



December 10, 2018

Expert Panel on Money Laundering
RealEstate.MoneyLaundering@gov.bc.ca
Submitted in person

RE: Proposal for risk assessment on money laundering in real estate

The British Columbia Real Estate Association (BCREA), the professional association for BC's 11 real estate boards and 23,000 REALTORS®, is committed to supporting the government's efforts to better understand where real estate transactions may be vulnerable to organized crime. As part of this commitment, BCREA welcomes the opportunity to provide REALTOR® input into the Expert Panel on Money Laundering by commissioning an independent risk assessment of real estate transactions. **The purpose of the risk assessment is to better understand at what stages real estate transactions are most vulnerable to criminal exploitation, the role REALTORS® play in each stage of a transaction, and how REALTORS®' Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) reporting duties help mitigate risk.**

Background

The Expert Panel on Money Laundering was appointed by Minister of Finance Carole James with the goal of reviewing public submissions, existing legislative framework, best practices in other jurisdictions and work that is currently underway by the BC government to prevent money laundering in real estate.

The panel is seeking public participation until December 14; however, BCREA has asked to commission an independent risk assessment to understand vulnerabilities in real estate transactions. BCREA's deadline for submitting findings to the panel is the end of February. BCREA is allotting a budget of \$25,000 for this process.

Compliance requirements

A FINTRAC review of cases between 2007 and 2011 found that real estate is one of the top businesses exploited for money laundering. Eighty-four per cent of fraud cases and 68 per cent of drug cases disclosed to FINTRAC involved real estate. To date, there are no known cases of money that has been laundered and subsequently traced back to a real estate transaction in which a REALTOR® failed to meet their FINTRAC compliance duties. Based on current FINTRAC requirements, REALTORS® are required to do the following:

- Each brokerage is required to identify a compliance officer who is responsible for identifying risk, creating a policy manual, training REALTORS® and checking documents. The compliance officer may be a separate role in a brokerage or they may be the managing broker.
- Each licensee is required to identify and report suspicious transactions to FINTRAC.

- At least every two years, every brokerage must conduct a risk assessment of their brokerage to identify the level of risk the brokerage is exposed to based on questions about things like the number of cash transactions they handle and percentage of international clients they deal with. Based on these questions, brokerages self-identify as low, medium or high risk. Then they must document what they do to mitigate this risk.
- Every two years, each brokerage must do an internal audit to review the effectiveness of their policies and procedures, their risk assessment and their training program.

BCREA timeline

BCREA is working to understand the areas of vulnerability in real estate and support managing brokers and licensees in better understanding and meeting their FINTRAC reporting duties to overcome these vulnerabilities. Below is a summary of BCREA's involvement:

Government reviews	Support for REALTORS®
<ul style="list-style-type: none"> • On October 2, BCREA reached out to Attorney General David Eby to assist in the Expert Panel on Money Laundering in Real Estate and Peter German's investigation into money laundering, horse-racing and luxury cars. • On October 16, Minister Eby responded that both Mr. German and Ms. Maloney would be interested in our participation. • On October 19, BCREA wrote to Minister Eby and Minister James, responding that we welcome the opportunity to participate. • On November 22, BCREA reached out to Ms. Maloney, suggesting that the panel extend the December 14 submission deadline to allow BCREA to commission a detailed independent risk assessment of real estate transactions to identify vulnerabilities. • On December 4, Dan Perrin responded to BCREA, agreeing to extend the deadline for submissions to the panel to the end of February. 	<ul style="list-style-type: none"> • On September 19, FINTRAC staff made a presentation at the BCREA Advocacy Exchange: Conference for Managing Brokers, and subsequently provided written answers to the many questions asked. • On October 5, BCREA and the Canadian Real Estate Association met with FINTRAC in Ottawa. • In October, BCREA revised an online FINTRAC course for REALTORS®. • Throughout October and November, BCREA has been in contact with FINTRAC to better understand opportunities to improve REALTOR® compliance.

Scope and focus of proposal

BCREA proposes commissioning an independent auditor to conduct a risk assessment of the process of both a residential and commercial transaction. The auditor will be asked to assess

different risk aspects and risk mitigation strategies at each stage of the real estate transaction and provide any recommendations.

Using a residential real estate transaction as an example, considering each stage of the transaction, some possible areas of focus could include:

At Listing – When the initial contract to sell the property is entered into by the seller and the licensee:

- What risks are associated with current FINTRAC reporting requirements for sellers?
- Are sellers and any third parties involved in the transaction adequately verified by way of government-issued identification, credit file or dual identification process?
- Are there measures in place to allow licensees to carry out a sufficient client risk assessment for sellers through FINTRAC and/or through brokerages?
- Are FINTRAC's guidelines related to identifying suspicious transactions sufficient?
- What are risks associated with over- or undervalued property?
- What are risks with properties that undergo short-term resale?
- Are there properties that are more susceptible to risks?

At Receipt of an Offer – When the buyer enters into agency with a licensee, the seller receives a Contract of Purchase and Sale, a contract is accepted and the deposit payment is made (if not on completion of due diligence):

- What risks are associated with current FINTRAC reporting requirements for buyers?
- Are buyers and any third parties involved in the transaction adequately verified by way of government-issued identification, credit file or dual identification process?
- Are there measures in place to allow licensees to carry out a sufficient client risk assessment for buyers through FINTRAC and/or through brokerages?
- What are the risks involved in a large unexplained geographic distance between the buyer and the location of property?
- How is the use of a third party, such as a friend, relative, business associate, lawyer or legal entity, assessed at this stage?
- What risks exist when receiving the deposit payment?

At Due Diligence – When the buyer removes all subjects from the contract and the deposit payment is made (if not on acceptance of the offer):

- What risks exist when subjects are removed without support being provided by independent organizations such as financial institutions?
- How is the use of a third party, such as a friend, relative, business associate, lawyer or legal entity, assessed at this stage?
- What risks exist when receiving the deposit payment?

At Completion – When the transaction is concluded with the assistance of legal professionals and when funds transfer from the buyer to the seller:

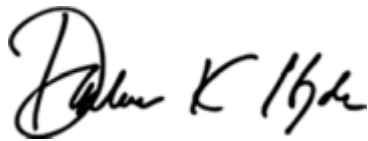
- What are the geographic risks involved in the use of international banks, and what tools do licensees have to assess these risks?
- What are the risks associated with transferring title to a buyer who will not be present in person at possession?
- What is the role of other professionals, such as lawyers and conveyancers, in identifying suspicious activity?

At Possession – When the property title is transferred to the buyer and they take possession:

- How is the use of a third party, such as a friend, relative, business associate, lawyer or legal entity, assessed at this stage?
- Are other stakeholders within the transaction equipped to identify signs of money laundering, including licensees, managing brokers, brokerage owners and compliance officers?

At the conclusion of the audit, BCREA will summarize the audit findings and provide the panel with recommendations for best practices to address the identified vulnerabilities in the real estate industry.

Sincerely,

A handwritten signature in black ink, appearing to read "Darlene K Hyde". The signature is written in a cursive, flowing style.

Darlene K. Hyde
Chief Executive Officer

Enclosures (3)



BRITISH COLUMBIA
REAL ESTATE
ASSOCIATION

October 2, 2018

Honourable David Eby, Q.C., MLA
Attorney General
Room 232, Parliament Buildings
Victoria, BC V8V 1X4

Sent by email: AG.minister@gov.bc.ca

Dear Minister,

RE: Money laundering review

The British Columbia Real Estate Association (BCREA) supports your recently-announced review into money laundering in real estate and other sectors. We are deeply concerned that real estate may be vulnerable to abuse by organized crime, and are pleased with your focus on identifying the scale and scope of verifiable illicit activity.

Since learning of REALTORS®' compliance deficiencies with their federal Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) obligations, we have begun working with FINTRAC to identify the gaps—in fact, FINTRAC representatives spoke at a REALTOR® conference we held on September 19. Our next step is to create tools for REALTORS® to help them meet the reporting requirements.

While we have compliance matters to resolve, please understand that these are administrative issues and in no way suggest that REALTORS® are complicit with illegal activities.

BCREA welcomes the opportunity to contribute to the work of the Expert Panel on Money Laundering in Real Estate and the second phase of Peter German's review. Please contact me directly to let us know how we can be involved (dhyde@bcrea.bc.ca; 604.742.2787).

BCREA is the professional association for about 23,000 REALTORS® in BC, focusing on provincial issues that impact real estate. Working with the province's 11 real estate boards, BCREA provides continuing professional education, advocacy, economic research and standard forms to help REALTORS® provide value for their clients.

1420 – 701 Georgia Street W, PO Box 10123, Pacific Centre, Vancouver, BC V7Y 1C6

President James Palanio
Past President Jim Stewart

President-Elect Michael Trites
Chief Executive Officer Darlene Hyde

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Hon. David Eby
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October 2, 2018

To demonstrate the profession's commitment to improving Quality of Life in BC communities, BCREA supports policies that encourage economic vitality, provide housing opportunities, respect the environment and build communities with good schools and safe neighbourhoods.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Darlene K Hyde". The signature is written in a cursive, flowing style.

Darlene Hyde
Chief Executive Officer

Copies: Michael Lee, MLA – Vancouver-Langara (michael.lee.mla@leg.bc.ca)



BRITISH COLUMBIA
REAL ESTATE
ASSOCIATION

October 19, 2018

Honourable David Eby, Q.C., MLA
Attorney General
Room 232, Parliament Buildings
Victoria, BC V8V 1X4
Sent by email: AG.minister@gov.bc.ca

Dear Minister,

RE: Money laundering review

Thank you for your letter of October 16, putting the British Columbia Real Estate Association (BCREA) in touch with Peter German.

We welcome the opportunity to provide insights into Dr. German's review of money laundering in the real estate sector. We will reach out to Dr. German this week, and will also connect with Minister James regarding the Expert Panel on Money Laundering in Real Estate.

BCREA supports both of these efforts to learn about the possible vulnerabilities of the real estate market to money laundering. Please contact me directly if we can be of assistance to you in any way (dhyde@bcrea.bc.ca; 604.742.2787).

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Darlene Hyde
Chief Executive Officer

Copies: Michael Lee, MLA – Vancouver-Langara (michael.lee.mla@leg.bc.ca)
Dr. Peter German

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BRITISH COLUMBIA
REAL ESTATE
ASSOCIATION

October 19, 2018

Honourable Carole James, MLA
Minister of Finance and Deputy Premier
Room 153, Parliament Buildings
Victoria, BC V8V 1X4

Sent by email: fin.minister@gov.bc.ca

Minister James,

RE: Expert Panel on Money Laundering in Real Estate

The British Columbia Real Estate Association (BCREA) supports the reviews into money laundering in real estate and other sectors that were announced at the end of September. We are deeply concerned that real estate may be vulnerable to abuse by organized crime, and are pleased with your focus on identifying the scale and scope of verifiable illicit activity.

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Hon. Carole James

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October 19, 2018

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Yours sincerely,

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Darlene Hyde

Chief Executive Officer

Copies: Shirley Bond, MLA – Prince George-Valemount (shirley.bond.mla@leg.bc.ca)
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Donna Barnett, MLA – Cariboo-Chilcotin (donna.barnett.mla@leg.bc.ca)