



Federation of
Law Societies
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Fédération des ordres
professionnels de juristes
du Canada

Red Flags Quick Reference Guide

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This Guide provides a list of red flags that indicate potential risks of money laundering and other illegal activity, including fraud. They are arranged by the nature of the risk. This list is not exhaustive and is intended as a quick reference guide to identify common red flags. Other circumstances may arise suggesting a particular client or transaction poses a money laundering risk.

Identity of the Client

- Reluctant to provide or refuses to provide information relating to their identity and/or the identity of a beneficial owner or controlling interest.
- Provides false information or counterfeited documentation in relation to their identity and/or the identity of a beneficial owner or controlling interest.
- Known to have convictions or to be currently under investigation for acquisitive crime, or has known connections with criminals.
- Age or capacity of the client is unusual for the transaction, especially if they are under legal age and there is no logical explanation for their involvement.
- Business entity that has no internet presence at all, cannot be found in corporate registries, and/or is only using an email address from a free web-based email provider (e.g., Hotmail, Gmail, Yahoo, etc.), especially if the client is otherwise secretive or avoids direct contact.
- Business is in cash-intensive industries that are not usually cash-rich but generate substantial amounts of cash (e.g., money-service businesses and casinos).
- Structure of the client organization makes it difficult to identify its beneficial owner or controlling interests (e.g., the unexplained use of legal persons or legal instruments).
- Domestic or international politically exposed person (PEP); i.e. holds or has previously held a public position (political or high-level professional appointment) or has professional or family ties to such an individual and is engaged in unusual private business given the frequency or characteristics involved.
- Originally from, a resident of, or owner of a company incorporated in a high-risk country as identified by credible sources (e.g., Government of Canada, FINTRAC, FATF, UN) as:
 - Generally lacking appropriate AML laws, regulations and other measures;
 - Being in a location from which funds or support are provided to terrorist organisations; or
 - Having significant levels of corruption or other criminal activity.



Behaviour of the Client

- Overly secretive or evasive about:
 - Their identity
 - Their address or contact information
 - Identity of the true client
 - Identity of the beneficial owner
 - Where the money is coming from (i.e., source of funds)
 - Why they are doing the transaction this way
 - The overall reason for, or purpose of the transaction
- Chooses a legal advisor who is:
 - At a distance from the client or the transaction without legitimate or economic reason.
 - Without experience in a particular specialty or without experience in providing services in complicated or especially large transactions.
- Has changed legal advisor a number of times in a short time or engaged multiple legal advisors without legitimate reason.
- Uses an agent or intermediary without good reason.
- Uses financial intermediaries that are neither subject to adequate anti-money laundering laws nor adequately supervised by authorities.
- Is evasive or actively avoiding personal contact without good reason.
- Is prepared to pay substantially higher fees than usual or bonus for services that would not warrant such a premium or without good reason.
- Demonstrates an excessive desire to expedite the transaction and/or offers an incentive to complete the transaction by a certain date (e.g., higher fee or bonus), without a good reason.
- Changes settlement or execution instructions multiple times or in a short period of time without good reason.
- Is reluctant to provide or refuses to provide information, data and documents usually required in order to enable the transaction's execution.
- Provides false or counterfeited documentation.
- Demonstrates unusual familiarity with the ordinary standards provided for by the law in satisfactory customer identification, data entries and suspicious transaction reporting or asks repeated questions on related procedures.



Source of Funds/ Source of Wealth

- Transaction involves a disproportionate amount of private funding, bearer cheques, bank drafts or an attempt to use cash, especially if it is inconsistent with the socio- economic profile of the individual or the company's economic profile.
- Source of funds is unusual, e.g.:
 - Third party funding for the transaction with no apparent connection or legitimate explanation.
 - Funds received from or sent to a foreign country when there is no apparent connection between the country and the client.
 - Funds received from or sent to high-risk countries.
- Client is using multiple bank accounts and/or foreign accounts without good reason.
- Client funds provided for a transaction appear to be large relative to the client's income without logical explanation.
- Personal private expenditure is funded by a company, business, or government.
- Collateral being provided for the transaction is currently located in a higher-risk country.
- Unusually short repayment period has been set without logical explanation.
- Mortgages are repeatedly repaid well before the initially agreed maturity date, with no logical explanation.
- High value transaction does not require financing.
- Asset is purchased without financing and then rapidly used as collateral for a loan.
- Request to change the payment procedures previously agreed upon without logical explanation, especially when payment instruments are suggested that are not appropriate for the common practice used for the ordered transaction.
- Financing provided by a lender other than a bank or credit institution with no logical explanation or economic justification.
- Significant increase in capital for a recently incorporated company or successive contributions over a short period of time to the same company, with no logical explanation.
- Increase in capital from a foreign country, which either has no relationship to the company or is high risk.



- Business receives an injection of capital or assets suddenly and/or notably high in comparison to the business, size or market value of the company, with no logical explanation.
- Excessively high or low price attached to the securities transferred.
- No legitimate explanation for large financial transactions, especially if requested by recently created companies, where these transactions are not justified by the corporate purpose, the activity of the client or the possible group of companies.

Nature of the Retainer or Transaction

- Transaction is unusual, e.g.:
 - Type, size, frequency, manner of execution of transaction is unusual for or inconsistent with the size (entity), age, or activity of the client.
 - Remarkable and highly significant differences between the declared price and the approximate or actual values in accordance with any reference that could give an approximate idea of this value or in the judgement of a legal advisor.
 - Non-profit organization requests services for purposes or transactions not compatible or typical with those declared for that body.
- Requested service was refused by another legal advisor or professional or the relationship with another legal advisor or professional was terminated.
- Transaction does not correspond to client's normal professional or business activities.
- Client lacks suitable knowledge of the nature, object or the purpose of professional services requested.
- Client wishes to establish or take over a legal person or entity with a dubious description of the aim, or a description that is not related to client's normal professional or commercial activities or his other activities.
- Client frequently changes legal structures and/or managers without legitimate reason.
- Unexplained changes in instructions, especially at the last minute.
- Client asks for short cuts or unexplained speed in completing the transaction.
- Client requires introduction to financial institutions to help secure banking facilities in the context of the transaction.
- Client instructs the creation of complicated ownership structures when there is no legitimate business or economic reason.
- Involvement of entities in multiple countries where there is no apparent link to the client or transaction, with no legitimate or economic reason.



- Incorporation and/or purchase of stock or securities of several companies, enterprises or legal entities within a short time with elements in common (one or several partners or shareholders, director, registered company office, corporate purpose etc.) with no logical explanation.
- Absence of documentation to support client's story, previous transactions, or company activities.
- Several common elements in a number of transactions in a short period of time without logical explanation.
- Back-to-back property transactions, with rapidly increasing value or purchase price.
- Abandoned transactions with no concern for the fee level or after receipt of funds.
- Retainer exclusively relates to keeping documents or other goods, holding large deposits of money or otherwise using the legal advisor's trust account without the provision of legal services.
- Lack of sensible commercial/financial/tax or legal reason for the transaction.
- Increased complexity in the transaction or the structures used for the transaction that result in higher taxes and fees than apparently necessary.
- Power of attorney is sought for the administration or disposal of assets under conditions that are unusual, where there is no logical explanation.
- Investment in immovable property, without any links to the place where the property is located and/ or without any financial advantage from the investment.
- Litigation is settled too easily or quickly, with little to no involvement by the legal advisor retained.
- Includes requests for payments to third parties without substantiating reason and/or corresponding transaction.

Parties

- Originally from, resident or incorporated in a country posing a high risk to money laundering.
- No apparent business reason connecting the parties to the transaction.
- Ties between the parties of a family, employment, corporate or any other nature generate doubts as to the real nature/reason of the connection.
- Multiple appearances of the same parties in transactions over a short period of time.



- Age or capacity of the executing parties is unusual for the transaction, especially if they are under legal age and there is no logical explanation for their involvement.
- Attempts to disguise the real owner or parties to the transaction.
- Business entities cannot be found and/or have no presence on the internet and/or in corporate registries.
- Person directing the operation is not one of the formal parties to the transaction or the representative.
- Natural person acting as the director or representative does not appear to be a suitable representative.

