



FINTRAC's AML/TF Real Estate Sector Presentation

September 19, 2018
British Columbia Real Estate Association
Vancouver, BC

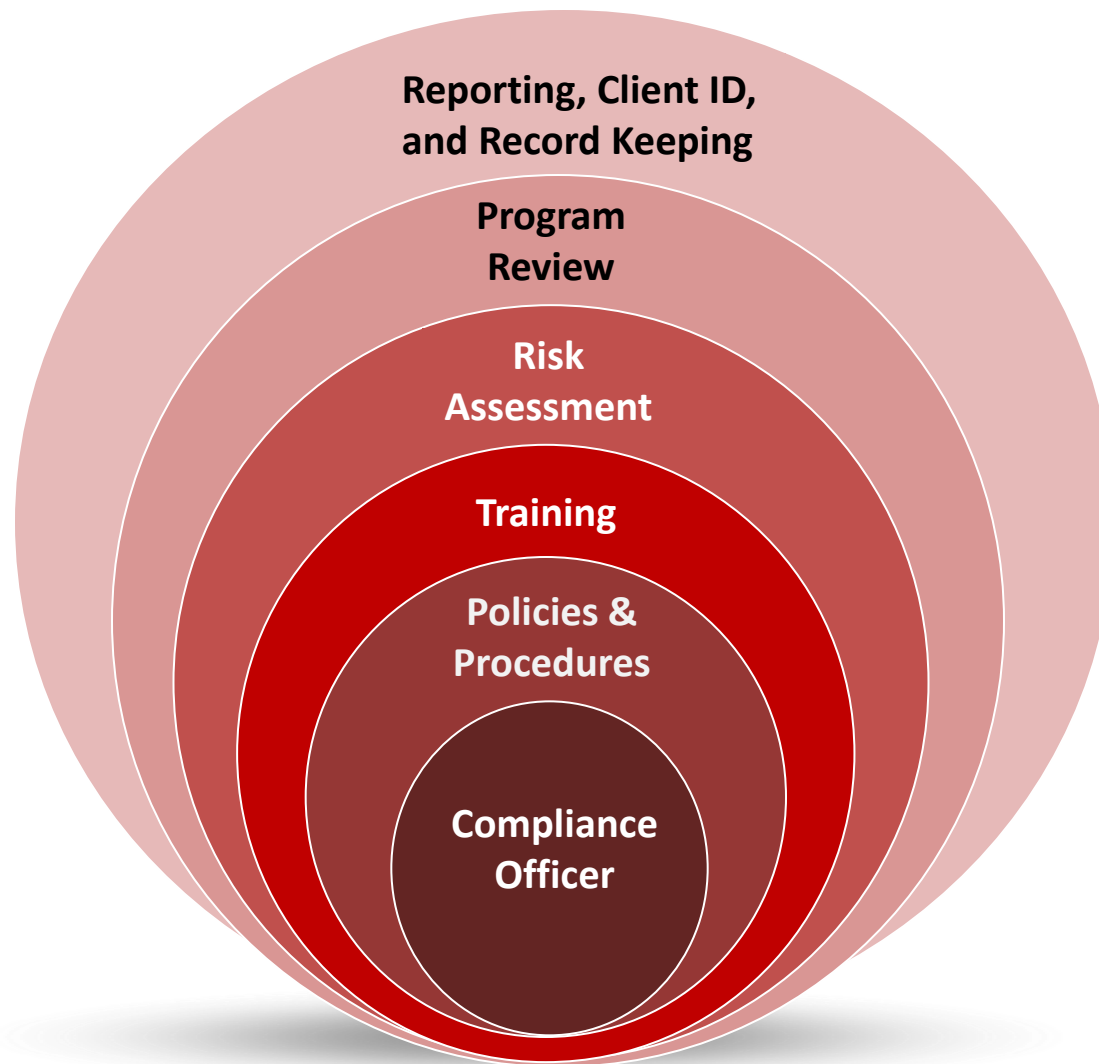
Outline

- FINTRAC's "Compliance ➡ Intelligence"
- Obligations
- Compliance Observations
- Suspicious Transaction Reporting
- Submitting high quality reports to FINTRAC

Compliance Intelligence

- Effectiveness of AML/ATF Regime = Ability of Reporting Entities (REs) to submit high quality and timely reports
- FINTRAC's approach to ensuring compliance
 - **Collaborative approach** to ensure continual supply of financial intelligence
- Reporting Entity's role
 - **Implement effective compliance programs** to detect and mitigate risks
 - **Submit** high quality and timely reports

Obligations Overview



Compliance Observations

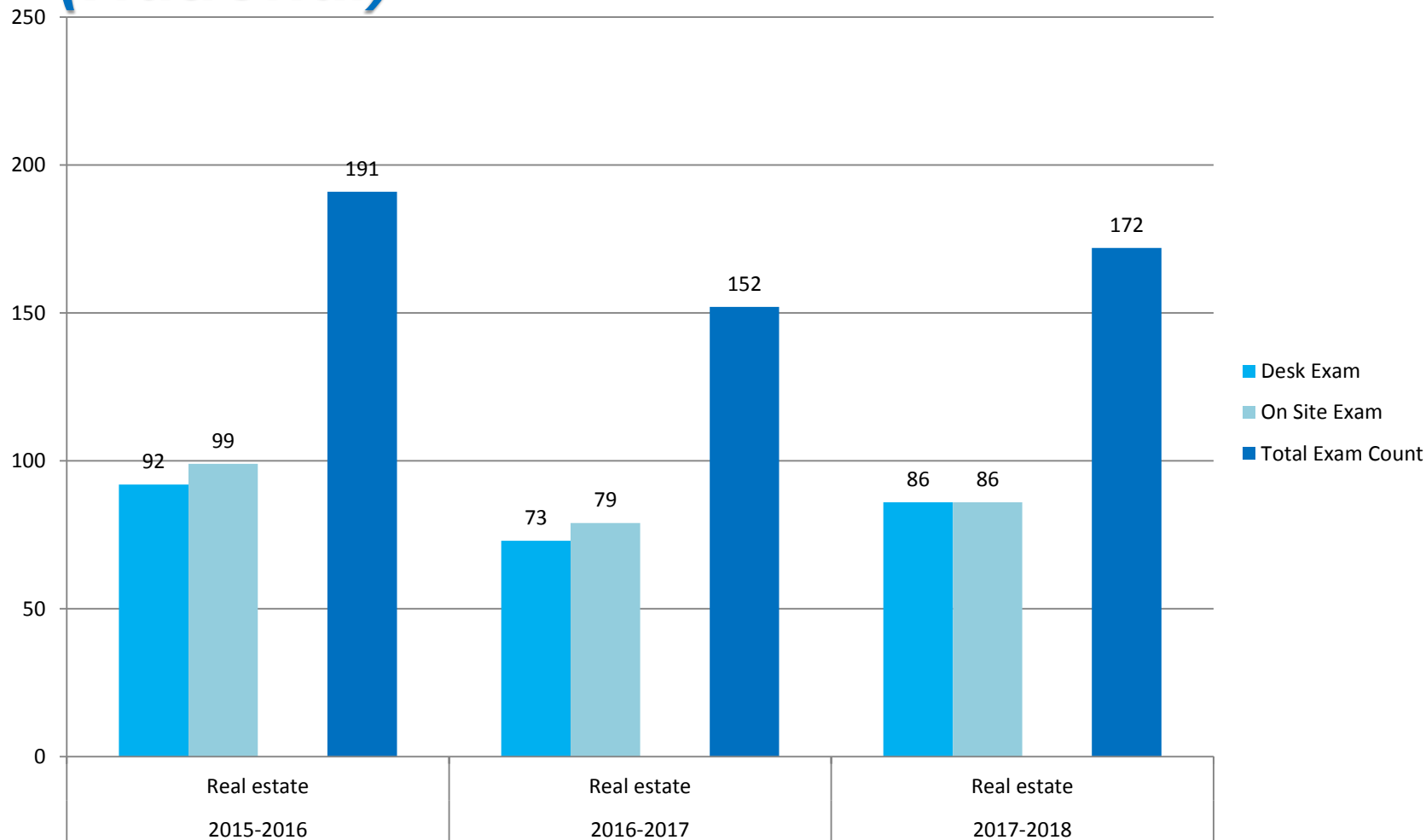


Common Deficiencies:

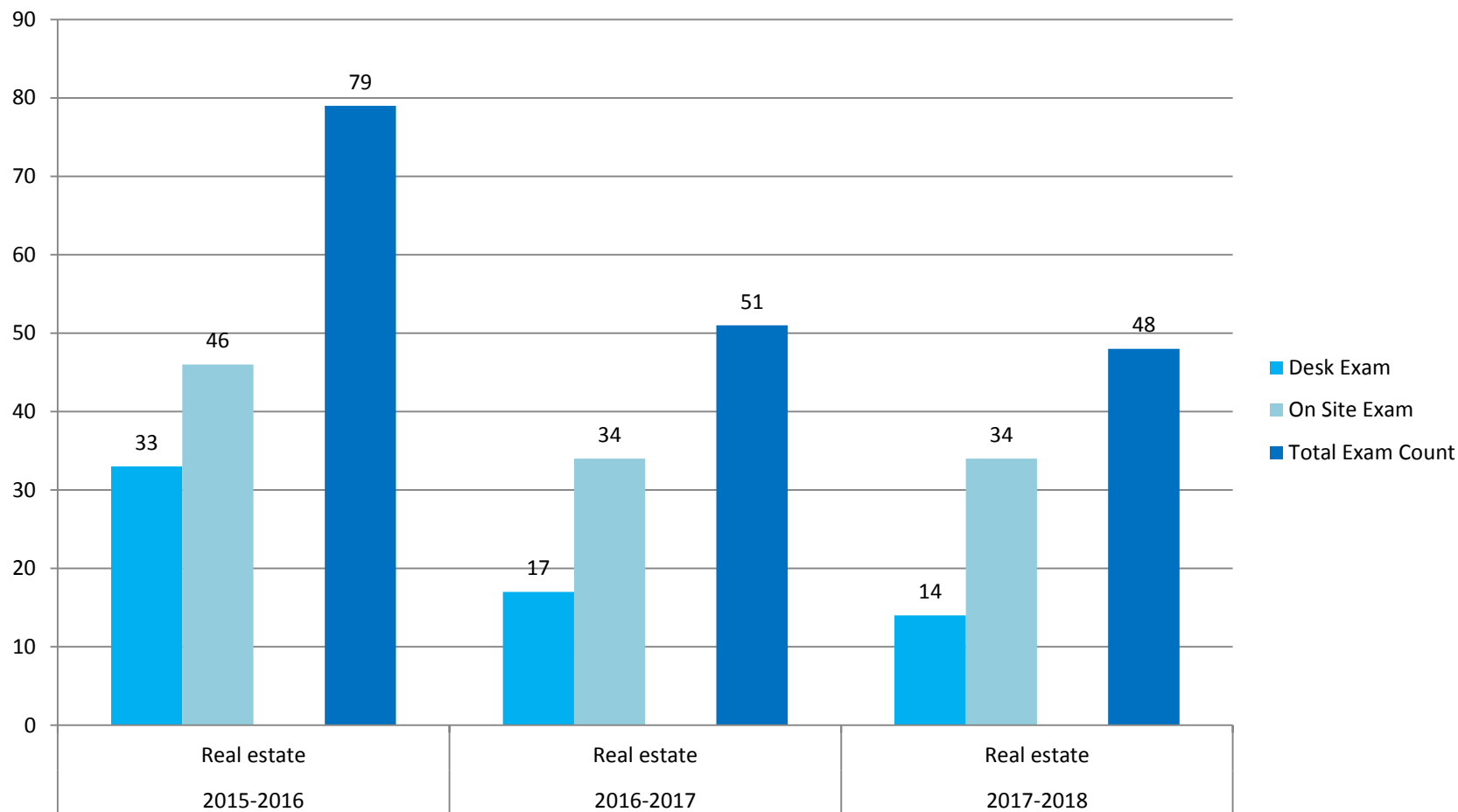
- Policies and Procedures
- Risk Assessment
- Training Program
- Two Year Effectiveness Review
- Client ID and Record Keeping

Number of Real Estate Exams (National)

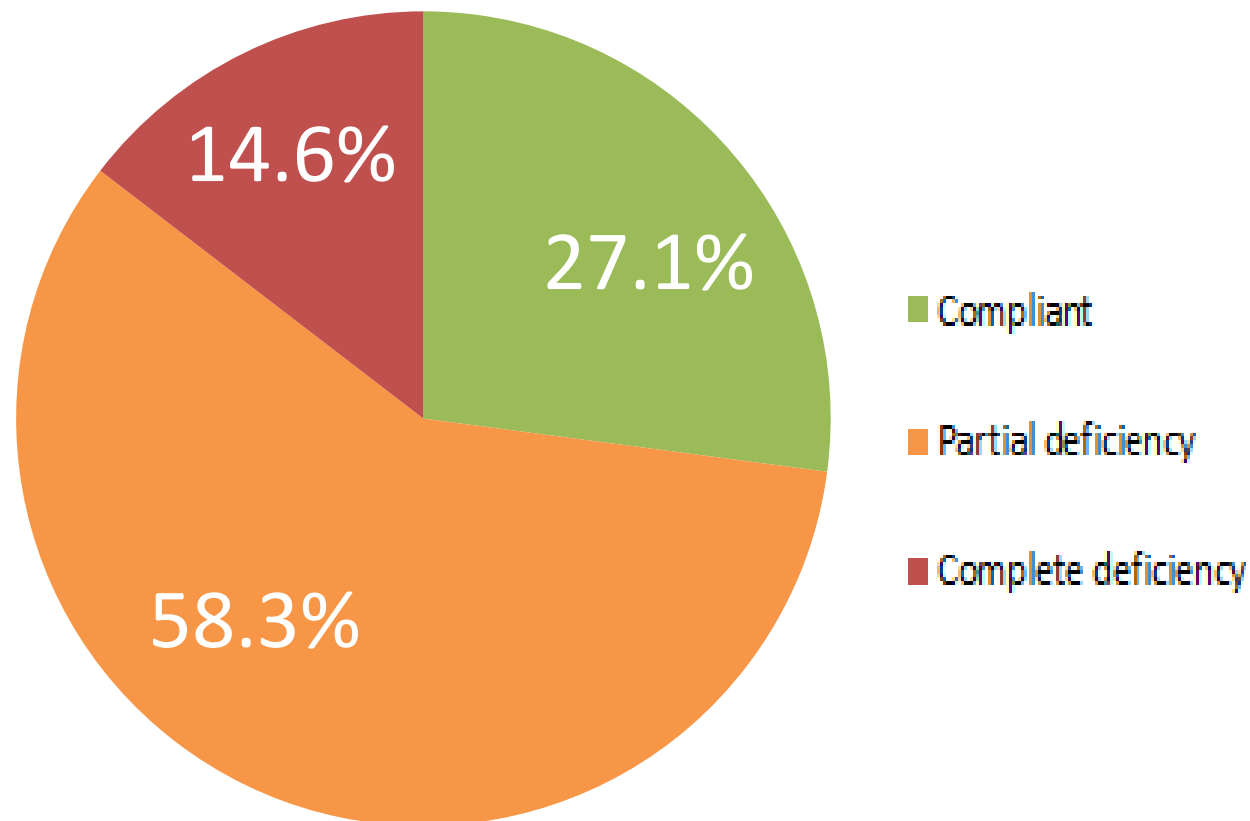
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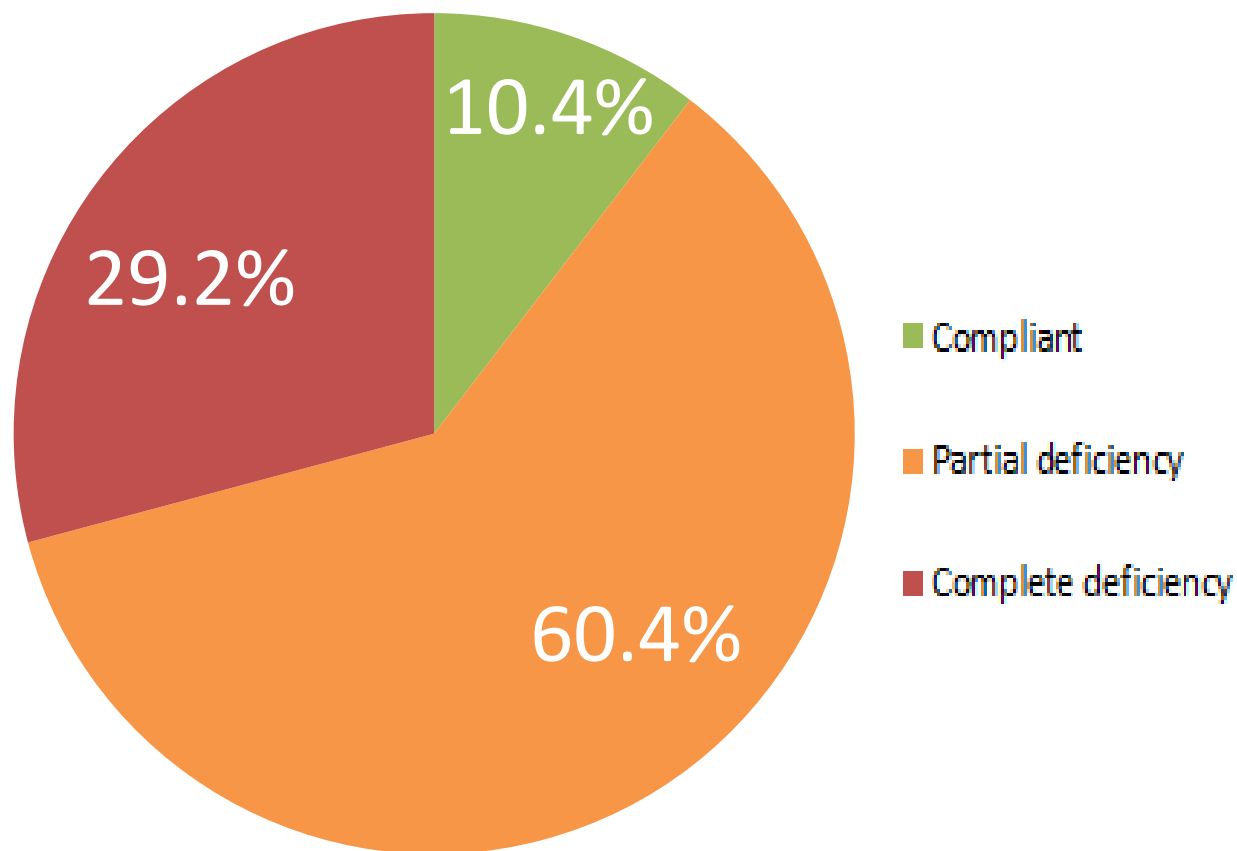
Number of Real Estate Exams British Columbia



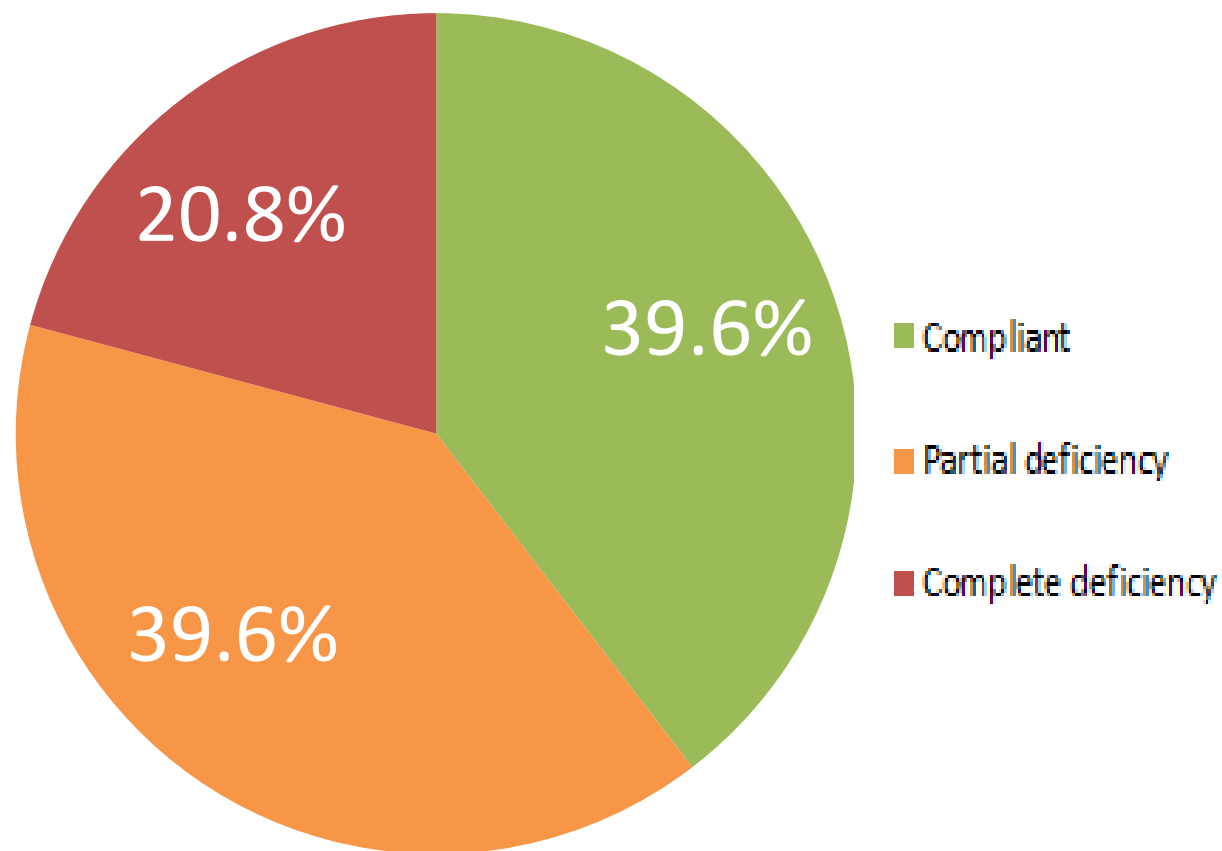
Policies and Procedures Deficiencies - 2017-2018



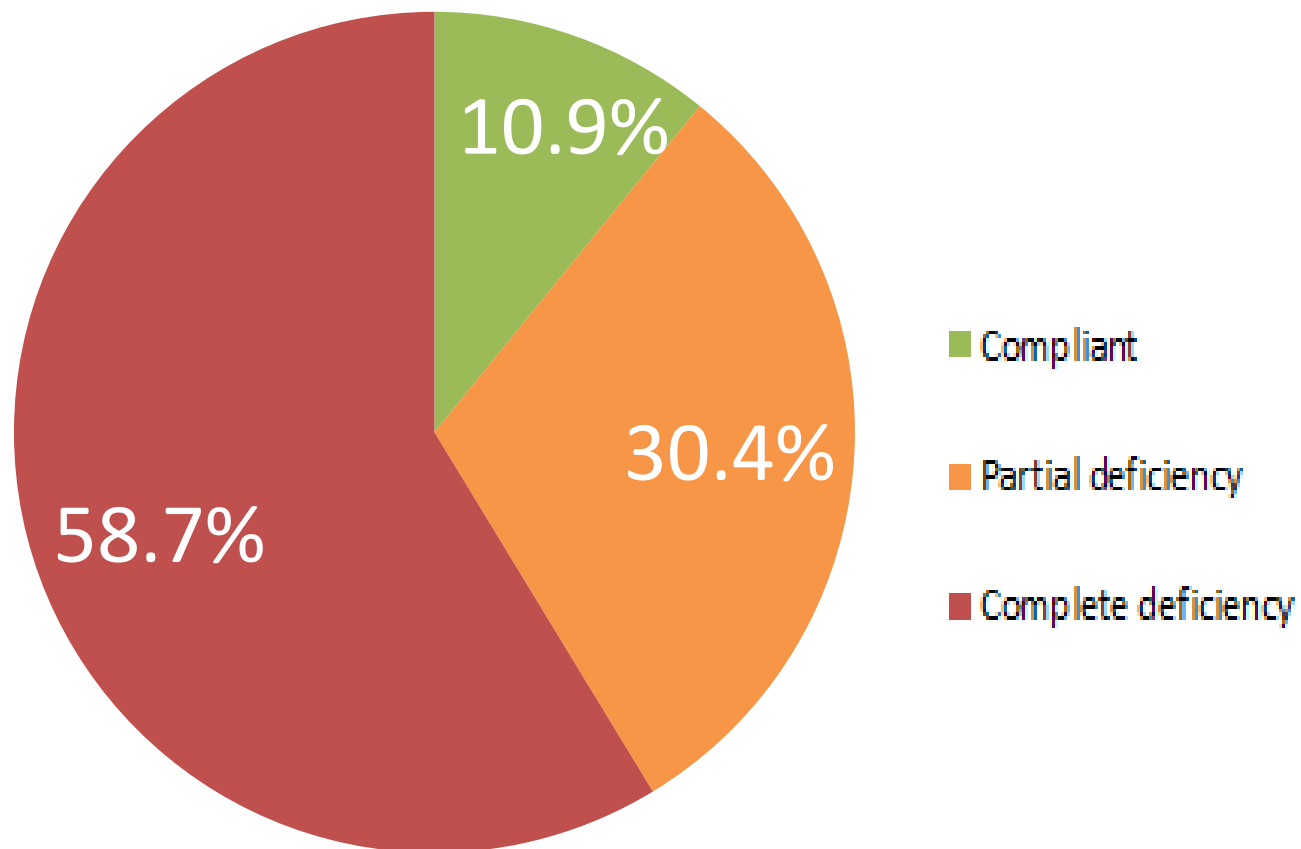
Risk Assessment Deficiencies – 2017 – 2018



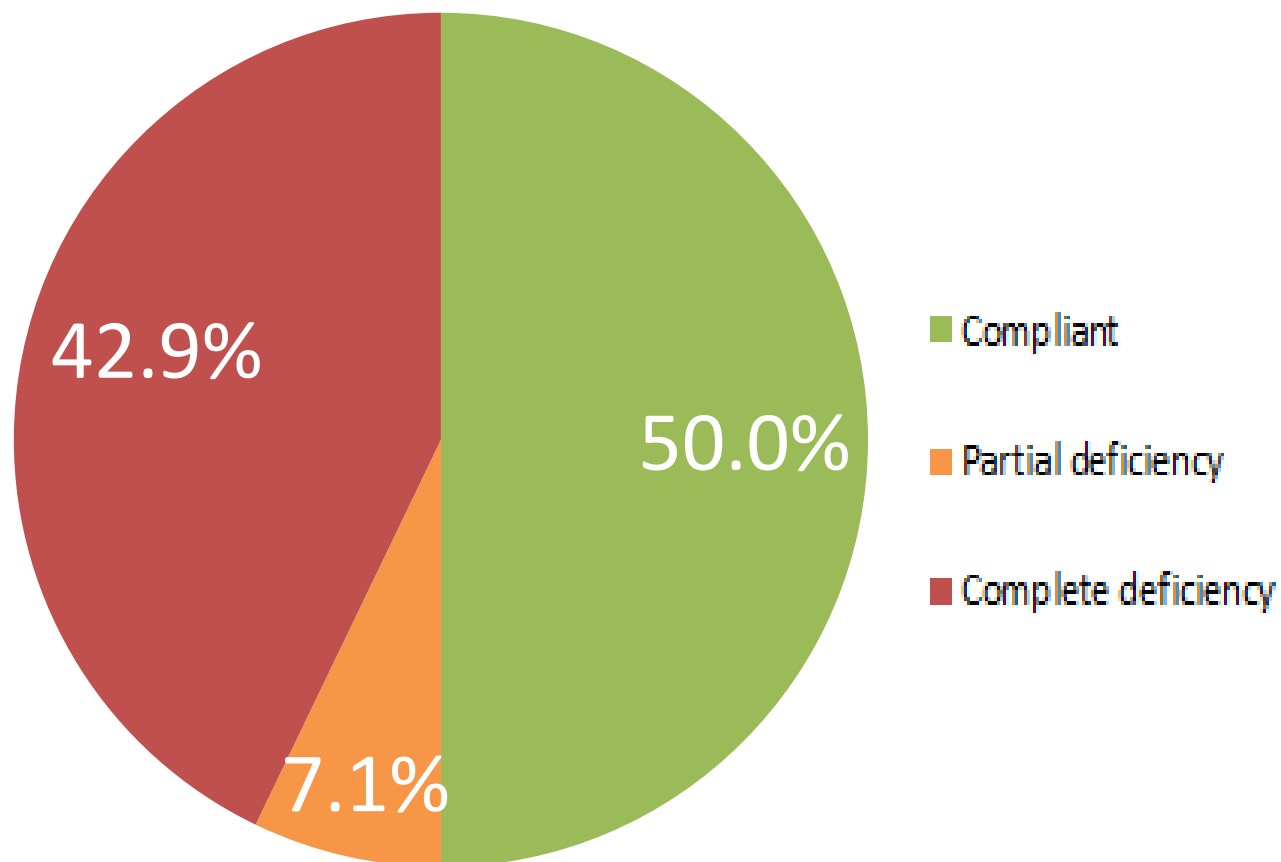
Training Program Deficiencies – 2017-2018



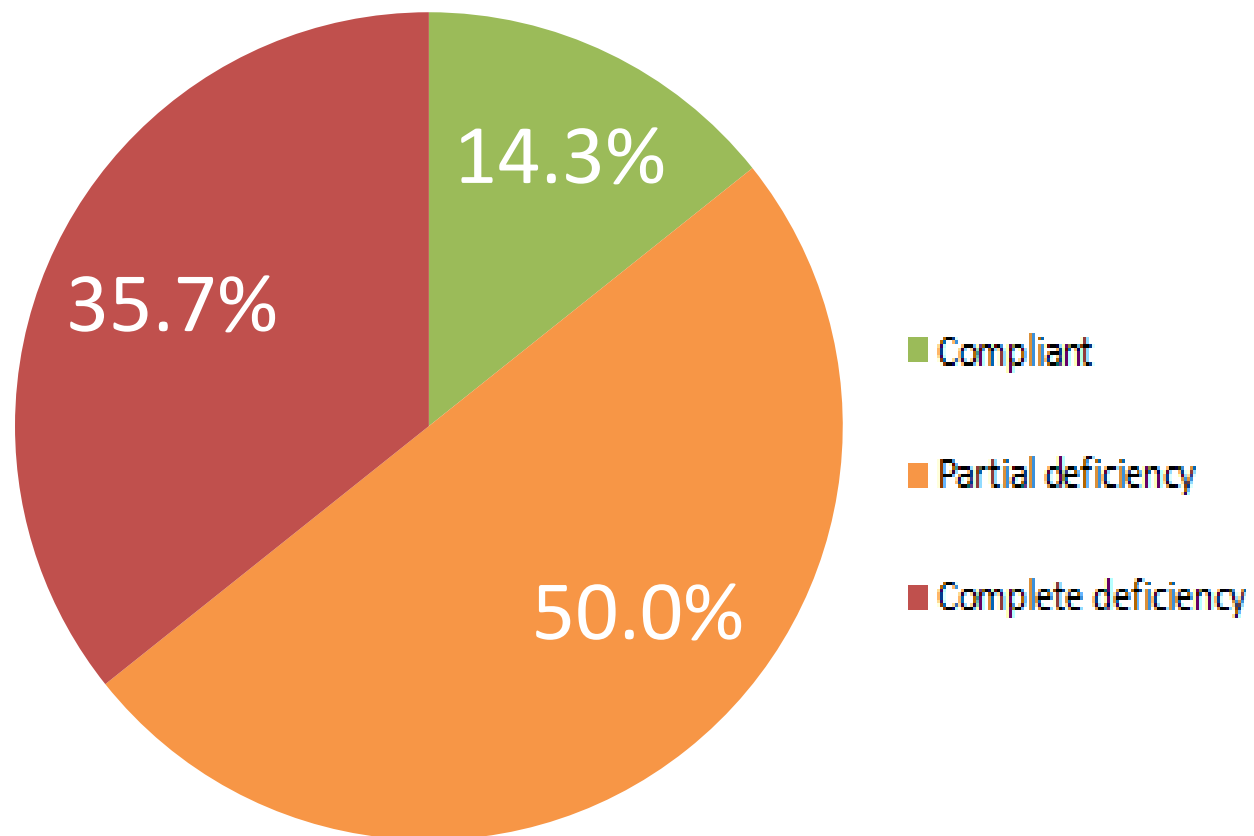
Two Year Review Deficiencies - 2017-2018



Client ID Deficiencies – 2017 - 2018



Record Keeping Deficiencies – 2017-2018



FINTRAC Sounds Alarm On ‘Deficiencies’ At Over 100 B.C. Real-estate Companies

- “FINTRAC, through its compliance examinations, has observed deficiencies in most aspects of the real estate sector’s compliance programs that render it more vulnerable of being used by criminals to launder illicit funds.”
- “FINTRAC received, during the 10-year period (2003 to 2013), 127 suspicious transaction reports nationally by real estate brokers, agents or developers,” the agency added.
- “Minimal filings of suspicious transaction reports regarding real estate transactions indicate a clear need for operational guidance to all relevant reporting entities.”

Source: *Mortgage Broker News: November 22, 2016*

**MORTGAGE
BROKERNEWS.ca**



Real Estate in the Media 2018

Money Laundering Vulnerabilities

**MORTGAGE
BROKERNEWS.ca**

**“B.C. real estate particularly vulnerable to money laundering – FINTRAC”
Published: July 31, 2018**



THE GLOBE AND MAIL

**“How Chinese gangs are laundering drug money through Vancouver real estate”
Published: April 19, 2018**



Financial Action Task Force

Suspicious Transaction Reporting

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- STRs are the key output of a reporting entity's compliance regime.
- STRs add value to tactical and strategic analysis by providing objective context to the transaction(s) being reported.
- An adequate compliance regime and governance is necessary for fulfilling suspicious transaction detection and reporting obligations.



When to Submit an STR

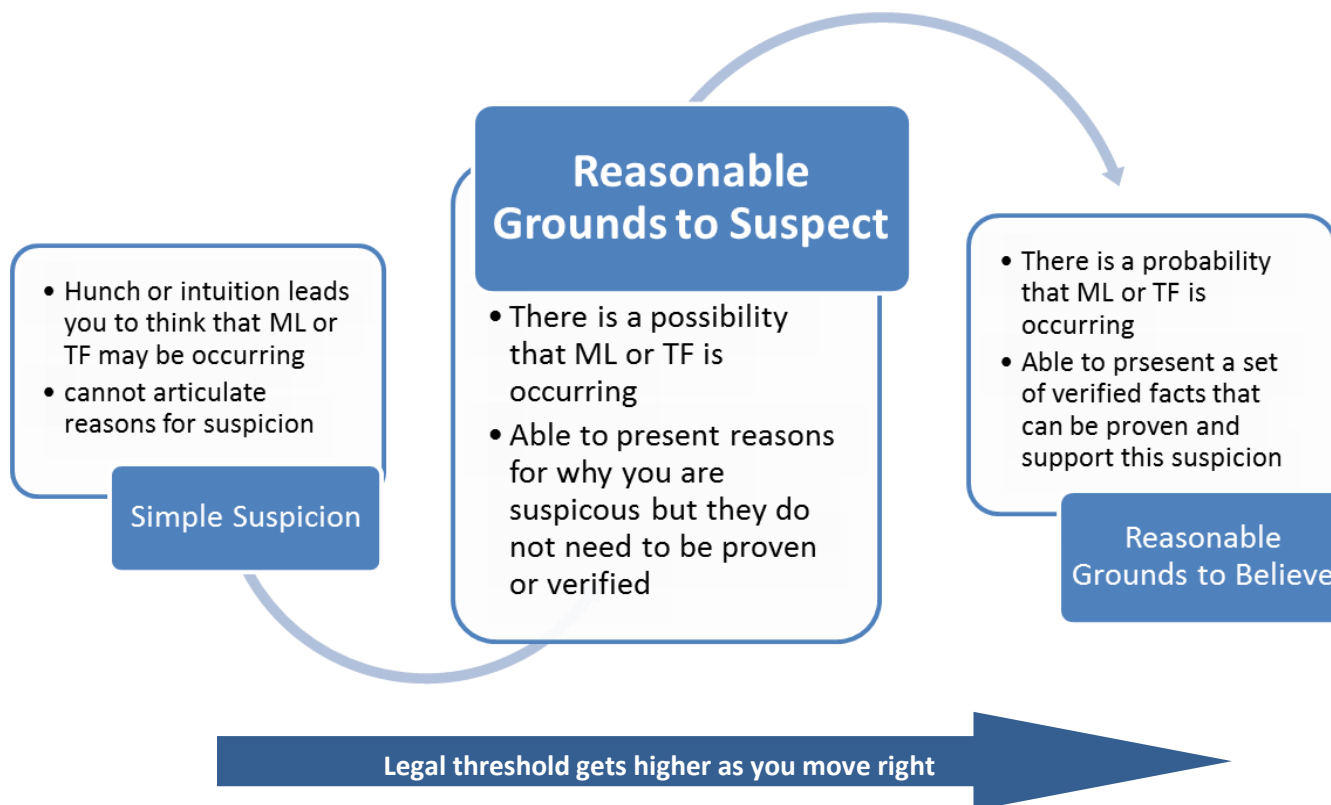
An STR should be submitted when there are **reasonable grounds to suspect** that a financial transaction is related to the commission of a **money laundering** and/or **terrorist activity financing offence**

- Completed or attempted transactions
- No monetary threshold
- Includes all transactions that contributed to the suspicion

Reasonable Grounds to Suspect

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A legal threshold reached through considering several facts including financial transaction(s) occurring in the course of your business, and the context around those transaction(s)



Common Myths – STR Reporting

- ***“We don’t take cash, therefore we are not vulnerable to money laundering and this doesn’t apply to us.”***
- Refusing cash reduces risk but **does not** eliminate risk.
- Real estate transactions are most vulnerable to **layering** and **integration stage**

Common Myths – STR Reporting

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- “If I have suspicions about a client’s transaction, I won’t be allowed to complete the transaction. I will lose the business.”
- “The client will find out that I filed the suspicious transaction report on them.”

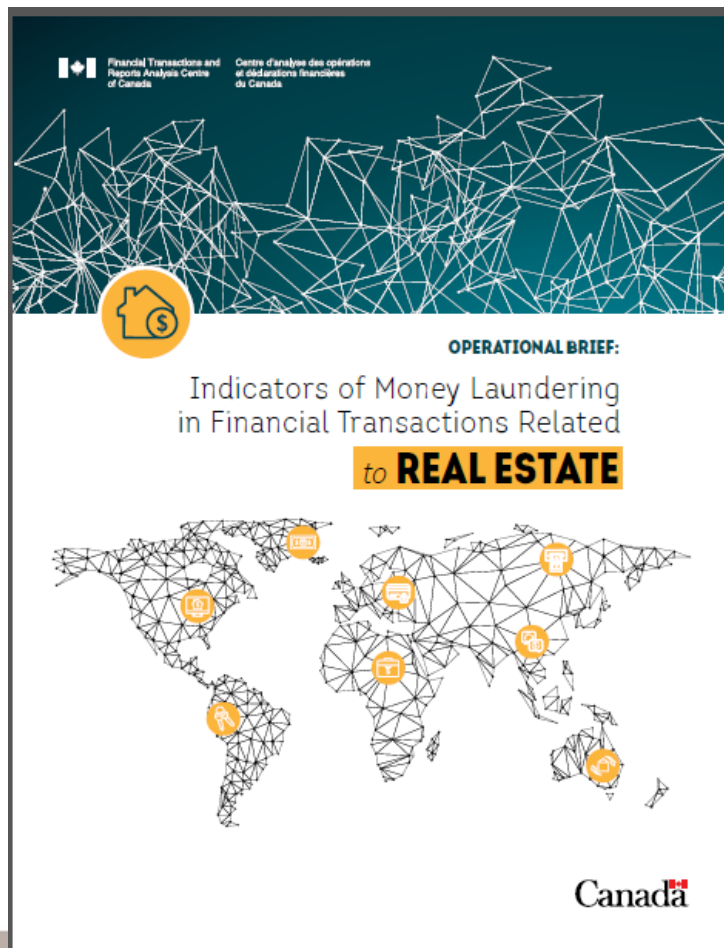


Types of Indicators

- **Transactional Indicators:** Describe a transaction or multiple transactions. For example:
 - Multiple sources of financial instruments being used (i.e. bank drafts, wires, cash)
 - Multiple deposits are made to a client's account by third parties.
- **Contextual Indicators:** Describe a contextual circumstance around which the transaction(s) took place, which can include client behaviour, events involving the client or any other relevant facts that surrounds the transaction(s). For example:
 - Client is secretive and reluctant to meet in person.
 - You are aware or you become aware, from a reliable source (that can include media or other open sources), that a client is suspected of being involved in illegal activity.



Operational Brief – Indicators of Money Laundering in Financial Transactions Related to Real Estate



Operational Brief – Examples of Indicators

4.1 TABLE OF INDICATORS

THEME	INDICATOR
Value	Client negotiates a purchase for the market value or above, but requests that a lower value be recorded on documents, and pays the difference “under the table”.
Value	Loan/mortgage amount is above the market value of the property/real estate.
Anonymity	Client purchases property in someone else’s name such as an associate, nominee, from a company, corporation, trust or a relative (other than a spouse).
Anonymity	Client inadequately explains the last minute substitution of the purchasing party’s name.
Anonymity	Client pays initial deposit with a cheque from a third party, other than a spouse or a parent.
Anonymity	Transaction is completed anonymously, in collusion or innocently, through lawyer or notary. Deposits are made into lawyer’s or notary’s trust account.
Anonymity	Use of real estate brokers/agents/developers, lawyers or notaries, wittingly or unwittingly, to accept false personal or financial information related to any aspect of a real estate deal, or to mortgage/loans.

Operational Brief – Examples of Indicators – Cont'd

Flipping	Client buys back a property that he or she recently sold.
Flipping	Successive buying and selling transactions of the same real estate.
Transaction Speed	Client shows strong interest in quickly completing the transaction without good cause, or without interest in property characteristics, price negotiations, risks, commissions or other related details, or may offer unusually high bids relative to current value/industry standard.
Transaction Speed	Clients show considerable interest in transactions relating to buildings in particular areas without caring about the price they have to pay.
Transaction Speed	Accelerated repayment of loan/mortgage shortly after deal is completed even if penalties are incurred.
Loan	The information in the loan agreement is inconsistent or incorrect.
Loan	The conditions in the loan agreement are unusual (for example, no collateral was required) or the complex nature of the loan scheme could not be justified.
Loan	Underlying collateral is either not referenced in a loan agreement, is insufficient or fictitious or the collateral provider and other parties involved in the loan structure are not known.
Loan	Company lending the money for the purchase of real estate, possibly an offshore company, has no direct relation with the borrower.
Renovations	Invoices for real or phantom large remodelling or renovations are paid with cash.

Characteristics of a Good STR

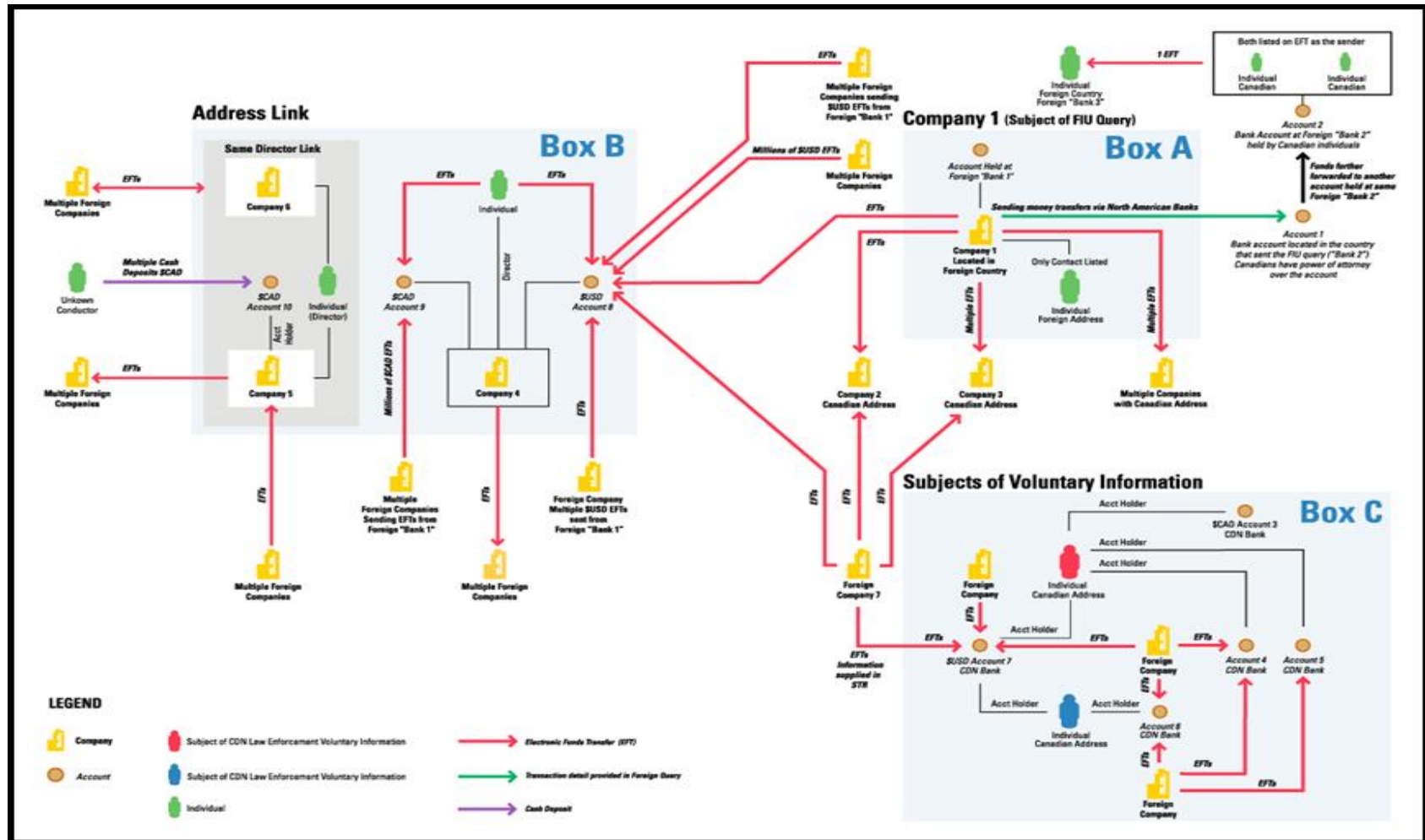
- Main STR subject is adequately identified;
- Occupation/employer information is present;
- Accurate depiction of the transaction(s);
- Time frame of financial activity is defined;
- **Part G:**
 - Presence of ML/TF indicators;
 - Potential predicate offence is identified, if known;
 - 2nd / 3rd parties are adequately identified;
 - Relationships (business or personal) are clearly defined;and
- Presence of information in **Part H**

The Value of Reporting Good Quality Reports to FINTRAC



Results of Analysis

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The value of FINTRAC's disclosures: What our Recipients are Saying

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*"The FINTRAC disclosure was **crucial to the file**. At the start of the file I was the affiant, and I relied on the disclosure in every court order, including mutual legal assistance treaties, on the file. It also was **used to corroborate information** from witnesses, and was instrumental in **explaining the flow of funds** from Company X to Company Y. Furthermore, our ability to share this detailed information with our partners **enhanced our credibility**, and helped improve our relationships with our foreign colleagues. Frankly, I don't know if we would have been able to put this case together without FINTRAC's help." — RCMP Calgary International Anti-Corruption Unit*

*"The suspicious transaction report gave **new insight** into the financial operations of Person X. The information was timely and substantive...The disclosure was positively received by other law enforcement agencies. The **timeliness of the disclosure was excellent**. The disclosure contained very relevant information which **generated several new leads** and assisted in the location of assets." — Financial Crimes Enforcement Network (FinCEN) – United States*



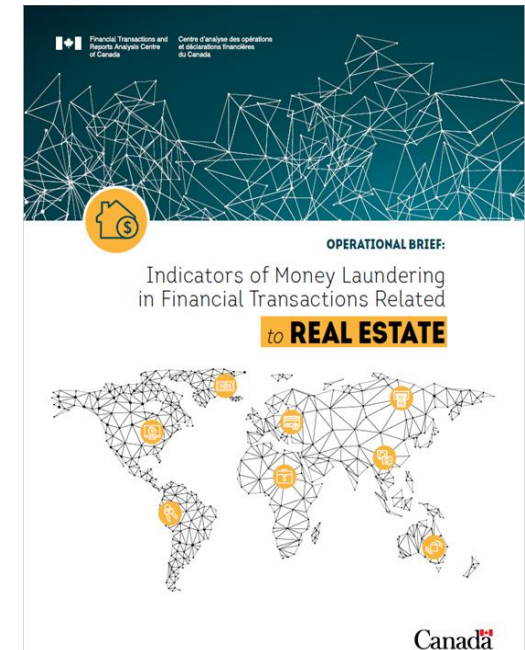
*"**Quick turnaround time** was appreciated. The disclosures provided new information of potential interest along with **account numbers not previously known**. The Service was further able to **identify additional relationships** which assisted our national security investigation. The information in the electronic funds transfers was found to provide valuable intelligence." — Canadian Security Intelligence Service*

Operational Brief (released November 14th, 2016)

- highlights key risk indicators in the real estate sector such as value, anonymity, flipping, transaction speed, geography etc.

Real Estate Workbook (released November 21st, 2016)

- provides entities/individuals with examples of how to assess and control business and relationship-based risks
- step-by-step guide to develop your risk based approach (RBA)



Goals of the PCMLTFA

Public Safety of Canadians

Protecting the Integrity of Canada's Financial System

We all have a role to play to detect and deter crime





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