



Gibraltar Financial Intelligence Unit
HM Government of Gibraltar

Typology Report

LEGAL SECTOR

OVERVIEW

Typology reports provide guidance to reporting entities, focusing on money laundering (ML), terrorist financing (TF) and proliferation financing (PF) risks, vulnerabilities, and suspicious activity reporting obligations. These reports offer insights into ML, TF and PF trends and methods, helping businesses identify and mitigate risks.

This information strengthens Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) programs, policies, procedures, risk management and improves reporting quality to the Gibraltar Financial Intelligence Unit (GFIU).

Purpose

This typology report focuses on Gibraltar's legal sector, aiming to assist legal professionals in fulfilling their obligations to identify and report suspicious transactions related to ML. The report highlights key indicators, methods, and vulnerabilities within the legal sector, enabling improved detection and reporting of suspicious activities, thereby strengthening Gibraltar's defences against financial crime.

This report does not constitute legal advice, and any reliance on its content is at the user's own risk. If necessary, professional legal advice should be sought to ensure suitability for specific circumstances.

BACKGROUND

Gibraltar's legal profession plays a critical role in the jurisdiction's financial and business sectors, offering a range of services including property transactions, company formation, trust management, and litigation support.

Under the Proceeds of Crime Act 2015 (POCA), legal professionals who participate in specified financial or property transactions are deemed to be conducting Relevant Financial Business (RFB). Key activities that would cause legal professionals to operate in RFBs include: buying and selling of property or business entities, managing client money/ assets, opening or managing bank accounts, the organisation contributions necessary for the creation/operation or management of companies, trusts, foundations or similar structures and by acting on behalf of and for their client in any financial or real estate transaction.

LEGAL SECTOR & AML/CFT REGULATIONS

LEGAL SECTOR AML/CFT REGULATIONS

The provision of legal services in Gibraltar is regulated by the Legal Services Regulatory Authority (LSRA) pursuant to the Legal Services Act 2017. The LSRA is also the authority appointed to supervise compliance with AML/CFT measures under POCA. Gibraltar's AML/CFT regulatory framework applies to legal professionals, including barristers, solicitors and law firms that carry on RFB as defined in s. 9(1)(g) and (k) of POCA (RFB).

Legal professionals carrying on RFB are legally required to: carry out risk assessments of their legal practices; implement AML/CFT policies, controls & procedures; apply customer due diligence measures; appoint money laundering reporting officers; understand the purpose and nature of the transactions in relation to which they are instructed; carry on ongoing monitoring of clients and transactions; and report suspicious activities to GFIU.

These measures align Gibraltar's legal sector with international AML/CFT standards, thereby reducing the exposure of the sector to financial crime.

RISK BASED ON NATIONAL RISK ASSESSMENT (NRA)

The NRA 2020 assessed the legal sector's money laundering threat as Medium-High Risk. It highlighted vulnerabilities where legal professionals may inadvertently facilitate money laundering through:

- Misuse of client accounts
- Purchase of real estate
- Creation and management of opaque trusts and companies
- Conducting sham litigation or insolvency services

Legal professionals' specialised skills in creating complex financial instruments, contracts, powers of attorney, and advisory roles can be exploited by criminals to obscure ownership and transfer illicit funds. Increased diligence, especially concerning international and opaque structures, is critical to mitigating these identified risks.

MONEY LAUNDERING TYPOLOGIES

This section outlines common techniques criminals use to launder money through the legal sector.

Misuse of client accounts

A client instructs a law firm to receive funds into its client account with a vague explanation (e.g., “business deal”). The money arrives, and the client then directs the firm to forward it to a third party or overseas account without any associated legal work.

A client repeatedly deposits and withdraws funds through the client account, without any legal services tied to those funds. The law firm becomes an informal banking intermediary.

A client deposits funds into the client account for a transaction (e.g., property purchase), then cancels the deal and requests a refund to a different bank account or individual.

The client asks the firm to “hold” a sum of money in the client account with no active legal matter, or in anticipation of a deal that never materialises. Eventually, the funds are transferred on the client’s instruction.

Money comes into the client account from a person or company not named on supporting documents. The firm is instructed to treat it as part of a transaction but with no clear link between the payer and the client.

A law firm improperly commingles funds from multiple clients or cases in a way that obscures individual sources and flows, making it hard to trace individual transactions.

A client uses a law firm’s client account to buy assets (e.g., property, art) through a corporate structure or proxy buyer, making it look like the law firm is the purchaser.

MONEY LAUNDERING TYPOLOGIES

Real estate purchases

A client with no visible source of income purchases a high-value property through a law firm. The funds are paid in full, often in cash or via complex international transfers, with no mortgage or financing involved.

A property is purchased through a nominee (like a friend, relative, or asset holding company), masking the identity of the true beneficial owner. The legal professional is instructed to treat the nominee as the client.

A property is bought and then quickly resold at a significantly higher or lower price, sometimes multiple times, with the legal firm facilitating each transaction.

The declared purchase price is significantly higher or lower than market value. Excess funds may be paid “under the table” or the discrepancy used to shift value covertly.

The buyer is a company, trust, or series of layered entities with unclear beneficial ownership. The legal professional processes the transaction without fully verifying who is behind the purchase.

The purchase is funded from accounts located in countries known for secrecy, corruption, or weak AML controls. The legal firm receives funds without adequate scrutiny.

MONEY LAUNDERING TYPOLOGIES

Creation and management of trusts and companies

A client asks a law firm to incorporate multiple companies across several jurisdictions with nominee directors and no real business activity.

A law firm sets up a discretionary trust for a client, with another trust or company located in another jurisdiction listed as the beneficiary or trustee. The ultimate owner is not disclosed.

Legal professionals help clients appoint nominee directors/shareholders to front a company, while the true owner remains hidden in the background.

A trust or company is established in other jurisdictions, which then purchases assets (e.g., real estate, luxury goods, yachts) in another jurisdiction using laundered funds. The law firm facilitates the structuring and asset acquisition.

A lawyer helps set up several companies that hold shares in each other or in a parent trust, creating a confusing and circular ownership structure.

A politically exposed person (PEP) uses a trust structure managed by a law firm to move funds or hold assets, with the PEP's name never appearing on official documents.

A client constantly changes the structure of companies and trusts (e.g., swapping directors, changing jurisdictions, merging entities) without commercial reason.

A law firm provides pre-registered, dormant companies to clients who want "ready-made" entities, which are then used to open bank accounts or conduct deals quickly.

MONEY LAUNDERING TYPOLOGIES

Conducting sham litigation or insolvency services

A group of entities frequently initiate legal claims against each other, with no real business reason or conflict. The legal actions justify fund movements, court fees, and settlements.

A legal firm facilitates a fake arbitration or mediation between related entities. The “settlement” involves transferring large sums between them under the cover of a legal dispute.

A client declares bankruptcy or insolvency, claiming large fictitious debts to companies they secretly control. The process writes off illicit proceeds as unrecoverable losses.

A fake or collusive lawsuit results in a court ordering a law firm to disburse funds (e.g., damages or compensation). The law firm complies, unwittingly laundering the money through its client account.

A high-risk client transfers assets to relatives or related companies before declaring personal or corporate insolvency. A complicit or negligent legal adviser oversees the process without challenging the asset transfers.

Two parties collude to create a fake civil lawsuit. One party “sues” the other over a fabricated debt or contract. The court awards a settlement, and the money is paid, appearing as a legitimate court-ordered transaction.

RED FLAG INDICATORS

The following lists should provide the reader with an understanding of the types of suspicious behaviour that could indicate a need for a SAR to be reported to the GFIU.

Indicators help identify transactions requiring AML/CFT scrutiny but are not definitive proof of suspicious activity. Multiple indicators may increase the urgency for review. AML/CFT officers should use them for training and reporting while continuously adapting controls to evolving financial crime risks.

FIU provided indicators serve as guidance, not an exhaustive list.

Red Flags Related to Client Identity and Behaviour

- Evasive or secretive behaviour regarding identity, beneficial ownership, source of funds, or transaction purpose.
- Unwillingness or refusal to provide documentation to verify identity or beneficial ownership.
- Use of false, counterfeit, or misleading documentation or information.
- Frequent or unexplained changes in company ownership, officers, trustees, or beneficiaries.
- Transactions inconsistent with the client's known profile, background, or stated objectives.
- Unusual knowledge of, or excessive questioning about, AML/CFT procedures.
- Reluctance or refusal to meet in person without valid justification.
- Known or suspected links to criminal activity, ongoing investigations, or individuals listed for terrorist financing.
- Misrepresentation or concealment of connections to PEPs, or their family or associates.

RED FLAG INDICATORS

Red Flags Related to Cross-border Activity and High-risk Jurisdictions

- Transfers of funds to/from high-risk jurisdictions without a clear and legitimate business reason.
 - Use of multiple or foreign bank accounts without justification.
 - Large or disproportionate capital injections from high-risk countries or unrelated sources.
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Red Flags Related to Parties Involved in Transactions

- No apparent business relationship between parties to a transaction.
 - Same parties involved in multiple, unrelated transactions over a short time.
 - Attempts to obscure the identity of actual parties involved, especially from high-risk jurisdictions.
 - Use of unqualified or inappropriate individuals as representatives, directors, or legal signatories.
 - Involvement of minors or incapacitated individuals without clear legal justification.
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Red Flags in Selection of Legal Professionals

- Engaging legal professionals located far from the client or transaction without a valid reason.
- Retaining lawyers without relevant expertise for complex or high-value matters.
- Frequent changes in legal representation within short timeframes.
- Willingness to pay fees significantly above market rates without explanation.
- Client was previously refused services or abruptly ended relationships with other professionals.

RED FLAG INDICATORS

Red Flags Related to Beneficial Ownership and Structures

- Use of intentionally complex, opaque, or non-transparent ownership structures that hinder verification.
 - Preference for legal entities lacking transparency, such as, asset holding companies located in other jurisdictions.
 - Use of nominees, trusts, or similar arrangements without a legitimate business rationale.
 - Frequent restructuring or changes in legal entity setup without valid business, legal, or tax reasons.
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Red Flags Related to Transactions and Source of Funds

- Use of unusually large amounts of private funding, cash, or bearer cheques inconsistent with the client's profile.
 - Transactions lacking logical explanation for the source, destination, or purpose of funds.
 - Involvement of unexplained third-party payments, funding, or cash collateral.
 - Sudden changes to agreed payment terms, methods, or schedules without a clear reason.
 - Rapid repayment of loans or mortgages without a commercial rationale.
 - Quick leveraging of newly acquired assets as loan collateral.
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Red Flags in Real Estate Transactions

- Investment in property with no clear link to the client's location or financial interests.
- Use of real estate in back-to-back deals or leveraged immediately after purchase without clear purpose.

RED FLAG INDICATORS

Red Flags Related to Retainers and Instructions

- Transaction size, structure, or sector is inconsistent with the client's known profile.
 - Discrepancies between declared and actual market values.
 - Non-profits requesting services unrelated to their stated purpose.
 - Multi-jurisdictional structures or investments without economic or legal rationale.
 - Transactions abandoned after fund transfer or with no concern for incurred fees.
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Requests to hold funds or documents without substantive legal work

- Sudden last-minute changes to instructions without explanation.
- Requests for third-party payments unrelated to legitimate services.
- Red flags related to beneficial ownership, corporate structures, and activities
- Use of intentionally complex, opaque, or non-transparent ownership or corporate structures that hinder verification.
- Preference for legal entities lacking transparency, such as asset holding companies located in other jurisdictions.
- Use of nominees, trusts, or similar arrangements without a legitimate business rationale.
- Frequent changes to a company's legal structure, ownership, or management without clear business, legal, or tax justification.
- Establishing or acquiring companies with unclear, suspicious, or non-commercial purposes.
- Use of overly complex arrangements that result in unnecessary fees, tax consequences, or administrative burdens without legitimate rationale.
- Involvement in transactions lacking sensible commercial, financial, legal, or tax rationale.
- Unexplained or unusual use of powers of attorney in a corporate or transactional context.

TYPOLGY CASE STUDY

CASE OVERVIEW

A stockbroker from another jurisdiction informed Firm A of a recent relocation to Gibraltar. Open-source checks revealed historical fraud charges.

The firm requested information on the individual's source of wealth. The response indicated prior involvement in highly successful business ventures, including ownership and management of several overseas companies offering specialised, high-value services to corporate clients. Payments for these services were treated as business expense deductions by the client entities and were transferred to the individual's personal account.

Subsequently, the funds were loaned to a Gibraltar-based company under the same ownership. This Gibraltar entity then issued further loans to individuals in a third jurisdiction, many of whom were associated with the original corporate clients.

The financial flows suggested a circular arrangement potentially designed to obscure the origin or beneficial ownership of the funds. The firm ultimately declined to establish a business relationship.

TYPOLOGY CASE STUDY

Indicators

1

Previous alleged involvement in fraudulent activities

A history of fraud-related allegations may indicate a heightened risk of future misconduct, particularly where financial activity lacks transparency or deviates from normative patterns.

2

Vague explanation of source of wealth, characterised by an opaque financial structure

The absence of specific, verifiable information on how wealth was generated, especially when supported by complex and layered transactions, raises concerns about the legitimacy of the funds.

3

Transactions lacking a logical, legitimate economic rationale

Financial movements that do not align with a credible commercial purpose or standard business practices may indicate an attempt to disguise illicit origins or create artificial layers.

4

Transfers across jurisdictions without evident legitimate business reasons, particularly involving high-value amounts routed indirectly

The use of international transfers involving multiple jurisdictions and indirect routes, without a clear operational need, is commonly associated with efforts to obscure audit trails and complicate regulatory oversight.

5

Complex, opaque corporate structures involving multiple jurisdictions

The deliberate use of layered corporate entities in several countries may be designed to conceal beneficial ownership, frustrate due diligence, and hinder the traceability of funds.

CONCLUSION

The legal sector's specialised expertise and access to complex financial and corporate structuring place it in a position of elevated risk for exploitation by those seeking to launder the proceeds of crime or obscure beneficial ownership. The case study used also illustrates how legal professionals may be approached to facilitate, whether knowingly or unwittingly, the movement and layering of illicit funds through seemingly legitimate channels.

Without adequate scrutiny, professionals within the sector may become professional enablers, facilitating the misuse of legal and corporate frameworks to lend a veneer of legitimacy to illicit activity. It is, therefore, imperative that legal practitioners apply robust AML/CFT controls, including enhanced client due diligence, ongoing monitoring, and proactive identification of red flags.

Consistent application of these measures, along with timely and accurate suspicious activity reporting, is essential to preserving the integrity of the legal sector and supporting Gibraltar's wider efforts to combat financial crime.

This Typology Report is produced by the Gibraltar Financial Intelligence Unit and is based on intelligence from multiple sources, including Suspicious Activity Reports, to identify and assess emerging financial crime risks.

