

GATEKEEPERS • LEGAL SECTOR

Red Flag Typologies for Legal Professionals

How criminals exploit lawyers

A resource for navigating the gatekeeper gap in AML compliance. Part 3 of The Gatekeeper Gap Series.

THE WAKE-UP CALL

The wake-up call

Why every legal professional needs to recognise these patterns.

In August 2025, the fallout from one of the largest money laundering cases on record saw six law firms penalised for AML breaches, with assets valued in the billions seized. The message was clear: **compliance is no longer optional**.

The lawyers weren't criminals. They were professionals who failed to recognise the patterns.

This guide is a practical toolkit for spotting exploitation before it happens. By understanding these typologies, professionals can move beyond box-ticking and provide a meaningful defence against financial crime.

HOW EACH TYPOLOGY IS LAID OUT

1 The scenario

How the risk shows up in daily practice.

2 The red flags

Critical triggers for immediate scrutiny.

3 What should happen

The compliant response your firm should expect of itself.

4 The lesson

The one-line takeaway to remember, with enforcement examples where available.

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TYPOLOGY 1

The Third-Party Funder

THE SCENARIO

A client instructs you on a USD 5 million property purchase. Identification is provided, but at completion the funds arrive from an offshore entity in a different name, described as a “family vehicle” and unsupported by proof.

RED FLAGS

- 🚩 Third-party funding with no documented connection to the client.
- 🚩 Offshore source of funds in a high-risk jurisdiction.
- 🚩 High-value residential property as the asset.

WHAT SHOULD HAPPEN

- Demand a certified ownership chart for the funding entity.
- Verify the ultimate beneficial owner (UBO) of the offshore company.
- If the connection isn't clear, decline the transaction.

WHAT WENT WRONG

CASE INSIGHT

One firm acted on 25 properties worth over USD 100 million and failed to verify why the transactions were funded by unrelated third parties.

THE LESSON

Third-party funding isn't an “administrative quirk”. If unverified, it is a fundamental AML breach.

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TYPOLOGY 2

The Litigation Settlement

THE SCENARIO

Two parties settle a USD 2 million contract dispute for an inexplicable USD 15 million windfall. Both sides appear satisfied with the logic-defying outcome. The money moves through client accounts and emerges carrying the “seal” of a court-documented settlement.

RED FLAGS

- ❗ Settlement amount bears no relation to the underlying loss.
- ❗ Sudden “friendly” resolution after long, hostile litigation.
- ❗ Law firm accounts used to bypass a bank’s scrutiny of direct transfers.

WHAT SHOULD HAPPEN

- Question the commercial rationale: why would a defendant overpay?
- Perform client due diligence on both the plaintiff and the defendant in unusual settlements.
- Treat “windfalls” as high-risk triggers for source-of-wealth checks.

THE LESSON

“Litigation laundering” borrows the gravitas of the court to clean dirty money. If it makes no business sense, it isn’t a settlement. It’s a transfer.

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TYPOLOGY 3

The Client Account as a Bank

THE SCENARIO

A client instructs you on a transaction and wires USD 800,000 into your client account. The deal stalls, then collapses. The client asks for the funds to be returned, not to the sending account, but to a different account, in another name and another country. No legal work has been done.

RED FLAGS

- 🚩 Funds received with no genuine underlying legal service.
- 🚩 Aborted transaction followed by a request to refund to a third party.
- 🚩 Pressure to move quickly, with reluctance to explain the change of account.

WHAT SHOULD HAPPEN

- Return funds only to the original source, unless a documented, verified reason exists.
- Refuse to let your client account operate as a payment or banking service.
- Escalate to the compliance officer before any money leaves the account.

THE LESSON

A client account is for legal work. If it is being used to move money, the firm has become the laundering channel.

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TYPOLOGY 4

The Shell Company Maze

THE SCENARIO

A client asks you to establish a chain of companies across several jurisdictions, each owned by another, with nominee directors and a trust at the top. The stated reason is “privacy and tax efficiency”. No commercial rationale is offered for the layers.

RED FLAGS

- ❗ Multi-layered structure with no clear business purpose.
- ❗ Nominee directors or shareholders with no real role.
- ❗ Incorporation in secrecy or high-risk jurisdictions, with vague explanations of ownership.

WHAT SHOULD HAPPEN

- Insist on understanding the purpose of every layer before you act.
- Identify and verify the ultimate beneficial owner, not just the immediate client.
- Decline to build structures whose main effect is to obscure ownership.

THE LESSON

Complexity is not a crime, but complexity with no purpose is the most common signal of concealment.

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TYPOLOGY 5

The Sham Loan

THE SCENARIO

A client asks you to draft a loan agreement between two related companies, one offshore. Funds move to the client's business as a "loan", and repayments follow years later, or never. Documents are drafted after the fact and backdated to match the payments.

RED FLAGS

- ❗ Loan between related parties with no commercial terms or security.
- ❗ Backdated or retrospective documents to explain earlier transfers.
- ❗ Funds leave the country and return as a "loan" (round-tripping).

WHAT SHOULD HAPPEN

- Ask why a related-party loan is needed and how the lender obtained the funds.
- Refuse to draft or witness documents that misstate the date or nature of a transaction.
- Treat retrospective paperwork as a red flag, not an administrative task.

THE LESSON

A loan that never needs repaying is not a loan. It is a story written to explain where the money came from.

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TYPOLOGY 6

The Well-Connected Client

THE SCENARIO

A client, or a relative acting on their behalf, wishes to buy assets in a new country using funds said to come from “consulting” and “family business”. The client has a close family link to a senior public official. Wealth far exceeds any visible income.

RED FLAGS

- Close family or associate of a politically exposed person (PEP).
- Source of wealth described in general terms and not documented.
- Assets held through relatives, companies or trusts rather than in the client’s own name.

WHAT SHOULD HAPPEN

- Apply enhanced due diligence to PEPs, and to their family and close associates.
- Corroborate source of wealth with independent documents, not the client’s word.
- Obtain senior approval before acting, and record the rationale for the decision.

THE LESSON

Corruption proceeds rarely arrive in the official’s own name. Look at who is standing behind the person in front of you.

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TYPOLOGY 7

The Sanctions Workaround

THE SCENARIO

A client with links to a sanctioned person asks you to restructure their holdings. Ownership is reduced to 49 percent and the balance is moved to a relative or trusted associate. Control over decisions and proceeds appears unchanged.

RED FLAGS

- 🚩 Sudden ownership changes shortly after sanctions or investigations are announced.
- 🚩 Assets moved to family members or associates without a commercial reason.
- 🚩 Control retained through side agreements, powers of attorney or informal arrangements.

WHAT SHOULD HAPPEN

- Screen all parties, including owners and controllers, against applicable sanctions lists.
- Look at control and benefit, not just percentage ownership.
- If in doubt, stop, seek advice and follow your legal obligations on freezing and reporting.

THE LESSON

Sanctions evasion rarely looks like evasion. It looks like a routine restructuring with an unusual sense of urgency.

THE PULSE CHECK

The PULSE check

Five questions to ask before every engagement.

Apply the **JFourth PULSE framework** before every engagement so you never provide a “veneer of legitimacy”.

P**PURPOSE**

Am I providing genuine legal advice, or simply acting as a payment conduit?

U**UNIFIED STANDARDS**

Would I skip this check for a smaller client? If not, do it now.

L**LEADERSHIP**

Do I have the firm's backing to walk away from a high-fee, high-risk client?

S**SCREENING**

Have I checked PEPs, sanctions and adverse media in the last 30 days?

E**EVIDENCE**

If a regulator audits this file tomorrow, is the source-of-wealth documentation ready?

IF ANY ANSWER IS UNCERTAIN, STOP AND REASSESS.



Protect your practice. Empower your people.

JFourth works at the intersection of compliance, governance and the human element.

[Book a discovery call](#)

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