

# Suspicious Transaction Reporting in the Legal Sector

## Common Typologies, Case Examples and Suspicious Transaction Reports Trends

Date: May 2026

### 1. Introduction

**Suspicious Transaction Reporting (“STR”) is an important part of preventing money laundering and terrorist financing in the legal sector.** The law requires legal professionals to report suspicions under Hong Kong legislation, including the *Organized and Serious Crimes Ordinance (Cap. 455)*, the *Drug Trafficking (Recovery of Proceeds) Ordinance (Cap. 405)*, and the *United Nations (Anti-Terrorism Measures) Ordinance (Cap. 575)*.

In simple terms, **a report must be made to the Joint Financial Intelligence Unit (“JFIU”) whenever a lawyer knows or suspects that:**

- **property represents the proceeds of crime; or**
- **property is related to money laundering or terrorist financing.**

A transaction **does not have to be completed** for an STR to be required. If concerns arise during discussions, due diligence, or preparatory work, the obligation to report may arise.

It also **does not matter whether the firm receives or holds the money.** An STR may still be required even if no funds pass through the firm’s client account. For example, a prospective client approaches a law firm to act on the purchase of a high-value property. During initial enquiries, the client gives vague explanations about the source of funds and refuses to provide supporting documents. No money is paid, and the firm decides not to accept the instructions.

The obligation applies **as soon as a lawyer forms a suspicion**, including situations where the firm:

- decides not to act for the client,
- stops acting part-way through a matter, or
- rejects the transaction because of money laundering/terrorist financing concerns.

In simple terms, **the law focuses on what the lawyer knows or suspects**, not on whether the transaction goes ahead or whether the firm handles the money. Once a suspicion arises, an STR should be considered and filed if appropriate, even if the client relationship or transaction ends at that point.

## 2. STR Statistics from the Legal Sector

Number of STRs filed by law firms:

	Legal Professionals	Accounting Professionals	TCSPs	Estate Agencies	DPMS
2019	810	18	91	74	20
2020	807	16	104	93	25
2021	597	9	162	92	10
2022	681	13	190	113	6
2023	677	10	161	79	14
2024	1128	11	234	142	12
2025	962	16	676	161	27

## 3. Common STR Typologies in the Legal Sector

### (a) Real Estate Property Purchase

Around **70%** of STRs filed by law firms involve property transactions, mainly where the property was bought without a mortgage from a financial institution. The common factors that triggered the filing of STRs included where:

- The client was unable to provide a clear and credible explanation of how they obtained the funds (source of funds) for the transaction or sufficient supporting evidence was not provided by the client (such as income records, business activities, or asset sales) to substantiate the source of the funds for the transaction.
- The transaction involved the payment of the purchase price by a third party with no apparent connection to the client or the underlying transaction; and
- The client, or the client’s close associate (such as family member) or beneficial owner, was linked to adverse or negative news relating to financial crime, corruption, or other illicit activities.

## Scenario 1: Property Purchase without Mortgage Financing

### Typology

Law firms frequently report suspicious property transactions where **high-value real estate properties are purchased without mortgage** from a bank or financial institution, particularly where the client is unable or unwilling to explain the source of funds.

### Case Example

A client purchased a real property at a consideration exceeding **HKD 70 million** without obtaining any mortgage financing. Despite the firm's seeking explanation on the source of funds/wealth and follow-up enquiries, no satisfactory information was provided regarding the source of funds. In view of the unexplained wealth and transaction size, the firm filed an STR.

### Key Risk Indicators

- High-value property purchased outright with no financing
- Insufficient or vague source of funds explanations
- Refusal or failure to provide supporting documentation

## Scenario 2: Adverse News Related to a Client or its Associates

### Typology

During customer due diligence ("CDD"), law firms frequently identify **adverse media or negative intelligence** relating to clients or their close associates through open-source searches. Where such adverse information raises concerns about the legitimacy of the client's source of funds or wealth, and the client fails or refuses to provide satisfactory clarification, law firms may form a suspicion and submit an STR.

### Case Example

A law firm acted for a client in the sale of a residential property at a consideration of approximately **HKD 18 million**. Open-source searches revealed that the client was the spouse of an individual who had previously been convicted of a criminal offence in another jurisdiction. In the absence of satisfactory clarification regarding the source of funds from the wife, the firm filed an STR with the JFIU.

## Key Risk Indicators

- Adverse media relating to the client's close associate (spouse)
  - Lack of reasonable explanation or supporting evidence for source of funds
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## (b) Third-Party Payments, Use of Offshore Entities

### Typology

STRs are commonly filed where payments for real estate property or high-value assets/property are settled by **third parties with no apparent relationship to the client**, and the source of funds cannot be verified.

### Case Example 1: Sale and Purchase of a High-Value Asset Involving Third-Party Funding

A law firm acted as stakeholder for approximately USD 1.5 million in connection with a vessel sale and purchase transaction. The balance of the purchase price, amounting to approximately USD 6 million, was to be funded and paid by the buyer and an unrelated third party prior to completion and delivery of the vessel.

During the course of CDD, the firm sought to verify the source of funds for the purchase. However, it was unable to obtain sufficient information or documentation to satisfactorily establish the origin and legitimacy of the funds, including those contributed by the third party.

In light of the significant value of the transaction, the involvement of a third-party funder, and the lack of transparency regarding the source of funds, the firm formed a suspicion and submitted an STR.

### Key Risk Indicators:

- Significant transaction value
- Third-party funding with no clear connection to the transaction
- Lack of reasonable explanation or supporting evidence for source of funds

### Case Example 1: Use of Offshore Companies in Sale and Purchase Transactions

A law firm acted as stakeholder for a deposit of USD 1.5 million in connection with the sale and purchase of a high-value movable asset, namely a vessel.

The transaction involved three offshore corporate entities:

- **The seller:** an offshore company holding legal title to the vessel
- **The original buyer:** an offshore company that was the commercial purchaser and intended source of funds
- **The nominated buyer:** a separate offshore company designated by the original buyer and named as the contractual buyer in the sale and purchase agreement

Under the transaction structure, the nominated buyer was recorded as the buyer in the sale and purchase documentation. However, the balance of the purchase price, amounting to approximately USD 13.5 million, was to be funded and paid by the original buyer, rather than the nominated buyer. During the course of CDD, the firm sought to verify the source of funds for the purchase. In particular, the firm noted that:

- The entity identified as the contractual buyer (the nominated buyer) was not the party providing the purchase funds; and
- The funds were to be remitted by a different offshore entity (the original buyer), creating a disconnect between the documented buyer and the source of funds.

The firm was unable to obtain sufficient information or documentation to satisfactorily establish the origin and legitimacy of the funds, including the rationale for the use of a nominee structure and third-party payment arrangement. In light of:

- the significant value of the transaction;
- the use of multiple offshore companies;
- the discrepancy between the contractual buyer and the actual funding party (third-party funding); and
- the lack of transparency regarding the source of funds,

the firm identified multiple money laundering red flags, formed a suspicion, and submitted an STR.

**Key Risk Indicators:**

- Complex offshore structure: multiple offshore entities with a nominee buyer obscuring the true purchaser
- Third-party funding: purchase funded by a different entity than the contractual buyer
- Unexplained or insufficient explanation of the source of funds
- Large transaction combined with offshore vehicles indicating concealment risk

### **Case Example 3: Sale and Purchase Transactions involving Third Party**

A law firm acted as stakeholder in connection with a cross-border transaction involving the sale and purchase of a vessel, holding a deposit of USD 3.3 million. The transaction involved an offshore company acting as the buyer. However, both the deposit and the anticipated balance of the purchase price, amounting to approximately USD 30 million, were to be funded and paid by a separate offshore company on behalf of the buyer (a third-party).

In the course of conducting CDD, the firm sought to verify the source of funds for the acquisition. The funding arrangement involved a third-party payer, distinct from the contracting buyer, and raised queries regarding the underlying commercial rationale for this structure. Notwithstanding these enquiries, the firm was unable to obtain sufficient information or documentation to satisfactorily establish the origin and legitimacy of the funds.

From an AML perspective, the transaction presented a number of risk indicators, including:

- the use of offshore entities in a high-value cross-border transaction;
- a discrepancy between the contractual purchaser and the entity providing the funds; and
- a lack of transparency in relation to the source of funds and the rationale for the third-party payment arrangement.

Having regard to the above factors, the firm formed a suspicion of potential money laundering and submitted an STR.

#### **Key Risk Indicators:**

- Complex offshore structure: multiple offshore entities with a nominee buyer obscuring the true purchaser
- Third-party funding: purchase funded by a different entity than the contractual buyer
- Unexplained or insufficient explanation of the source of funds
- Large transaction combined with offshore vehicles indicating concealment risk