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# Charging clients for AML activities

Verification of identity and client  
due diligence

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# Charging clients for AML activities: verification of identity and client due diligence

From 1 July 2026, any firm supplying [designated services](#) must [verify their client's identity](#) and undertake further [customer due diligence](#) (“CDD”) to comply with the new AML/CTF regime.

The professional time and outlays involved can be substantial — potentially approaching a meaningful proportion of the cost of the underlying legal work.

## Can those costs can be passed to the client?

The short answer is yes, in appropriate circumstances but the framework matters.

## The foundation principles

Overheads — the general costs of running a practice — are absorbed in the firm’s hourly rate or fixed fee and cannot be passed on without specific agreement and disclosure.<sup>1</sup> General compliance costs not linked to a specific retainer (such as obtaining a Trust Account audit or your PI insurance premium) fall into this category.

Disbursements are payments to arms-length third parties, accurately quantified and incurred to provide legal services on a specific matter, usually recoverable at cost.

Professional fees (or profit costs) are charges for the firm’s own work, whether time-based, fixed, or otherwise structured.

The question is where CDD sits in this framework.

## Some AML costs are an overhead, CDD is not

General AML compliance, such as establishing your AML program, staff training and setting up software to manage regulatory obligations is an overhead.

Client due diligence activity is different. It is work done with respect to a *specific* transaction for a *specific* client. Conceptually, outlays and reasonable professional time may be properly billed to the client in appropriate circumstances.

## What can be charged?

**Disbursements.** AML provider search fees, third-party identity verification charges and similar payments are recoverable as outlays where they meet the standard test:

- a genuine cost paid or due to a third party,
- capable of being accurately quantified and apportioned to a particular matter,
- and incurred for the purpose of supplying legal services in that matter.

A hybrid charge from an AML provider — part search, part interpretation and report preparation — may still be billed as a disbursement but consider how it is described to avoid misleading the client.

**Professional fees.** Reasonable time spent on CDD, whether by a solicitor or a paralegal is recoverable provided it is tracked in the ordinary way and charged at a rate appropriate to the task. Routine collection and verification of identity material is most likely paralegal work. Risk assessment, beneficial-ownership analysis and PEP/sanctions evaluation in more complex matters may justify a solicitor’s rate.

**Fixed fees.** If a firm offers a fixed fee, AML-related work forms part of the agreed fee unless the costs agreement specifically provides otherwise — for instance, by carving out enhanced CDD where higher risk emerges. A "fixed fee plus outlays" structure permits recovery of third-party search fees. However, where the amount is significant the client should be told about any outsourced professional fee component. That enables a fair comparison between different firms’ costs.

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<sup>1</sup> And as an “unusual charge” the level of disclosure required to create informed consent would be onerous.

## What cannot be charged?

Two traps warrant attention.

- **Universal precautionary CDD.** If a firm conducts CDD on every onboarding regardless of whether a designated service is being supplied, the link between the CDD activity and the legal work for that client is weakened. The work may not be "necessary or proper" for the matter, and may not be recoverable. Sometimes verification of identity obligations arise independently of the AML/CTF, for example in some litigation matters where the solicitor must satisfy themselves that the person instructing has authority to bind an entity.

Where VOI must be performed for several overlapping reasons, it is not necessary to wait to see whether a designated service is to be provided. Front-loading verification at onboarding does not indicate over-servicing.

- **Hybrid line items.** A bill entry combining search fees with the professional time of reading them, presented as an outlay, misrepresents the nature of the charge. Work done by the firm is not a disbursement. If you propose to charge AML costs on an hourly rate retainer or on top of a fixed fee the time spent and outlays incurred with respect to a specific file must be captured and billed and reflected in the costs agreement.

## Is client agreement necessary to pass on these costs?

Ideally agreement should be obtained. We consider that these costs are not materially different to other outlays such as title and company searches and therefore recoverable applying normal principles but there is limited authority directly on point. Client agreement to pay VOI and CDD costs should remove any residuary uncertainty.

As a practical matter it may be more appropriate not to charge clients for CDD-related professional fees where the firm elects to decline representation due to the risk profile.