultation is not driven primarily.by AML concerns, it should consider how changes to the client account model would impact (positively or negatively) money laundering opportunities/vulnerabilities and the oversight mechanisms that currently exist. In August 2025, HM Treasury launched a consultation on revisions to the Money Laundering Regulations 2017, suggesting further amendments to how financial institutions should manage pooled client accounts. If these amendments proceed, further research on the implications for banks and law firms becomes even more important to understand and ensure proportionality.

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Data availability References to Solicitors Disciplinary Tribunal (SDT) transcripts and court judgments used as data are provided as footnotes in the article. SDT transcripts are available on the SDT website. Documentary data (publicly available official reports, policy documents, guidance, etc.) are cited within the article and included in the reference list. Interview data cannot be shared due to the potential for identification of interviewees.

Declarations

Ethical approval The research was approved by the University of Manchester Research Ethics Committee, Reference 2022-13585-22434.

Research involving human participants/informed consent Informed consent was obtained for all participants.

Research involving animals Not applicable.

Competing interests The authors have no relevant financial or non-financial interests to disclose. The authors have no competing or conflicting interests to declare that are relevant to the content of this article.

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