



# Managing Client Affairs and Making Introductions: Case Study



## Lawyer fails to respond to money laundering warning signs

Current to July 2021

### The Facts



A client who owned several residential rental properties contacted you for assistance with the purchase of another rental property. He had not yet decided on a property to purchase. He told you that he wanted to choose a lawyer he liked working with and whom he could trust before making his decision on a property. You shared several common interests with the client and got along very well. You met often and became friends, but the client did not provide any immediate work.






One day, the client told you that he found a suitable property but could not proceed due to temporary cash flow difficulties as a result of repairs he had to make to one of his rental units. He asked if you would be willing to provide a short-term loan to help finance the purchase. You agreed to lend the client money from your personal bank account and did not advise the client to get independent legal advice.

The transaction went ahead and, shortly after closing, the client settled the loan. The client subsequently purchased two more properties, one funded by another loan from you; the other funded by payments from a third-party account. The client explained that the third party owed him a debt for unpaid rent. You took the client at his word and did not ask for additional information or supporting documents about this debt. Around this time, you saw a news report indicating the client was being investigated for involvement with organized crime. The real estate deals closed without issue and the second loan was repaid quickly.

**NOTE:** While the legal services described in this case study are outside of the paralegal scope of practice, the red flags and best practice recommendations apply, with appropriate modifications, to the provision of legal services by paralegals.

## Red Flags



-  Client is seeking to establish a relationship without specific work identified
-  Source of funds for the transactions are unusual
-  Lack of information on the source of funds for loan repayments
-  Payments from third parties
-  Client has suspected criminal associations

## What Should You Have Done?



You should always exercise a high degree of caution when a client seeks to establish a relationship without asking you to undertake any specific legal work. Criminals may seek to “groom” you as part of their illegal scheme.

In this scenario, you should have:

- **Identified risks associated with the transaction.** Short-term loans of large sums are a red flag that you should have been aware of and addressed.
- **Complied with your professional obligations relating to transactions with clients.** You are prohibited from lending money to a client who is not a related person unless the transaction is fair and reasonable to the client; any conflicting interest is explained to the client; the client obtains independent legal representation; and the client consents to the transaction (rr. 3.4-27 – 3.4-29 of the [\*Rules of Professional Conduct\*](#)).
- **Declined to act.** After discovering suspected links to organized crime, you should not have acted for the client.

## Supports and Resources



- **Guidance Documents:** For more information, consider consulting the Law Society's, [Fraud page](#), [Red Flags Quick Reference Guide](#), and [Rules of Professional Conduct](#).
- **Practice Management Helpline:** Lawyers or paralegals who have questions about their professional obligations relating to client identification and verification, fraud, money laundering, terrorist financing, or other illegal activity may wish to contact the [Practice Management Helpline](#).



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