CLC
Regulatory Supervision Insights

15 November 2023

Overview of presentation

- CLC approach to regulation
- Monitoring outcomes
- Inspection preparation
- Monitoring plan for 2024
- OLC Levy

The CLC's approach to regulation

- Specialist regulator
- Risk based approach to monitoring and compliance
- Assisted compliance model
- High touch – proactive management of regulation
- Dedicated monitoring contact
- Available, approachable and reasonable

Assisted compliance

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- Work with practices to remediate code breaches
- Actions are agreed and we check their implementation
- Helps prevent reoccurrence by setting expectation for compliance
- Encourages practices to work with us
- Better to resolve breaches before harm to consumers
- Fosters self-reporting

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Limits to assisted compliance

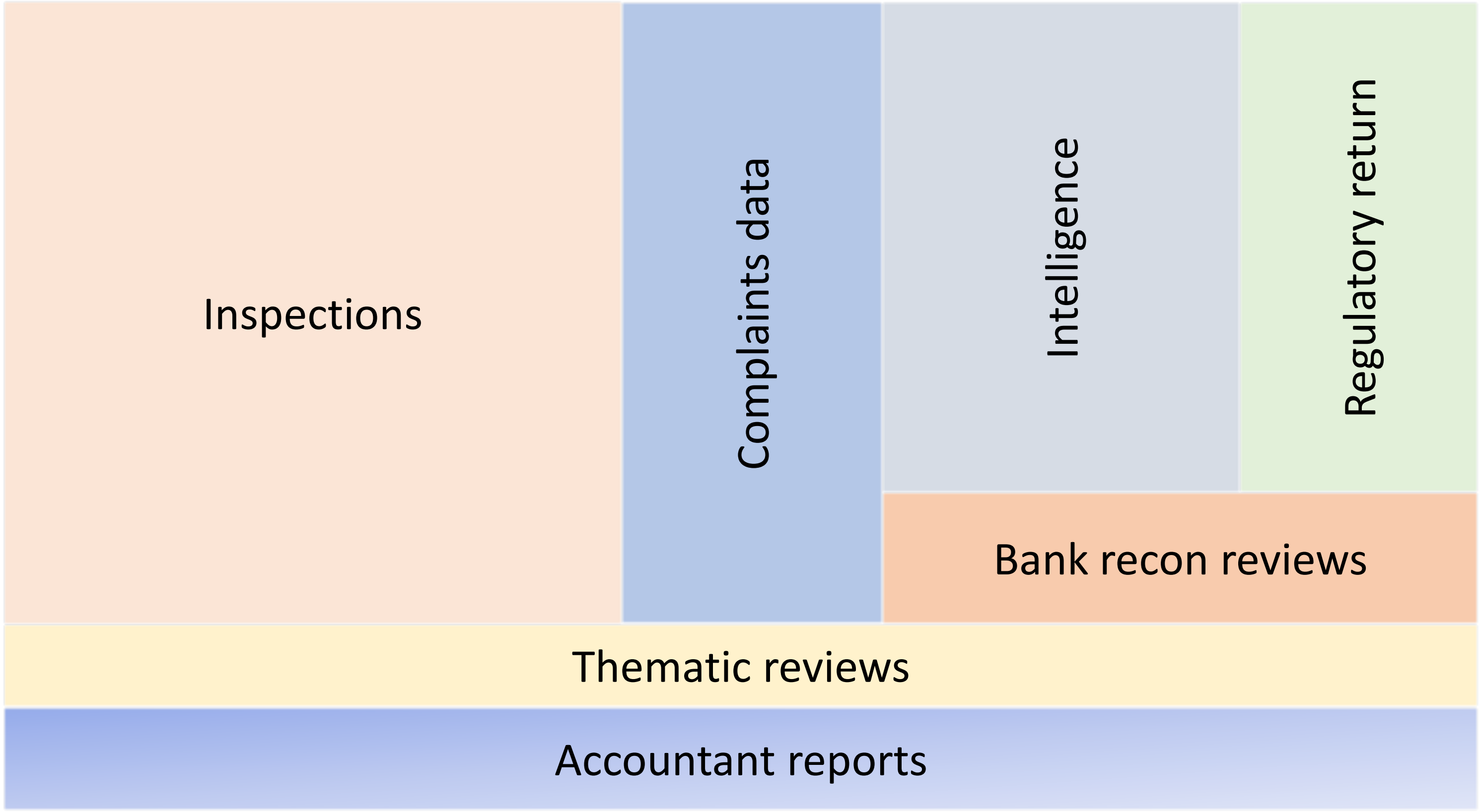
Assisted Compliance

- Co-operated with the CLC
- Acknowledged the breach
- Made efforts to rectify and prevent
- Isolated incident
- Not pervasive or systemic
- Error or Could not reasonably have known
- Breach not previously identified
- Little or no impact on clients/consumers

Enforcement

- Did not cease after notification
- Failed to co-operate
- Intentional, reckless or negligent behaviour
- Dishonesty or fraud
- Previous similar conduct or breaches
- Pervasive or systemic
- Could reasonably have known conduct was improper
- actual or potential significant harm to clients

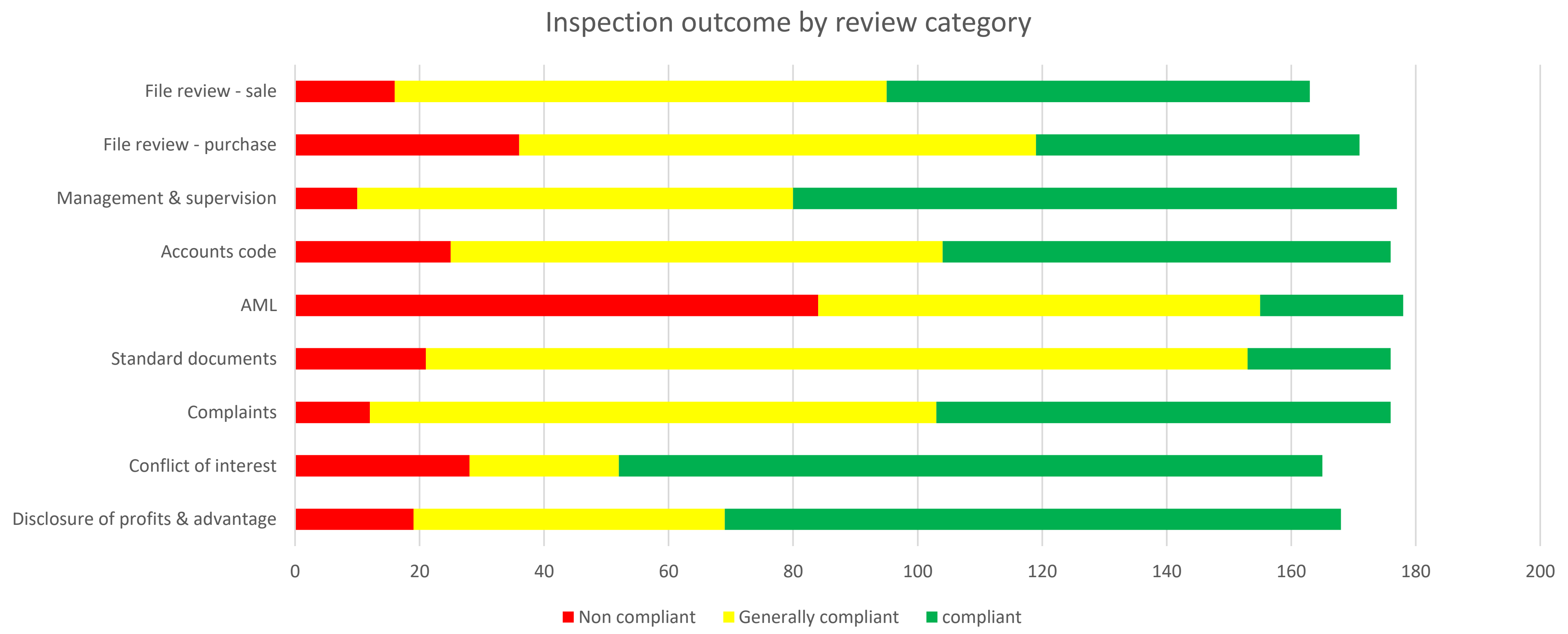
CLC's Monitoring toolkit



Inspection report summary (2020 – 2023)

- 178 inspections completed since 2020
- Overall ratings immediately following inspection:
  - Compliant – 16
  - Generally compliant – 85
  - Non-compliant - 77
- 160 practices implemented all actions and are now compliant
- 18 practices are still in process of implementing actions

Compliance by code (2020 – 2023)



Common code breaches identified

CLC Code	Common findings
Accounts Code	• Bank reconciliations not prepared regularly • Unpresented items on bank reconciliations • Updating matter listing
Management and Supervision	• Inadequate BCP • File retention (retaining for longer than required)
Standard documentation	• Terms of engagement (FCA wording, Compensation Fund wording, blind copying other practices T&C’s, interest payment arrangements, complaints & transparency information)
Complaints	• Complaint policy, LeO timeframes, complaint log & management of complaints
Conflicts of Interest Code	• Practice acting on both sides of a transaction • Client not informed of the relevant conflict issues and risks and unable to provide informed written consent • Own interest conflict
Disclosure of profits and advantage	• Referral agreements not in writing and reviewed regularly

Common AML code breaches

- Based on 52 inspections (April 22 – March 23)

AML code breaches	Not in place	Inadequate
No documented policies and procedures	0	19
No CDD procedures	0	18
Firm wide risk assessment	1	15
client/matter risk assessment	8	4
Training	9	5
checking PEPs and sanctions lists	0	2

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Preparing for an inspection

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You shouldn't need to prepare if you are following the codes

- Send <u>all</u> information when requested
- Ensure standard documentation is in place and up to date
- Rectify/report known breaches before we arrive
- Be open and honest and work with us to rectify any breaches detected
- File reviews by the CLC will identify past noncompliance

Monitoring focus areas for 2024

- AML compliance specifically:
  - Matter based risk assessments
  - Source of Funds & Source of Wealth
  - PEP and sanction checks

- Complaint handling

- Referral arrangements

Regulated community feedback

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- Most requested training & guidance:
  - AML
  - Cyber security
  - Code of conduct
  - General practice management
- All being covered in our November Roadshows
- Currently consulting on an updated Code of Conduct

The OLC Levy

- Cost of legal ombudsman allocated to all regulators
  - Based on cases accepted for investigation by the ombudsman (average of past 3 years)
- CLC invoiced annually and recharges the cost to practices
  - 70% of cost allocated to all practices proportionately to the practice fee charged
  - 30% of cost allocated to practices with cases accepted for investigation by the ombudsman

Contacts

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