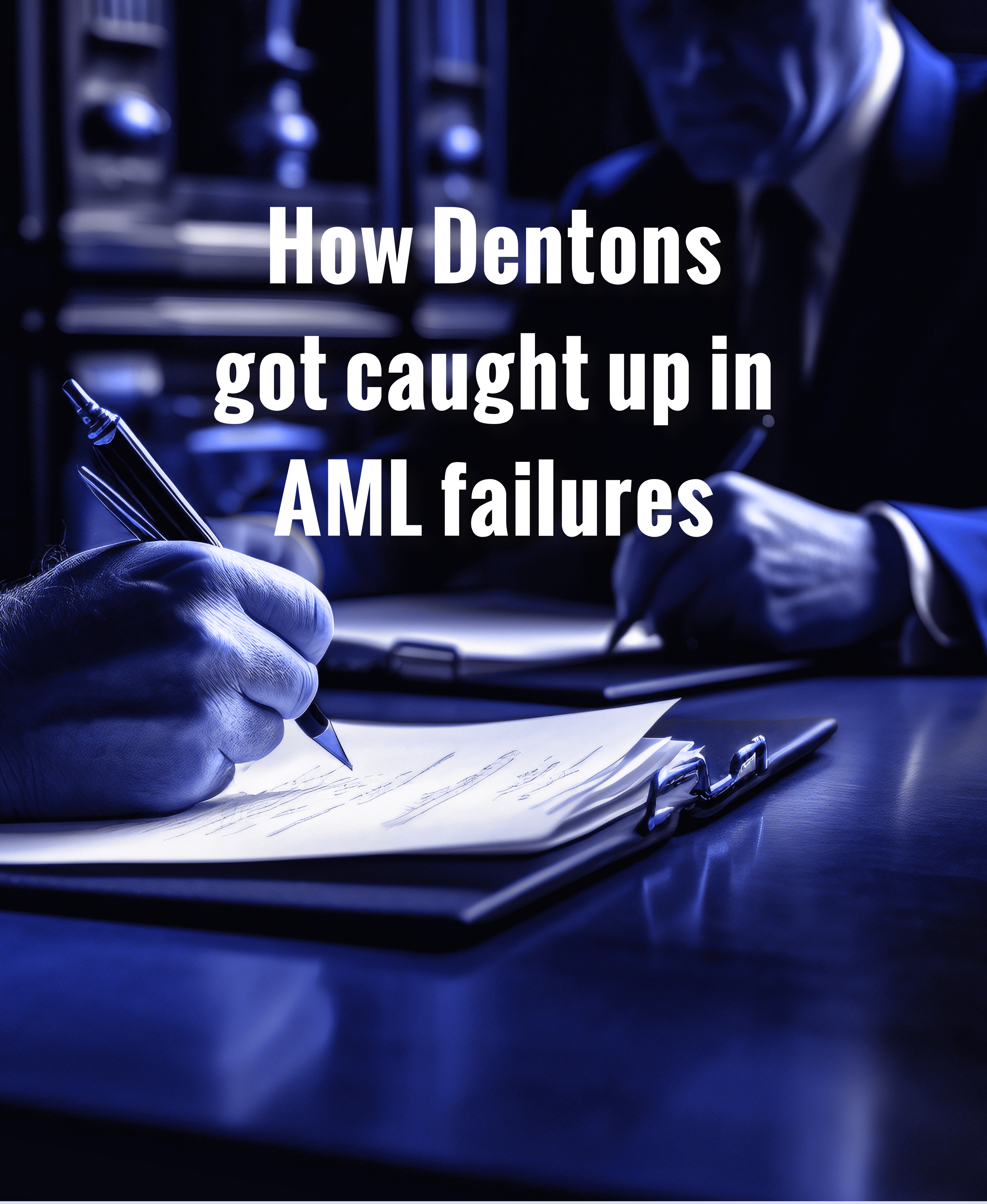

How Dentons got caught up in AML failures

VinciWorks

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Dentons, the largest law firm in the world, had to defend itself against allegations from the SRA that it breached anti-money laundering (AML) regulations when acting for a client. The issue is still being decided - the firm was convicted, then the case was dismissed but now the SRA is appealing. But the apparent AML failings have proven to be a disaster for the firm.

What happened?

It all started when Dentons merged with Salans, a smaller firm with an international presence, in 2013. Salans had a number of clients it brought onboard including one that was solely represented by its chairman, Francois Chateau.

Chateau's client had a chequered profile. He hailed from a country with an impressive record of corruption, a history of money laundering and no transparency. What's more, the client had been a chairman of a bank that was partly owned by this state.

There is no record of Chateau's client due diligence. In fact when Denton's risk and compliance officer expressed concerns over Chateau's client's plans to buy a bank in the UK, Chateau wrote a memo to the compliance officer stating that he was untrustworthy, showed poor judgement and didn't know what he was doing.

The relationship eventually ended after 4 years in 2017. Chateau's client was jailed then for laundering billions of dollars through his bank as part of a massive embezzlement scheme. There were charges of kidnapping too. The problems started for Denton's because according to the SRA there was nothing - no file notes - dating from when the client was absorbed by Dentons. This indicated that there was no due diligence or ongoing monitoring done on this client at the time or after.

In fact, when SRA investigators confronted Chateau, he said it was not in European culture to ask about a client's finances and it was impolite to ask them about their salaries. At the time, the SRA noted that Chateau appeared to be hostile to anyone asking him to carry out even the simplest compliance checks.

What exactly did the SRA say Dentons did wrong?

The SRA said it was the firm's responsibility to do background checks on the client's source of wealth and funds and that it failed to comply with its legal and regulatory obligations.

The client, who could not be named because of confidentiality issues, was clearly high risk and potentially a politically exposed person (PEP). In acting for a PEP, Dentons failed to take adequate measures to establish his source of wealth and source of funds.

In court, the SRA's barrister stated that "all regulators know what PEP is", as someone who holds power and influence in a country and is at a greater risk for potential involvement in bribery and corruption.

The SRA added that Chateau's approach to conducting due diligence on his client was the "exact opposite" of what was required. He took an "entrepreneurial" approach to establishing the source of the client's wealth and had little respect for opposing views.

Where the case stands now

The Solicitors Disciplinary Tribunal (SDT) dismissed the allegations against Dentons. It accepted Denton's argument that the SRA's allegations of insufficient checks on the client's source of wealth and funds was not based on money laundering regulations that were in place at the time.

The SRA is appealing that decision which means the High Court will ultimately rule on whether Dentons' breach of the AML rules is professional misconduct.

What does this mean for Dentons?

Nothing good. Even if the High Court upholds the SDT's dismissal of the case, the firm was connected to serious financial crime. It takes a long time to undo that kind of reputational damage.

This case is one that should cause law firms to take notice. Each of the elements in this case - inherited clients, relying on solicitors who have personal relationships with those clients and not having an AML framework in place - is enough to get a firm in legal or reputational trouble. In combination, it's even more troubling.

The red flags

There were some big ones here that were hard to overlook:

- High-risk jurisdiction
- Lax regulatory oversight
- Lack of transparency
- PEP
- Connection to a state-owned financial institution
- Personal relationship between client and solicitor

Each of these red flags on their own would be enough to trigger a KYC check. Together they would give most firms pause to think about enhanced due diligence.

Could Dentons have avoided this?

In a word, yes.

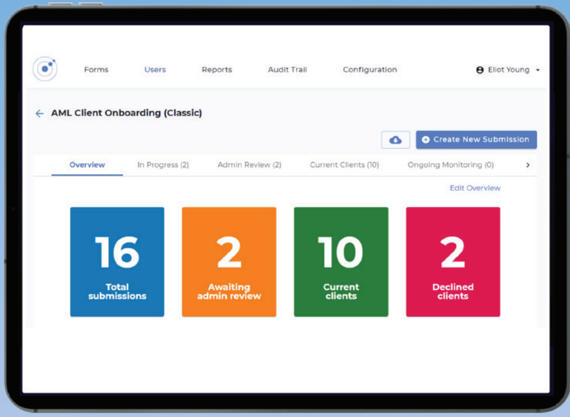
It seems that at Dentons, there was no AML framework or if there was one, it was not being followed, which points to a weak AML system. Chateau said it was impolite to ask about money but if there was a standard process - and even better if it was automated - he would have had no choice but to do checks on his client. As noted above, there were some serious red flags raised here but there was no system that overrode personal relationships and had to be followed. The result is this law firm got caught up in a really serious financial crime.

A strong and also flexible AML system is what firms need when the SRA comes knocking at their doors.

How would an automated AML system make a difference?

An automated AML framework with best practice workflows means that there is an efficient process with fewer opportunities for human error, real time monitoring so there is automated detection of suspicious transactions and a system that is bigger than the people running it.

VinciWorks' AML Client Onboarding Solution - Omnitrack



Ensure seamless AML compliance across your firm with Omnitrack's adaptive client onboarding solution. Our platform streamlines risk assessments, client due diligence, and ongoing monitoring, offering unparalleled flexibility and industry-specific guidance.

Omnitrack, VinciWorks' AML client onboarding solution enhances both the risk assessment and document collection aspects of client onboarding. Our template workflows adapt to the specific risks posed by each client, based on factors such as jurisdiction, type of entity and industry. This allows you to make informed choices about each client using the risk-based approach. Our comprehensive workflows incorporate industry-specific guidance such as LSAG for law firms.

How does your firm handle complex AML requirements?

Law firms, accountants, financial institutions, and other regulated entities face rigorous AML processes that vary by industry and jurisdiction. Static forms or outdated software pose significant compliance risks. Omnitrack's AML onboarding solution streamlines these processes with adaptive template workflows that adjust to client-specific risks, ensuring full compliance and informed decision-making.

Can your client onboarding process adapt to specific needs?

Omnitrack's flexibility allows firms to customise workflows to suit their unique requirements. From risk scoring to sanctions checking, our solution ensures all client details are collected, reviewed, and monitored efficiently. With features like conditional logic and industry-specific guidance, Omnitrack supports thorough client due diligence and regulatory compliance.

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