



# Special Bulletin on the use of the legal profession in money laundering and sanctions evasion

Under the [Proceeds of Crime \(Money Laundering\) and Terrorist Financing Act \(the Act\)](#), the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) has authority to produce strategic intelligence on the nature and scope of money laundering, terrorist activity financing, and sanctions evasion. This Special Bulletin provides background on the typologies associated with the laundering of proceeds of crime through the legal profession and aims to inform reporting entities on the associated potential indicators of completed or attempted financial transactions.

The contents of this Bulletin should be leveraged by reporting entities to identify and assess money laundering, terrorist activity financing, and sanctions evasion risks, apply controls and measures to mitigate these risks, and effectively detect and report suspicious transactions to FINTRAC.

## Legal professionals vulnerable to exploitation by money launderers

Members of the legal profession possess knowledge and skills that may be useful to criminal actors seeking to launder the proceeds of crime and/or evade economic sanctions. Legal professionals can provide a variety of services that relate to financial activity, including—but not necessarily limited to—holding and conducting monetary transactions held in trust accounts for their clients, creating legal entities (corporations and trusts), facilitating real estate and related transactions, and acting as shareholders or directors. The services that legal professionals provide give them a unique window into their clients' business structure, arrangements, and practices.

An analysis of FINTRAC data holdings demonstrates that the role of legal professionals in financial transactions is significant and high volumes of funds are potentially exposed. While the vast majority of legal professionals undertake legitimate transactions, suspicious transaction reporting submitted to FINTRAC indicate that many professional money laundering schemes may rely on the involvement of a legal professional. Although being the subject of a suspicious transaction report does not in itself necessarily mean an individual is engaged in criminal activity, these reported transactions continue to be included in disclosures to law enforcement in various types of cases including human trafficking, drug trafficking, and fraud. In 2022–23, an estimated 615,000 large cash transaction reports and electronic funds transfer reports involved legal professionals with combined transaction values totalling \$110 billion, reflecting only a part of the sizeable role legal professionals and law firms play in Canadian economic activity. In that same year, approximately 2,400 suspicious transaction reports submitted to

FINTRAC by reporting entities within Canada's anti-money laundering and anti-terrorist financing regime referenced transactions involving legal professionals and/or law firms.

The money laundering, terrorist activity financing, and sanctions evasion risks and vulnerabilities within the legal profession have been well documented in reports published by both the Financial Action Task Force (FATF) and the Egmont Group of Financial Intelligence Units.<sup>1</sup> Complicit legal professionals, as enablers and third-party money launderers separate from the proceeds-generating criminal activity, can offer a veneer of legitimacy and respectability to a financial transaction that may dissuade questioning or suspicion from financial institutions. In addition, the established principles of solicitor-client privilege in common law systems and professional secrecy in Quebec that protect the communication of legal advice between certain legal professionals and clients may also be misused to shield information and shut down lines of inquiry by financial institutions relating to transaction details and source of funds.

Legal professionals, with the exception of British Columbia notaries public and British Columbia notary corporations, are not reporting entities within Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime. While the legal profession is self-regulated with self-imposed anti-money laundering and anti-terrorist financing obligations, it is not subject to the obligations of the Act or direct supervision by FINTRAC. This gap in legislative anti-money laundering and counter-terrorist financing oversight may attract professional money launderers, organized crime, and transnational organized crime groups who seek to exploit the sector to move and mask illicit funds and activity.

Given legal professionals outside of British Columbia notaries public and British Columbia notary corporations do not have obligations related to maintaining a compliance program, record keeping, know-your-client requirements, and reporting under the Act, the

### Canada's Law Societies

Every lawyer in Canada and notary in Quebec is required by law to be a member of one of the 14 law societies. The law societies are mandated by the provinces and territories to regulate the Canadian legal profession in the public interest and to be subject to their rules. These societies have a critical role to play in Canada's anti-money laundering, anti-terrorist financing, and sanctions evasion regimes.

The Federation of Law Societies of Canada, which is the national association of the 14 law societies has provided guidance and assistance to help legal professionals combat [money laundering and terrorist financing](#). This includes [model rules](#) that have been adopted by each law society limiting cash transactions, detailed client identification and verification requirements, and adherence with trust accounting obligations. In addition to these rules, the legal profession is bound by a [Code of Professional Conduct](#), implemented in each law society across Canada.

The law societies of Canada actively review and investigate complaints received against members of the legal profession, and proactively detect misconduct through their audit programs which can lead to disciplinary hearings resulting in reprimands, fines, practice conditions or restrictions, suspensions from practice, or disbarment.

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<sup>1</sup> Financial Action Task Force and Egmont Group, [Concealment of Beneficial Ownership](#), July 2018  
Financial Action Task Force, [Guidance for a Risk-Based Approach – Legal Professionals](#), July 2019  
Financial Action Task Force, [Money Laundering and Terrorist Financing Vulnerabilities of Legal Professionals](#), June 2013

perspectives provided by reporting entities in relation to suspected money laundering, terrorist activity financing, or sanctions evasion is critical.

## Typologies

Concern about the role of legal professionals in the facilitation of money laundering is particularly focused on the assistance they can provide through the creation and management of companies and other corporate vehicles, such as trusts and foundations, and the use of bank accounts in offshore locations.

Corporate vehicles can be used as a means of confusing or disguising links between offenders and the proceeds of their crimes, and offshore bank accounts provide a level of secrecy that can be used to hide illicit funds. Such financial constructions are not illegal in themselves and can be used for legitimate reasons, but there are increasing concerns over the use of corporate vehicles such as shell companies to hide beneficial owners for illegitimate reasons. Lawyers may also act as directors, officers, trustees, or even as owners or shareholders of a company, with their law offices serving as the corporate addresses for companies controlled by criminal actors.

A [2018 joint assessment published by the FATF and the Egmont Group](#) explored how legal professionals can help criminals conceal wealth and illicit assets. This work highlighted the important role of facilitators, including professional intermediaries and nominee directors or shareholders, in the formation and management of corporate structures and in concealing the identity of beneficial owners and controllers of assets. The report found the use of specialists and professional intermediaries to be a key feature of schemes designed to conceal beneficial ownership, particularly in cases where the proceeds of crime are significant. It also noted that legal professionals are often fundamental to the activities of professional money laundering networks due to their extensive knowledge and expertise.

FINTRAC's [Operational Alert on laundering the proceeds of crime through underground banking schemes](#) noted that legal professionals, such as individual lawyers and notaries, and law firms are inherently vulnerable to exploitation for money laundering and terrorist financing. This is due to the fact that the identity of originating conductors and ultimate beneficiaries involved in financial transactions, as well as the purpose of the funds, may be legally withheld. FINTRAC's recent [Special Bulletin on financial activity associated with suspected sanctions evasion](#) noted that individuals sanctioned by Canada or its allies may attempt to hide the ultimate beneficial ownership of assets by transferring legal ownership to other individuals or by using professional enablers (including legal professionals) to facilitate transactions.

A review of financial intelligence disclosures sent to law enforcement and national security partners showcased instances where lawyers have been directly involved in common money laundering typologies. FINTRAC observed that legal professionals often use funds other than cash, such as electronic funds transfers and negotiable instruments (e.g., drafts, certified cheques, personal or business cheques) when conducting transactions. These findings highlight that, based on the types of transactions and reporting received, legal professionals who are involved in money laundering, terrorist financing, and/or sanctions evasion operations likely play a role at the layering and integration stages.

Three types of activities by legal professionals may be of particular concern from the perspective of heightened money laundering, terrorist activity financing, and sanctions evasion risks: the misuse of client or trust accounts; real estate purchases; and the creation and management of trusts and companies.

## **Misuse of client or trust accounts**

A client (or trust) account is an account held by a lawyer or a law firm that holds funds remitted by the client(s) to be used towards payment directly related to legal services that the legal professional or law firm is providing. These accounts are vulnerable to misuse by criminal and illicit actors allowing them to place proceeds of crime into the formal financial system and/or to layer these funds. The use of these accounts in this manner may result in fewer questions being asked by financial institutions due to the perceived legitimacy added by the involvement of legal professionals.

Trust accounts may:

- be used in converting the proceeds of crime from cash into other less suspicious assets;
- permit access to the financial system when the criminal may be otherwise suspicious or undesirable to a financial institution as a customer;
- serve to help hide ownership of criminally derived funds or other assets; or
- be used as a link between different money laundering techniques, such as purchasing real estate, setting up shell companies, and transferring the proceeds of crime.

Although solicitor-client privilege may obscure the details of transactions involving trust accounts, certain characteristics regarding the transactions remain visible allowing red flags of potential misuse to be seen. Potential red flags may include the following:

- Customer pays fees to a legal professional without apparent requirement for legal work or indication of the rendering of legal services.
- Customer uses a legal professional located at a significant distance from the customer/transaction and without a legitimate or economic reason for not using one who is located closer.
- Legal professional appears to be directing funds on behalf of a third party with reported links to criminal activity or organizations.
- Legal professional repays client's funds to bank accounts in high-risk jurisdictions.
- Legal professional sends funds to or receives funds from bank accounts in high-risk jurisdictions, including offshore secrecy jurisdictions.
- International payments into a trust account appear to be structured to avoid threshold reporting.
- Transactions are requested to be completed with unusually quick speed.

## **Real estate purchases**

In Canada, lawyers are commonly used to undertake transfer of real estate. [Real estate has been and continues to be an attractive sector](#) for criminal and illicit actors to engage in money laundering and terrorist financing. The purchase of commercial and residential real estate is a popular vehicle for laundering the proceeds of crime. Funds can appear to be legitimized as they move through a law firm's trust account as well as when they are

exchanged for ownership of property. Further, rental income or profit made by the sale of the real estate also provides legitimate income from initially illegitimate funds.

Common money laundering sanctions evasion methods used include the following:

- Investing proceeds of crime in real estate.
- Transferring value through back-to-back, quick successive sales of property, either with or without a mortgage, which enables criminals to inflate the value of the property and transfer it to other parts of an organized crime group or reinvest it within the group.
- Concealing ownership through purchase with a false name, through intermediaries, or through a company/trust.
- Engaging in mortgage fraud with antecedent laundering.

See also FINTRAC's 2024 Operational Alert on [laundering the proceeds of tax evasion in real estate](#), which provides a set of contextual risk indicators relating to non-compliance with tax laws in the real estate sector.

## **Creation and management of companies and trusts**

Lawyers are used for the creation of companies and trusts and are often sought out by criminals to retain control over criminally derived assets while hindering the ability of law enforcement to trace the origin and ownership of the assets. Companies and trusts are used by criminals as potential vehicles to achieve this outcome. Criminal actors use complex corporate structures, including shell and front companies, to conceal the origins or ownership of the proceeds of crime.

While the creation of companies and trusts is a key area of vulnerability for legal professionals, criminals will also often seek to have legal professionals involved in the management of those companies and trusts in order to give greater respectability and legitimacy to the entity and its activities. Common methods used include:

- acting as a trustee and receiving the proceeds of crime,
- managing a company or trust for the appearance of legitimacy and provision of legal services, and
- holding shares as an undisclosed nominee.

Possible red flags of money laundering or sanctions evasion related to this activity include the following:

- The client uses a legal professional located at a significant distance from the client/transaction without a legitimate or economic reason for using this legal professional over one who is located closer.
- The execution of the transaction is unusual (e.g., it is unusual for residential property to be purchased through a corporate vehicle or for minors to be shareholders).
- The transactions involve a legal professional who is a director at numerous co-located companies that are otherwise seemingly unrelated.
- A complicated structure is used without legitimate reason.

## Reporting to FINTRAC

All businesses subject to the Act and its Regulations must submit certain threshold transaction reports and suspicious transaction reports to FINTRAC if there are reasonable grounds to suspect that a financial transaction—completed or attempted—is related to the commission or attempted commission of a money laundering offence, terrorist activity financing offence, or sanctions evasion offence.

For guidance on submitting suspicious transaction reports to FINTRAC, see [Reporting suspicious transactions to FINTRAC](#).

## Contact FINTRAC

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FINTRAC Special Bulletins provide information related to new, emerging and particularly topical methods of money laundering, terrorist activity financing, sanctions evasion and threats to the security of Canada. However, these Bulletins should not be considered legal advice. Please refer to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and its associated Regulations for the full description of the reporting entities' obligations.