



SOURCE OF FUNDS

Financial transaction? You need to know the source of funds.

When you are engaged in or giving instructions about a financial transaction on behalf of a client, you must obtain and record, with the applicable date, information about the source of the funds being used for the transaction. This is part of your obligation to verify the identity of a client and applies whether your client is an individual or an organization. **(Rule 134.8(2)(a))**

Source of funds

“Source of funds” means the economic activity or action generating the funds being used for the transaction. Examples include savings from salary, insurance proceeds, inheritance, proceeds from the sale of property, and bank loan.

Why is information about the source of funds important?

Inquiring about the source of funds for a transaction is part of your due diligence obligations and helps you to comply with your ethical duty not to facilitate fraud, crime or other illegal conduct such as money laundering **(Code of Professional Conduct Rule 3.2-7)** and your duty to withdraw if you know or ought to know that you would be assisting your client in fraud or other illegal conduct **(Rule 135.3)**. The information you obtain will help you to assess whether the client’s legal matter and the transaction are legitimate.

What information do you need?

In many cases all you will need is the information the client provides about the source of funds. But where the information appears unusual or is inconsistent with what you know about the client’s apparent means or the circumstances of the transaction, you may need to ask additional questions,

consider whether someone other than the client is providing the funds, request supporting documents, and/or conduct your own search. If you are not satisfied that the transaction or the source of funds is legitimate, you must consider whether the Code of Professional Conduct or the Rules requires you to withdraw or decline to act. In all cases, you should retain supporting documentation that shows how you arrived at your determination.

Recording the information

You must record the information in the client file or in your firm's client identification and verification system.

Red Flags

Detailed information about red flags that might indicate money laundering or other illegal activity is available in "*Risk Assessment Case Studies for the Legal Profession*" available on the [website](#) of the Federation of Law Societies of Canada.