



Managing Client Affairs and Making Introductions: Case Study



Questionable source of funds

Current to July 2021

The Facts



You represented a company trying to create an initial public offering (IPO) for an opaque tech start-up. Due to concerns over the company's financial viability and a potentially messy ownership dispute, the company struggled to make the IPO a success. At the last minute, a previously unknown wealthy investor came along and made a substantial bid.

The money offered by the wealthy investor was actually the company's money. Representatives of the company were paying money to the purported investor to promote the investment.

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



-  Purpose of the client company is ambiguous
-  Unexplained financing arrangements
-  Appearance of sudden willing investor when previous interest was lacking

What Should You Have Done?



You should have:

- **Conducted a comprehensive due diligence review.** When acting on an IPO, you must have clear and detailed information on the nature of the corporation and its plans.
- **Ascertained client objectives and made inquiries about source of funds.** When questionable circumstances arise, such as the unexpected and last minute appearance of a wealthy investor, you should take additional steps, including requesting additional information about the source of funds, inquiring about the reasons for the investor's sudden appearance in the transaction, and/or establishing whether a relationship exists between the investor and the company.

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
MANAGEMENT
Helpline

Ligne d'aide
À LA GESTION
DE LA PRATIQUE