



Managing Client Affairs and Making Introductions: Case Study

International client and creation of shell corporations

Current to July 2021

The Facts

A woman contacted your law firm and retained you to set up some companies under the *Canada Business Corporations Act*. The client presented valid identification and said she is a dual citizen of Canada and a country that poses a high risk. She was not employed in Canada, but acted as a director of several corporations in other jurisdictions. She described these other corporations in general terms, stating that most were in the importing and exporting business. The client provided a similar description for the Canadian companies she wanted to set up.

She told you that the Canadian companies would initially be funded by the corporations outside the country.

The client provided documentation and your law firm conducted a search of the corporations, which were verified but appeared to be mainly holding companies. After you began setting up the Canadian companies, as instructed, you came across news articles indicating that, even though they had different family names, the client appeared to be the daughter of a former well-known head of state, accused of corruption.

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 a citizen of a high-risk country. These are countries that have been identified by competent authorities as posing a high risk for money laundering based on, among other things, prevalence of corruption and financial crime, and weakness of anti-money laundering laws and measures
-  Client is a director of several corporations in multiple jurisdictions
-  Client can only provide general descriptions of the companies of which she is a director
-  Reason for setting up the new corporations is vague
-  Source of funds is uncertain
-  Funding for the new Canadian corporations is coming exclusively from outside the country
-  Client appears to be a politically exposed person (PEP) or has links to one. A PEP is an individual who has been entrusted with a prominent public function within domestic or foreign governments or international organizations as well as their family and business associations
-  Client's role as director could be an attempt to disguise the real owner or parties to the transaction

What Should You Have Done?



You should have:

- **Taken steps to determine whether the client is a PEP.** See the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* for a full list of PEPs and visit FINTRAC's website for more information on PEPs.
- **Made further inquiries about the source of funds and business plan** for the companies to be set up in Canada and the client's actual role in these and other corporations.
- **Declined to act** unless you were satisfied on reasonable grounds that the matters for which you were being retained are legitimate.

Supports and Resources



- **Guidance Documents:** For more information, consider consulting the Law Society's [Red Flags Quick Reference Guide](#), and [Frequently Asked Questions: Source of Funds Requirement](#).
- **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](#).



PRACTICE
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