

Changes to the Model Rules on Money Laundering and Terrorist Financing

In October 2018, the Federation of Law Societies of Canada, the umbrella organization of the 14 provincial and territorial legal regulators, approved changes to the Model Rules to enhance efforts to prevent money laundering and terrorist financing. Below is a summary of the key changes.

Model Rule on Cash Transactions [\(link to text\)](#)

Legal professionals must not accept more than \$7500 in cash from clients or prospective clients, subject to limited exceptions (e.g. it comes from a financial institution, public body, or law enforcement, or is used to pay a fine, penalty, or bail, or professional fees).

What's New?

- The wording was changed to clarify that legal professionals cannot receive **greater than \$7500** for any one client matter, even if the matter involves more than one transaction.
- The exemption for cash received pursuant to a court order is removed.

Model Rule on Client Identification and Verification [\(link to text\)](#)

Legal professionals are bound by "know-your-client" rules to ensure that they are providing legal services only to bona fide clients who can be identified and whose identity can be reliably verified. The requirement to verify identity does not apply in every lawyer-client relationship; it only applies when legal services involve the receipt, payment or transfer of funds.

What's New?

- Where the verification of identity requirements apply, legal professionals must:
 - **Inquire into the source of funds** involved in a financial transaction(s).
 - **Verify identity** rather than take reasonable steps to do so as previously required.
 - If acting for an organization, **identify all directors**, rather than make reasonable efforts to do so.
 - Make reasonable efforts to **identify beneficial owners** of an organization involved in a transaction (owning 25% or more), and if a trust, make reasonable efforts to **identify trustees and beneficiaries**.
 - Take reasonable measures to **confirm the accuracy** of information about directors, owners, trustees and beneficiaries and **take additional measures** if unable to get information or confirm its accuracy.
 - **Conduct ongoing monitoring** of the professional relationship with the client(s) and **keep records** of these efforts. Monitoring includes determining whether the client's information on their activities, the source of funds, and instructions are consistent with the retainer, and assessing the risk that the legal professional may be assisting in fraud or other illegal conduct.
- The specific methods for verifying the identity of clients and third parties have been revised.
- The exemption from the verification rules for funds paid pursuant to a court order or settlement is removed.
- The process for engaging an agent for verifying a client's identify has been revised.

Model Trust Accounting Rule [\(link to text\)](#)

This new Model Rule prohibits the use of trust accounts for purposes unrelated to the provision of legal services. It helps prevent the misuse of trust accounts for money laundering.

What's New?

- Legal professionals can only deposit into a trust account and withdraw from a trust account money that is **directly related to the provision of legal services**.
- Money in a trust account must be paid out **as soon as practicable** upon completion of the legal services.

Refer to the [Guidance document](#) prepared by the Federation of Law Societies of Canada for more detailed information on the updated Model Rule requirements.