MONEY LAUNDERING: CASE STUDY 1

This is a case of a lawyer operating in a small law firm and how a client was able to abuse the lawyer's services and client account for money laundering





Mr. B

A long-standing customer of the law firm, acts as referrer.

1



Ms. A

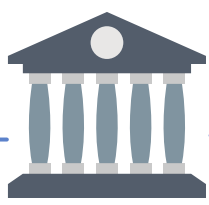
A foreigner who just entered the property business in Malaysia. She needed a lawyer to advise her while being the director and company secretary to her newly-formed company, Company ABC.

2

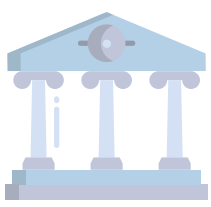
Transferred RM 2.0 million into the firm's client account as fees to the firm.

3

Purchased 16 properties with her personal account however the sales & purchase agreement was made under Company ABC's name. All the properties amounted to RM 2.8 million.



Law Firm



Law Firm's Client account



16 properties



5

An account clerk at the law firm found that:

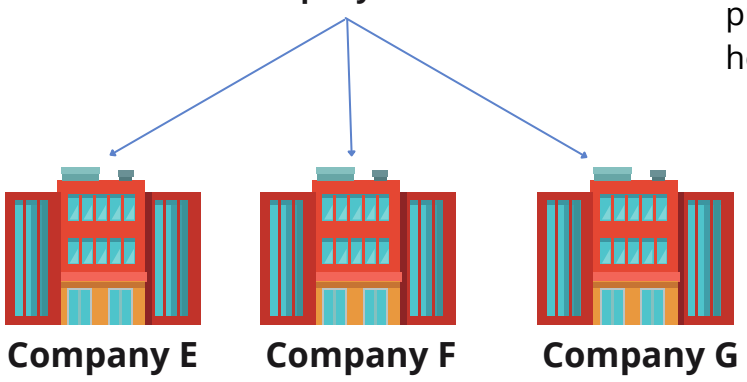
- some of the payments were made through cash deposit machines from multiple states
- certain bank transfers were from individuals or companies who have no clear relationship with Companies E, F or G



Company ABC

6

Wind-up & fund being returned to Company ABC. A few months later, Ms. A has been charged with money laundering of drug proceeds in her home country



Company E **Company F** **Company G**

4

Sold off the properties at a significantly higher price of RM8.5 million to Company E, F & G.

What are the red flags in this case?

- Substantial upfront payment to the firm for future work.
- The speed at which the transactions were done (bought and quickly sold).
- The sale of goods at a premium or inflated price.
- Cash payment made into lawyer's client account from multiple locations.
- Involvement of multiple third parties without a clear reason / relationship.

What risk is the reporting institution facing in this situation?

- Criminals abusing the lawyer's clients account as a place to 'park' their illegal money.
- The reporting institution may be unknowingly facilitating transfer of illegal money from one party to another.
- Reputational risks to the reporting institutions.
- Regulatory or criminal sanctions for not properly conducting customer due diligence (CDD) and not submitting a suspicious transaction report (STR).

What should have been done in this situation?

- Conduct CDD and risk assessment before onboarding a customer.
- Establish a list of red flags and share with the reporting institution's staff to help them in identifying potentially suspicious transactions (STR).
- Formulate policies to guide staff on how to report any suspicious transactions.
- Appoint a compliance officer with the appropriate skills and knowledge.
- CO needs to assess whether STR need to be submitted to Bank Negara Malaysia (BNM).