Solicitors Regulation Authority

# News release

## New report highlighting dubious investment risks leads to warning for solicitors

17 August 2020

Law firms have once again been warned about the need to be vigilant when advising on investment schemes, as a new report published today [https://higher-rights.sra.org.uk/sra/how-we-work/archive/reports/investment-schemes-that-are-potentially-dubious/] highlights examples of poor practice which is leaving people at risk of falling victim to dubious schemes.

The report looked at past cases where law firms had been found to acted on behalf of sellers of potentially dubious investment schemes. It found that in more than half (63%) of cases, solicitors had failed to carry out proper due diligence on those who ran the schemes, with no checks carried out at all in 20% of cases.

We also found that firms working on such schemes were too often focusing just on the interests of the scheme promoter and were failing to properly protect the interest of the consumers.

Following the findings of the report, and with losses reported to us linked to dubious investment schemes over recent years running into hundreds of millions, we have issued a new warning notice to the profession. This notice further updates previous warnings issued in 2013, 2017 and 2019.

The latest warning notice [https://higher-rights.sra.org.uk/solicitors/guidance/investment-schemes-including-conveyancing/] makes it clear, among other issues, that solicitors must watch out for:

- Transferring funds through their client account, without the transactions being connected to any underlying legal work
- Doing no real legal work and legal fees are being generated when they are not necessary
- Dubious or risky schemes being presented as routine conveyancing or investment in "land" when the reality is very different
- Schemes labelled as for example mini-bonds, but are in fact speculative investments promising a high return and the buyers' money is not being used in the way the seller it says it will

**Paul Philip, SRA Chief Executive**, said: “Dubious investment schemes result in very significant financial losses for consumers and we will continue to take robust action where we find solicitors are involved. While most solicitors would never willingly participate in such schemes, those that do, whether knowingly or not, lend a veneer of credibility which sellers can exploit to help persuade people that their offer is legitimate. Not only does that harm those who buy into these schemes, it undermines confidence in the profession as a whole.

“Our new review looks at the types of schemes we are seeing, what sort of firms get involved and how that happens. It sets out how schemes change and who they target. We are also publishing an updated Warning Notice. In my view, these are required reading for all firms.

“Importantly, we know that dubious scheme operators look at the warnings we and other regulators issue and adapt accordingly. Solicitors must never be complacent – stay up to date, do your due diligence and if in any doubt, do not get involved.”

Our report looked at a sample of 40 cases where a solicitor’s involvement in dubious investment schemes had reported to it up to 2019. Based on common characteristics found among these, the warning notice has highlighted a series of ‘red flags’ which law firms should watch out for when considering investment opportunities. These include:

- high deposits paid in instalments before exchange
- overly complex and unfair agreement terms
- sellers asking to namecheck firms in marketing material
- sellers asking firms to hold buyers' funds in their client account
- buyers being mainly from a different country to the location of the scheme

In the last five years, we have taken 48 solicitors and two firms to the Solicitors Disciplinary Tribunal for involvement in investment schemes, resulting in 16 strike offs, eight suspensions and £870,000 worth of fines.