



s.15(1) I.A
s.16(2)(a)
s.17
s.21(1)(a)

Sector file number/reference

Security classification

RDIMS No.
685129

Protected B
Attachment(s)

Approved by [REDACTED]	Date December 13, 2018
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MEMORANDUM

ISSUE:

Money Laundering and Real Estate in British Columbia: [REDACTED] Banking and Private Lenders

PURPOSE:

The purpose of this briefing note is to provide background and options with regards to potential FINTRAC products and/or engagements to provide information and assist in combatting proceeds of crime from being invested in British Columbia real estate.

BACKGROUND:

In its Fall Economic and Fiscal Update, the Government of Canada announced that it will be collaborating with “provincial and territorial governments” to work “together to address housing market conditions across the country, including by gathering better information on foreign ownership and by improving corporate ownership transparency. These efforts will also support ongoing initiatives to help identify and address money laundering risks in Canada’s real estate sector.”

This collaboration and work of the Federal Government will be centralized through, “a joint working group with the Province of British Columbia to examine issues related to tax fraud and money laundering in British Columbia and the Metro Vancouver region”, which is tentatively scheduled to meet for the first time in January 2019. The Assistant Director of Collaboration, Development and Research is sitting on this working group as FINTRAC’s representative, where FINTRAC will be expected to provide a coordinated, centralized substantive contribution on behalf of the Federal Government.

Through preliminary discussion on the issue with operational partners, including the RCMP, FINTRAC has begun identifying root causes and facilitation mechanisms contributing to this issue. Through these discussions, [REDACTED]

While some of the mechanisms that are employed by these underground bankers and private lenders remain outside of the formal financial system, [REDACTED]

[REDACTED] FINTRAC is well positioned to contribute to a coordinated, national response to money laundering concerns in British Columbia Lower Mainland, and is either already contributing to or helping scope out the following initiatives:

- [REDACTED] – The FINTRAC initiative to create a working group for Five Eyes FIUs is currently negotiating [REDACTED] FINTRAC has been suggesting [REDACTED] [REDACTED] FINTRAC could leverage the work done for this group to other potential initiatives.

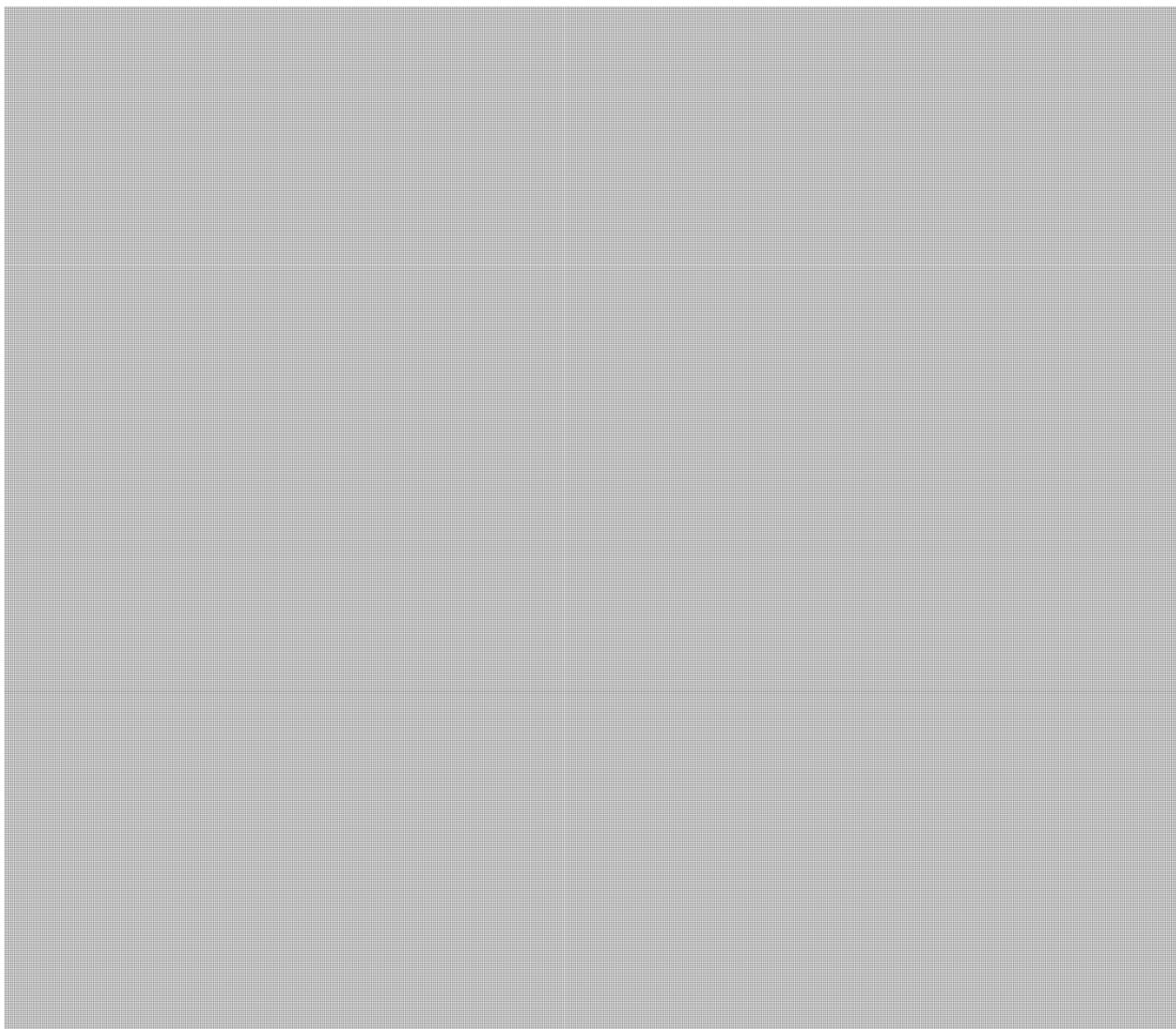
Five Eyes Law Enforcement Working Group/Money Laundering Contact Group – The RCMP participates in the Five Eyes law enforcement working group, [REDACTED]

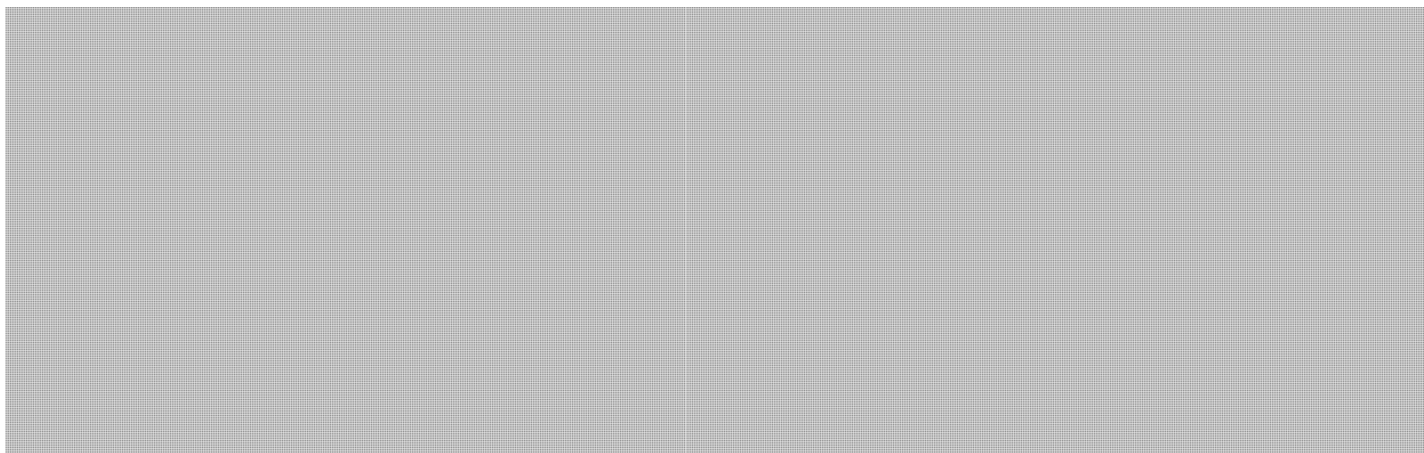
[REDACTED] The RCMP has asked FINTRAC for support in developing the strategic picture to inform the private sector.

OPTIONS:

FINTRAC has a number of mutually exclusive and mutually inclusive options it could pursue to effectively combat proceeds of crime from being invested in British Columbia real estate in the following areas: strategic research and analysis, public relations, compliance activities, tactical intelligence activities and developing a public/private partnership with implicated entities.

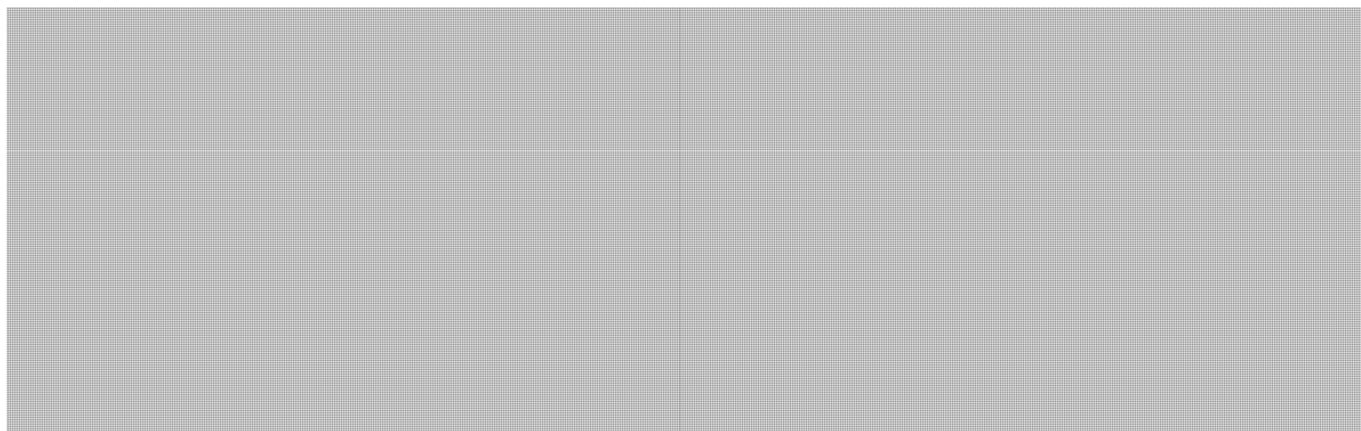
Strategic Analysis





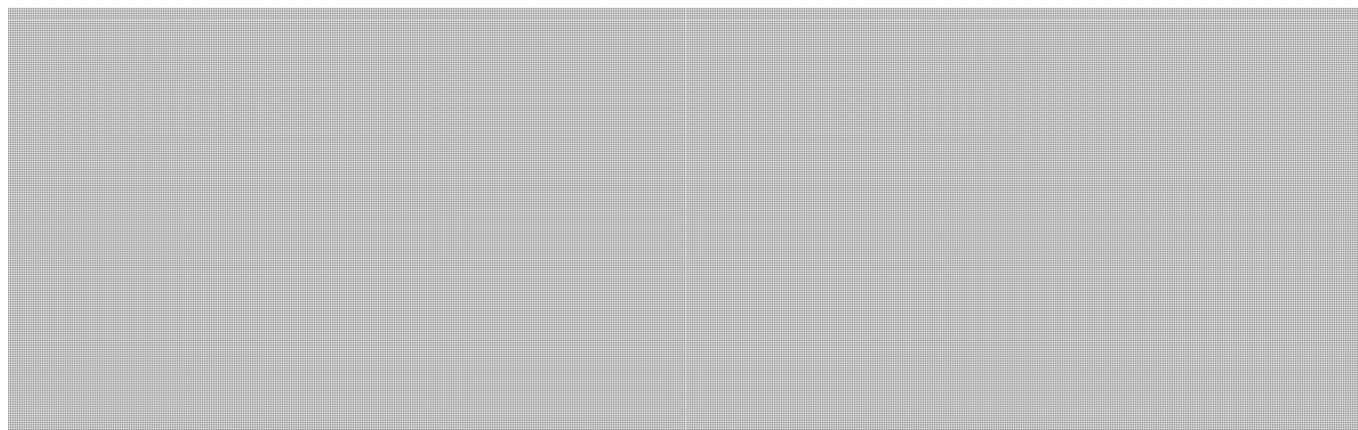
Public Relations

FINTRAC, and other partners in the AML/ATF regime, have already conducted work to mitigate this threat to Canada. This work could be better reflected in the news media, and with partners to ensure that the Canadian public and other stakeholders are aware of Federal efforts in this area. The options in this section would require some small amount of strategic analysis to ensure that work and current trends are accurately reflected.

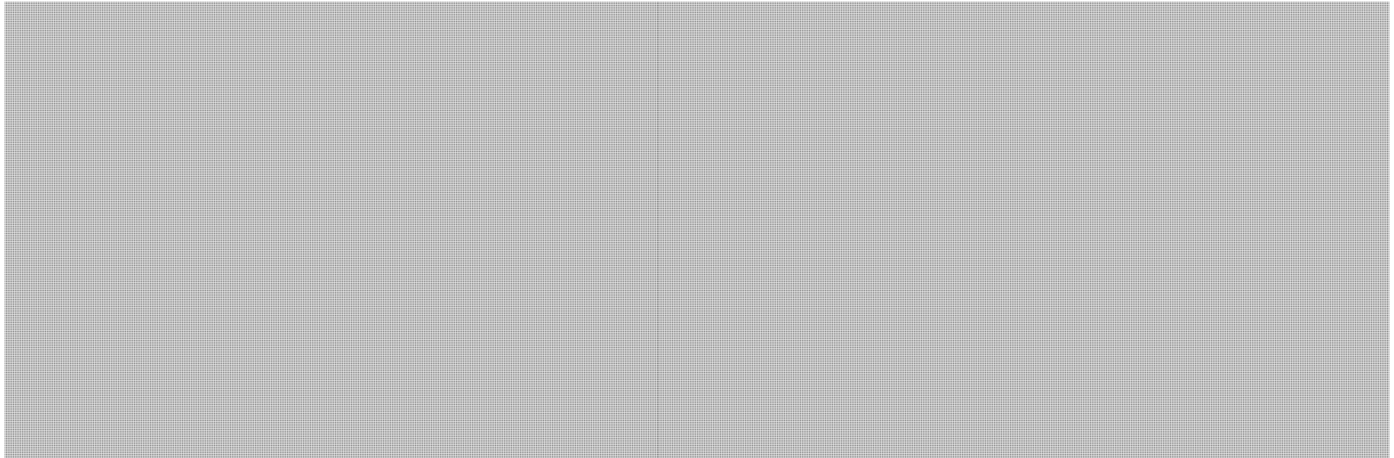


Compliance Activities

FINTRAC's compliance sector has already conducted an increase in compliance activities for the BC Real Estate sector. FINTRAC may be in a position to further scale these activities. These options would require to be informed by strategic analysis to be successful.



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Tactical Intelligence Activities

FINTRAC has already disclosed to relevant partners on numerous occasions related to money laundering in the BC Real Estate sector. There may be opportunity to scale these efforts.



Public/Private Partnerships

FINTRAC has seen heightened success in tackling major strategic issues through developing a partnership with reporting entities, law enforcement and other members of civil society to jointly combat that issue. Such a model could be applied to this subject matter. These partnerships require resourcing from those holding the relationships with other participants, and strategic analysis to facilitate communications.



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Please find below the answers to those questions posed by Finance Canada on the Real Estate sector in Canada. The questions included some 'easy-to-do' data analysis, some that we had to answer a slightly different question, and others that we are unable to answer.

The methodology utilized to create the information below was done through the creation and utilization of a term dictionary for text mining, examination of sample data for validation and application of developed methodology for the three years 2014-17. Note that because of this, we did not manually verify each transaction and the statistics quoted should be used as high-quality vectors, but not as exact numbers.

As expected, the level of reporting from entities in the Real Estate sector is fairly low in volume, as can be evidenced below:

STRs from Real Estate sector by Province, by Year

Number of STR from real estate reporting entities by provin		
RECEIVED_FISCAL_ YEAR as of june 13, 2017	PROVINCE	NUMBER _OF_STR
2014-2015	Alberta	2
2014-2015	British Columbia	4
2014-2015	Manitoba	4
2014-2015	Ontario	19
2014-2015	Quebec	1
2015-2016	Alberta	5
2015-2016	British Columbia	7
2015-2016	Manitoba	5
2015-2016	New Brunswick	1
2015-2016	Ontario	10
2015-2016	Quebec	4
2016-2017	Alberta	9
2016-2017	British Columbia	17
2016-2017	Manitoba	2
2016-2017	New Brunswick	1
2016-2017	Nova Scotia	1
2016-2017	Ontario	31
2016-2017	Quebec	28
2017-2018	Alberta	1
2017-2018	British Columbia	3
2017-2018	Ontario	10
2017-2018	Quebec	23
2017-2018	Saskatchewan	1

LCTRs from Real Estate sector by Province, by Year

LCTR received by real estate activity sector entities			
RECEIVED_FISCAL_YEAR as of june 13, 2017	PROVINCE		NUMBER_OF_LCTRS
2014-2015	Ontario		1
2014-2015	Ontario		1
2014-2015	Ontario		1
2014-2015	Manitoba		1
2014-2015	Saskatchewan		3
2014-2015	Saskatchewan		1
2014-2015	Saskatchewan		1
2014-2015	Saskatchewan		3
2014-2015	Saskatchewan		1
2014-2015	Alberta		2
2014-2015	Alberta		1
2014-2015	British Columbia		1
2015-2016	New Brunswick		2
2015-2016	Ontario		1
2015-2016	Ontario		2
2015-2016	Ontario		1
2015-2016	Saskatchewan		4
2015-2016	Saskatchewan		1
2015-2016	Saskatchewan		2
2015-2016	British Columbia		1
2015-2016	British Columbia		1
2016-2017	British Columbia		1
2016-2017	Nova Scotia		1
2016-2017	Quebec		1
2016-2017	Ontario		1
2016-2017	Ontario		1
2016-2017	Ontario		1
2016-2017	Saskatchewan		1
2016-2017	Saskatchewan		1
2016-2017	Saskatchewan		1
2017-2018	Ontario		1
2017-2018	Saskatchewan		1
2017-2018	Saskatchewan		1
2017-2018	British Columbia		1
2017-2018	British Columbia		1

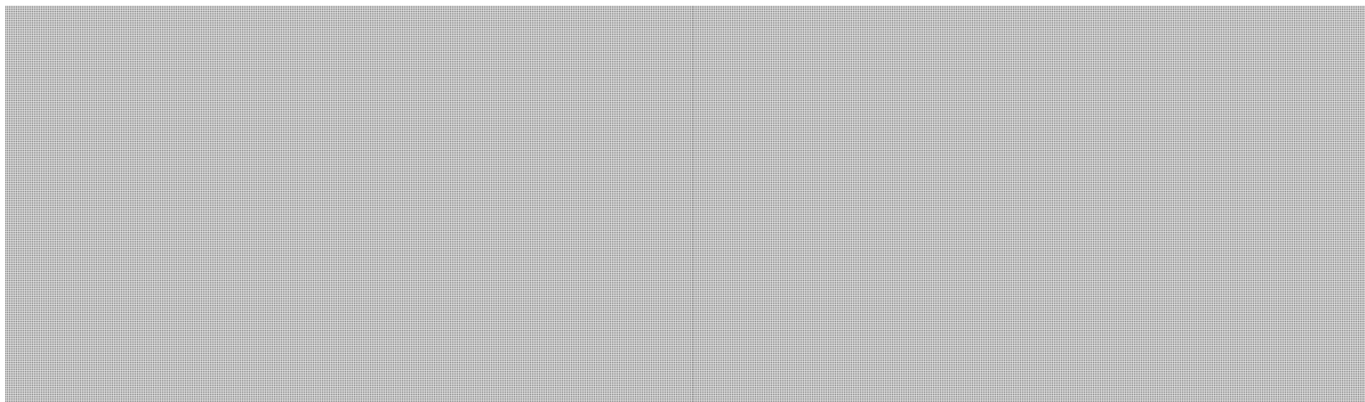
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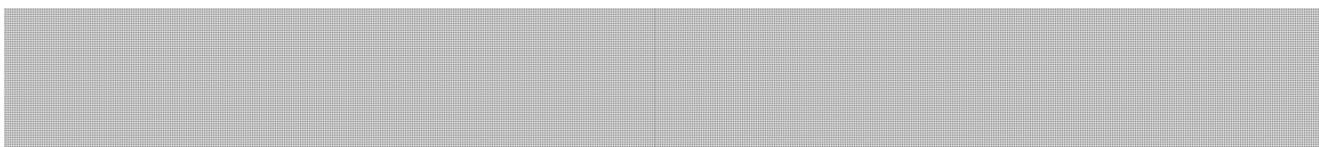
The bulk of the reports on Real Estate transactions are provided to FINTRAC from outside of the Real Estate sector. They are largely submitted by our larger financial institutions as they handle the bulk of money matters in purchasing real estate.

Transactions reported by other reporting entities involving real estate could be for a number of reasons, such as the entity being reported on is in the real estate sector, an individual is buy/selling/paying real estate and that transaction is suspicious, or that a client is conducting other transactions that were deemed suspicious and their transaction history involves a real estate type transaction.



What was very interesting to us was the amount of EFT reports which mentioned real estate or real estate contexts, 

Row Labels	Count of EXTERNAL_REPORT_NBR
EFTI	4284
EFTO	1315
EFTS	27667
Grand Total	33266



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s.16(2)(a)

PROVIN	countries involved	REPOR
BC	China,	2,096
ON	China,	1,142
BC	China,Hong Kong,	136
ON	United States,	123
ON	Hong Kong,	99
BC	Hong Kong,	97
ON	China,Hong Kong,	89
QC	China,	86
ON	Nigeria,	78
BC	United States,	54
ON	Iran (Islamic Republic of),	51
AB	China,	44
ON	United Arab Emirates (the),	37
ON	Pakistan,	30
ON	Russian Federation (the),	29
BC	Iran (Islamic Republic of),	28
ON	India,	28
BC	Taiwan,	24
ON	Panama,	22
ON	Turkey,	21
ON	Viet Nam,	20

Predicate offenses with over 500 occurrences are listed below. To be expected that ML and Fraud top the list here given the utilization of real estate in mortgage fraud and ML schemes.

PREDICATE_OFFENSE	NUMBER_OF_REPORTS*
Fraud	1,939
National Security	1,404
Money laundering	1,018

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The following is a listing of Real estate developer reports submitted by all reporting entities.

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Report type	Number of
EFTI	30
STR	155
EFTO	34
EFTS	890
LCTR	3
STR-A	10

Finally, a complete listing of all examinations conducted in the Real Estate sector over the past three years:

Unclassified

Number of real estate exams by province			
Fiscal year	MAIN_LO C_ALPHA _PROV_S TE_CD	PROVINCE	NUMBER _OF_EXA MS
2014-2015	AB	Alberta	3
2014-2015	BC	British Columbia	16
2014-2015	MB	Manitoba	2
2014-2015	NB	New Brunswick	2
2014-2015	NS	Nova Scotia	1
2014-2015	ON	Ontario	77
2014-2015	QC	Quebec	38
2014-2015	SK	Saskatchewan	1
2015-2016	AB	Alberta	12
2015-2016	BC	British Columbia	79
2015-2016	MB	Manitoba	2
2015-2016	NB	New Brunswick	3
2015-2016	NS	Nova Scotia	2
2015-2016	ON	Ontario	66
2015-2016	QC	Quebec	24
2015-2016	SK	Saskatchewan	3
2016-2017	AB	Alberta	21
2016-2017	BC	British Columbia	51
2016-2017	MB	Manitoba	2
2016-2017	NL	Newfoundland and Labr	1
2016-2017	NS	Nova Scotia	6
2016-2017	ON	Ontario	47
2016-2017	QC	Quebec	16
2016-2017	SK	Saskatchewan	5
2016-2017	YT	Yukon	3

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15/04/2019

UNCLASSIFIED

Insights on money laundering in real estate

**Canada Mortgage and Housing Corporation
September 10, 2018**

RDIMS:621155

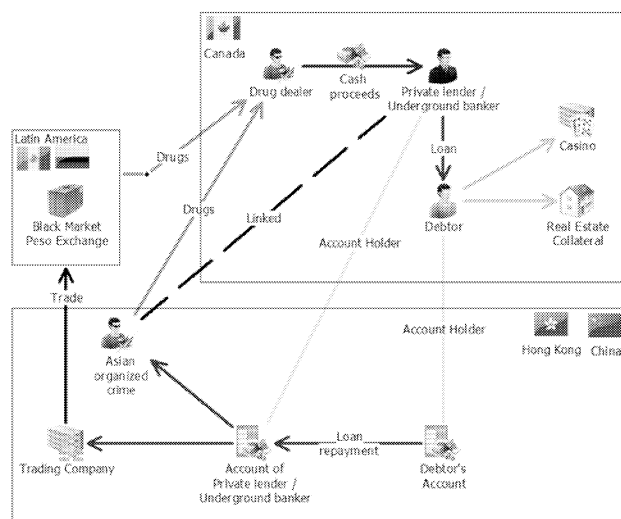
Three Key Points

- The capacity and limits of FINTRAC
- Typologies of money laundering in real estate in BC
- Gaps in knowledge and data

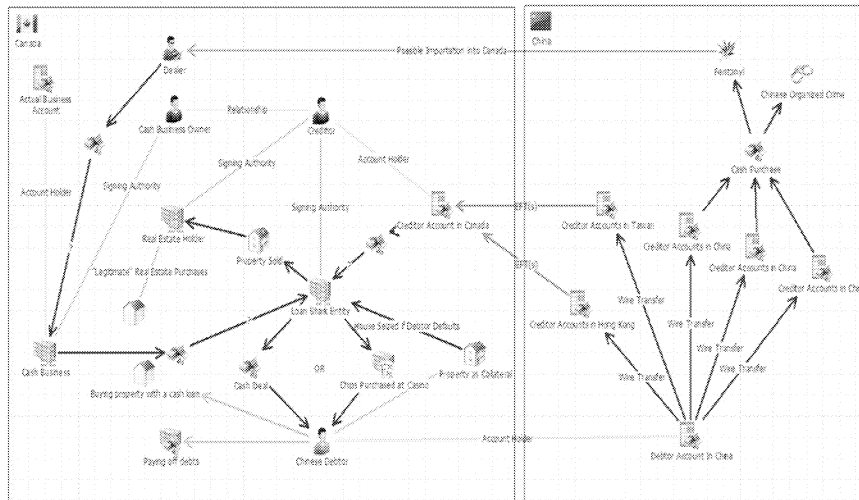
What FINTRAC does

- Receive financial reports (e.g. STRs, LCTRs, EFTRs, etc.) and other information
- Conduct analysis (tactical and strategic)
- Disclose information related to money laundering and terrorist financing
- Ensure compliance
- Enhance public awareness
- Protect information

Money laundering in BC real estate (simplified)



Money laundering in BC real estate (suspected extent)



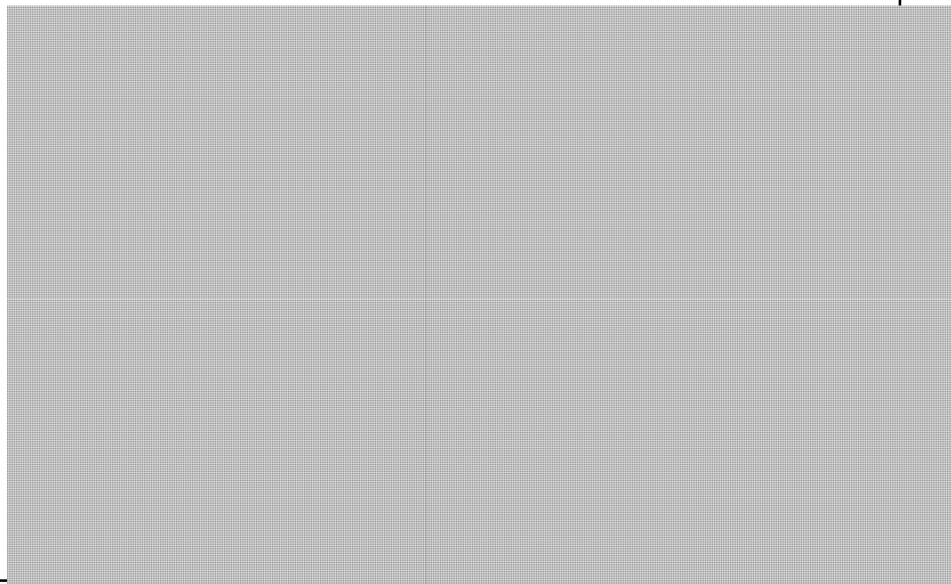
Bottom line – what is going on?

- Real estate is not the only problem
- Demand exists on both sides
 - Organized crime has a lot of cash
 - Need to move it out of Canada
 - Chinese citizens have access to cash
 - Limit of \$50k restricts their ability to spend
 - Leads to development of services

***More than one
money laundering typology***

- FINTRAC assesses that there are other typologies being used
- Differences depend on geography, source of funds and facilitators
- More analysis is required to make proper assessments

Gaps in knowledge and data



s.16(1)(c)

15/04/2019

Thank you!

Questions?

**For more information:
WWW.FINTRAC-CANAFE.GC.CA**

Internal Use Only

PROTECTED B

Activity Sector Profile

Real Estate

2013-2014



RDIMS # 520928

Date: February 2015

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Note - The purpose of this activity sector profile is to inform Regional Operations and Compliance's public communications, risk assessment, and engagement and enforcement strategies. Specifically:

Section 1 is designed to inform the public of general activity sector information and can be utilized to support ROC's public communications.

Section 2 is designed to inform the public of FINTRAC's interactions, both engagement and enforcement, with the activity sector and can be utilized to support ROC's public communications.

Section 3 is designed to provide a rating, from 1 (low vulnerability) to 5 (high vulnerability) for all characteristics of the activity sector that could contribute to its vulnerability to money laundering/terrorist financing. This section is primarily designed to inform ROC's risk assessment, which in turn informs ROC's engagement and enforcement strategies through the identification of aspects of high vulnerability that can be mitigated through education and assistance engagement activities, as well as through enforcement activities designed to ensure compliance on regime elements designed to mitigate identified vulnerabilities. This section can also contribute to ROC's public communications.

Section 4 is designed to speak briefly to the rationale behind high vulnerability (4) and very high vulnerability (5) ratings in Section 3 (sources are available), and also to indicate where research gaps may exist with a view to potential future research projects. These high and very high vulnerability ratings are identified such that they can be mitigated via ROC's engagement and enforcement strategies.

Section 5 is designed to detail the engagement and enforcement strategies utilized by ROC to mitigate the vulnerabilities observed in the activity sector.

Section 6 is designed to suggest a practical methodology to segment the activity sector into smaller, more alike subsector cohorts. This segmentation would be conducted to improve the granularity of ROC's risk assessments.

Section 1 - General Information

Am I subject to the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)?

You are subject to the PCMLTFA if you are a real estate broker, sales representative or developer.

Real Estate Broker or Sales Representative: A real estate broker or sales representative is an individual or entity that is registered or licensed in a province to sell or purchase real estate – not including leases, rentals or property management.

Real Estate Developer: A real estate developer is an individual or entity other than a real estate broker or sales representative who in any calendar year after 2007 has sold the following to the public:

- at least five new houses or condominium units;
- at least one new commercial or industrial building;
- at least one new multi-unit residential building each of which contains five or more residential units; or
- at least two multi-unit residential buildings that together contain five or more residential units.

What are the primary products and services that this sector offers?

The following is a list of common real estate services: property development, construction, and management, mortgage and loan services, legal services, commercial services, and real estate services.

Who are the primary regulators and associations that oversee and/or support this sector?

Provincial & Territorial Regulators:

- Real Estate Council of Alberta
- Real Estate Council of British Columbia
- Real Estate Division of the Manitoba Security Commission
- New Brunswick Consumer Affairs Branch
- Newfoundland and Labrador Superintendent of Real Estate
- Northwest Territories Municipal and Community Affairs
- Nova Scotia Real Estate Commission
- Nunavut Department of Community Government and Transportation
- Real Estate Council of Ontario
- Prince Edward Island Office of the Attorney General and Public Safety

- Association des courtiers et agents immobiliers du Québec
- Saskatchewan Real Estate Commission
- Yukon Department of Justice

Federal Associations:

- Canadian Real Estate Association
- Building Owners and Managers Association Canada
- Canadian Construction Association
- Canadian Home Builders Association

For a list of more regulators and associations, please consult www.crea.ca.

How many entities are in this sector?

As of December 2014, the real estate sector has approximately 20,784 entities.

Section 2 - Reporting, Compliance and Contributions to Disclosures

Reporting Levels (Sept, 2012 – August, 2014)

- The sector as a whole accounted for less than 1% of all reports received by FINTRAC.
- Individual ranking of reporting entities into three categories of reporting volumes [low (under 1000 per year), medium (1000 to under 10,000), high (10,000 and above)] indicated that 100% of reporting entities fell into the lowest volume category.
- Annual volumes hovered around 40, consisting of about equal amounts of LCTRs and STRs. This sector does not deal with EFTs.

Compliance Activities

- **Inquiries Answered by FINTRAC**
 - In 2013-2014, FINTRAC supported 5075 queries from reporting entities, the public and lawyers either through the Call Centre (59%) or directly by email (41%).
 - Of the 2028 Call Centre requests, 21% came from the Real Estate sector.
- **Examinations**
 - A significant number of exams were conducted in this sector in 2012-2013 and 2013-2014, 270 and 203 respectively, accounting for about 21% of exams in both fiscal years
- **Administrative Monetary Penalties (AMPS)**
 - Six monetary penalties totalling \$66,480 had been imposed as of November, 2014

Top Compliance Strengths and Deficiencies

Exam outcomes from 2011-2012 to 2013-2014 revealed the following with respect to obligations:

- Top Strengths
 1. Compliance Program: Compliance rate declining since 2011-2012
 2. Third Party Determination: Compliance rate improving since 2011-2012
- Top Deficiencies
 1. Two-year Review: Compliance rate declining since 2011-2012
 2. Risk Assessment
 3. Record Keeping
 4. Training: Compliance rate improving since 2011-2012
 5. Client ID
 6. Policies and Procedures

Contributions to Financial Intelligence in Disclosures

Since 2002, the Real Estate sector has provided less than 1% of all reports used in disclosures.

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Section 5 - Mitigating the Activity Sector's Vulnerabilities

To mitigate the vulnerabilities observed in the sector, ROC conducts a number of compliance activities across the compliance continuum, which includes both engagement and enforcement activities.

Engagement Activities

PLACEHOLDER

Enforcement Activities

Currently, the compliance examination enforcement activity constitutes the core activity touching the real estate activity sector. ROC currently employs the following risk-based strategies to select entities for examination. Each strategy is tailored to address specific ML/TF vulnerabilities identified through ROC's vulnerability and risk assessments.

Market Share Strategy – The market share strategy focuses on large entities across most activity sectors that, combined, represent the largest proportion of a given activity sector's market share. This approach allows ROC to maximize its supervisory coverage through the assessment of a relatively low number of entities using a relatively low level of resources. In the real estate sector, approximately 35% of the share of the real estate market is captured on the market share strategy's two-year examination cycle. A number of these entities are also major reporters and, as such, are subject to the ongoing monitoring of their financial transaction reports.

Follow-up Strategy – By way of this strategy, entities across all activity sectors that exhibit unacceptable levels of non-compliance or that are the object of actionable intelligence may be escalated for follow-up supervisory and monitoring activities. The frequency and intensity of such activities are dependent on the nature and severity of the compliance issues. ROC devotes a substantial amount of resources to its follow-up strategy.

Risk Score Strategy – ROC uses predictive risk assessment models to risk rank entities. These models leverage our sources of intelligence to identify higher risk entities based on the likelihood and consequence of non-compliance. The frequency and intensity of compliance examinations for these entities is a function of their risk score.

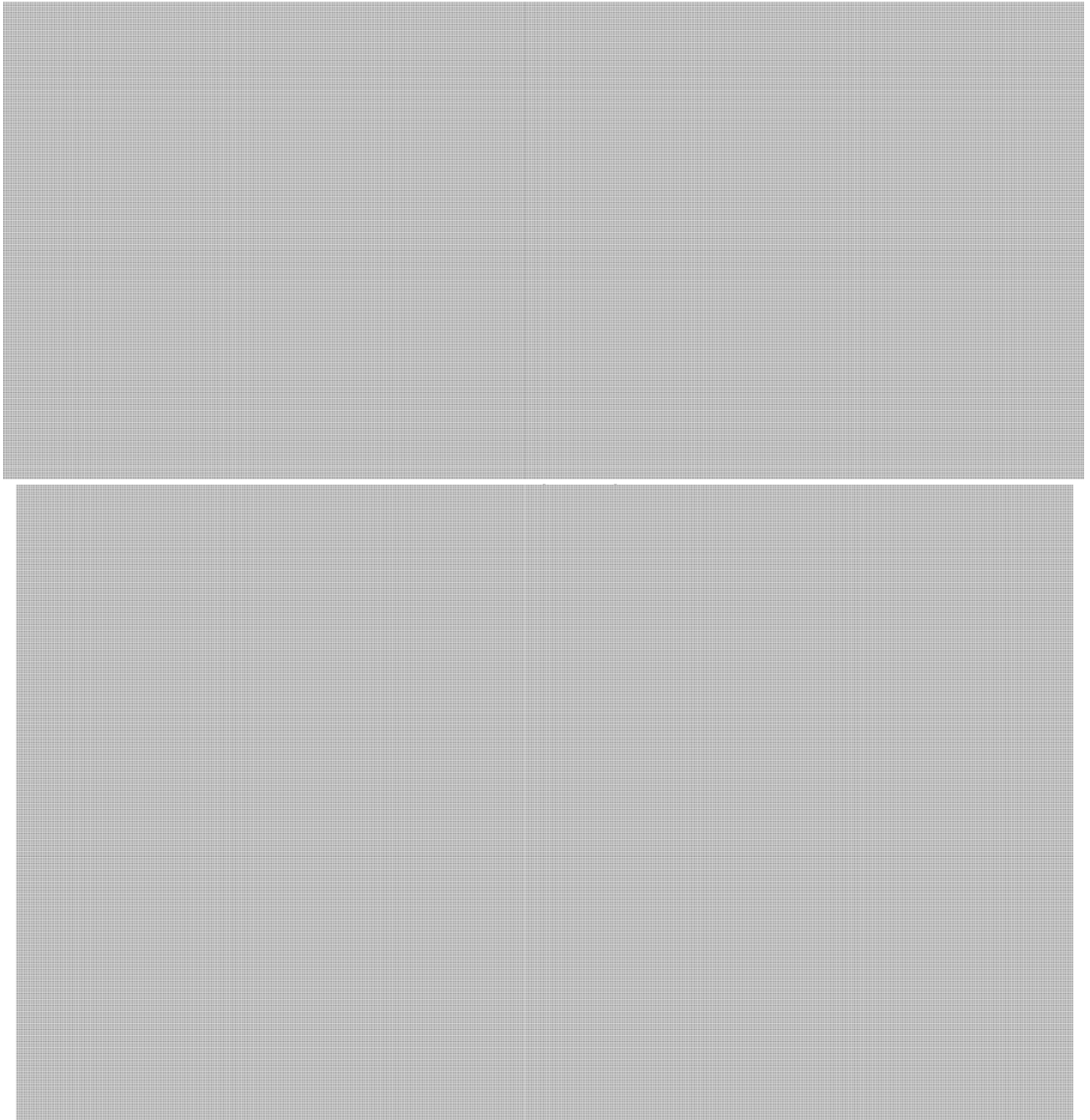
Ongoing Validation Strategy – ROC conducts select ongoing validation examinations, which serve to test ROC's risk assessment framework's performance.

Themed Strategy – Responsive to the changing ML/TF environment, ROC initiates both planned, as well as timely, ad-hoc thematic assessments to address both strategic objectives and actionable, real-time tactical intelligence it receives. Such themes include, for instance, assessing entities that have been

Compliance Coverage Strategy – Through this strategy, ROC ensures a measured presence across its lower risk entities from both higher and lower risk activity sectors. In effect, this strategy touches all activity sectors. It allows ROC to mitigate compliance gaps vis-à-vis lower risk entities. Compliance coverage assessments in all activity sectors are undertaken annually, however their number is lower,

commensurate with risk, than for the higher risk strategies described above.

Regional Selection Strategy – Through this strategy, ROC ensures that the knowledge gained by its regional compliance officers about potential ML/TF vulnerabilities is captured and effectively addressed. These examinations may be triggered by intelligence received, information from regulators, news media or other local sources of information.



Section 6 - Activity Sector Segmentation

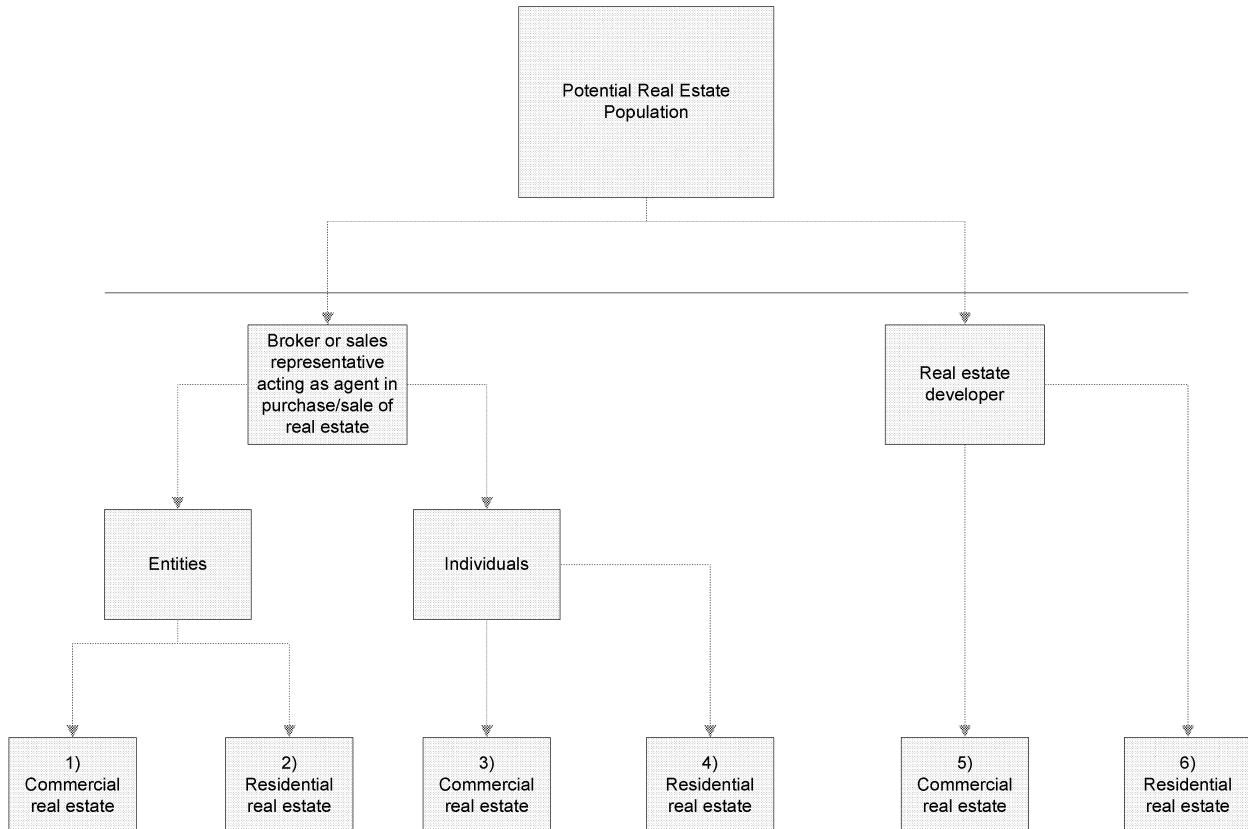
The activity sector's reporting entities can be segmented into six sub segments by applying three vulnerability factors:

- 1) The product/service offered;
- 2) Whether the reporting entity is an individual or entity; and,
- 3) The type of client served (commercial vs. residential).

The first segmentation of the real estate sector can be done on the basis of the triggering activity. Real estate developers have significantly different points of transactional contact with customers from those of brokers or sales representatives. Developers are the ultimate recipients of funds used in purchasing real estate, while brokers and agents are intermediaries; thus their respective proximities to funds and knowledge of transactions are completely different.

The second segmentation aspect that will be applied is whether the real estate reporting entity is an entity or an individual. Individuals have the benefit of having complete knowledge of their operations, but lessor resources to build compliance programs, while entities have to employ resources that distance their compliance centres from the individuals who are actually conducting transactions.

The third segmentation aspect is the type of real estate being sold. Residential real estate transactions and commercial real estate transactions are executed through different product mixes and, thus, the financial transactions associated with each display different vulnerability profiles.





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(PROT. A) ASSESSMENT OF POTENTIAL MONEY LAUNDERING THROUGH THE REAL ESTATE SECTOR IN VANCOUVER

(Prot. A) CONTEXT: Developments within British Columbia's real estate market have attracted significant media attention, and has become an important issue for the British Columbian and Federal Government. This issue revolves around concerns of housing affordability, which some suggest are exacerbated by absentee and foreign ownership. As a related issue, there have been allegations that the BC real estate market is being fuelled by capital flight, particularly from China, and that some portion of this foreign capital may in fact be proceeds of foreign crime that is being laundered through the BC real estate sector.

(Prot. A) KEY FINDINGS / JUDGEMENTS: FINTRAC has ascertained that:

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s.16(1)(c)

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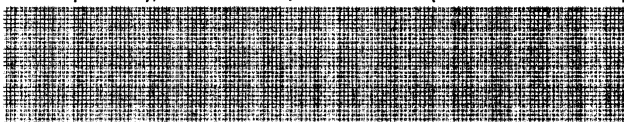


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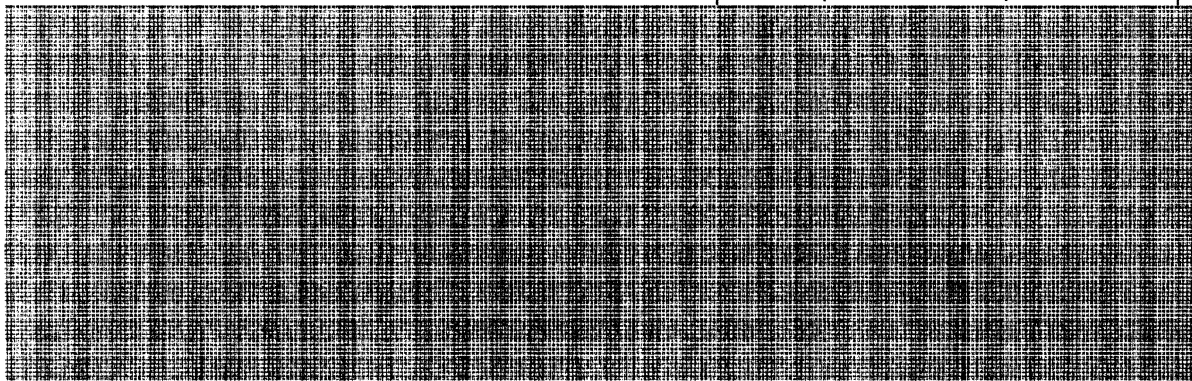
(U) RECENT DEVELOPMENTS / CONTEXT

1. (U) The perceived impact of foreign real estate buyers in the Vancouver real estate market has attracted significant media attention, and created pressure on the British Columbia (B.C.) Government to improve its data collection efforts and consider changes to the way in which real estate is regulated in the province. In this context, there is interest in understanding the extent to which B.C. real estate purchased by foreign buyers may be a money laundering method.
2. (U) In early July 2016, the B.C. Government released new data for June 10 to June 29, 2016 on real estate purchases drawn from filings of Property Transfer Tax forms.¹ For this time period, B.C. Government data shows that 337 real estate transactions were undertaken by foreign nationals² (3.3% of the total for that period), worth CAD\$390 million (5.1% of the total).



(U) Why Real Estate is Attractive for Money Laundering:

- (U) Represents a "secure" investment (e.g. better enables criminals to be successful in keeping the proceeds of crime).
- (U) Buying/selling real estate is a common economic activity and is critical to the functioning of the legitimate economy (e.g. more opportunities to hide in plain sight, less likely to be scrutinized).
- (U) In high value markets, real estate sector can absorb large amounts of money (e.g. more efficient for processing proceeds of crime).
- (U) Speculation is traditional in the real estate sector (e.g. harder to distinguish legitimate from questionable activity).
- (U) Can sustain new financial returns [proceeds of crime can be leveraged] (e.g. renting properties purchased with proceeds of crime).



¹ (U) Data source:

<https://public.tableau.com/profile/bcpairedsalesdata#!/vizhome/BCPairedSalesAnalysis/PairedSalesSummaryTable>

² Ibid

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9. [REDACTED] in **Chart 2**. This finding could be of importance to those responsible for policy changes at the provincial level. Media reports of a housing bubble crisis are ever present in the news. Most of the current media hype surrounding the issue of foreign-owned real estate in the larger metropolitan areas stems from the 20-30% increase in house prices annually⁸ [REDACTED]

s.15(1) IA
s.16(1)(c)
s.16(2)(a)
s.24(1)

10. On August 2, 2016, in an effort to stem the growing unaffordability of British Columbia's real estate market, the government of British Columbia introduced a 15% tax on foreigners buying property in Greater Vancouver. [REDACTED]

⁸ CBC, "Vancouver area benchmark house price now \$1.4M, up %30 in 1 year". Available online: www.cbc.ca/news/canada/british-columbia/vancouver-real-estate-house-prices-1.3564528

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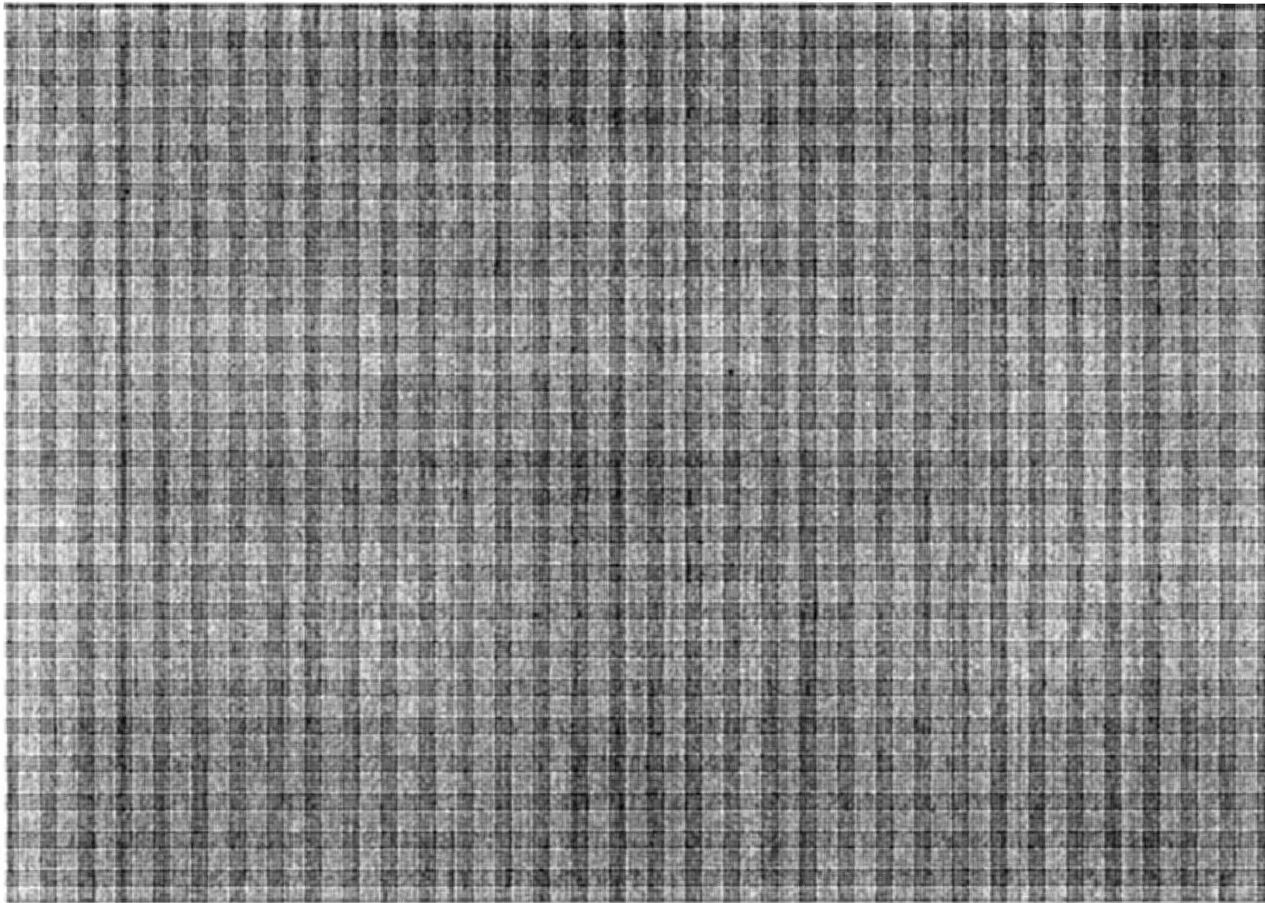
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(Prot. A) Examples of Real Estate Money Laundering Involving Proceeds of Chinese Corruption Are Observable

(Prot. B) In recent years, China has been deeply pursuing anti-corruption efforts, as the levels of corruption in China continue to rise. The Chinese Communist Party body initiated a campaign, dubbed Operation Fox Hunt, which intended to find corrupt officials who have fled China with their illicit funds. This campaign was expanded and became known as Operation Sky Net. On April 22nd, 2016, the Chinese released an additional list of 100 fugitive names along with mugshots that have

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s.16(2)(a)

s.24(1)



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fled with their ill-gotten gains.¹⁰ According to media reports, of the 100 names, 26 individuals are believed to be hiding in Canada.¹¹

11.

12.

s.15(1) IA
s.16(1)(c)
s.16(2)(a)
s.24(1)

¹⁰ "Not so far away – Anti-corruption officials try to extend their reach abroad", May 2nd, 2015. Accessed online:

<http://www.economis.com/news/china/21650154-anti-corruption-officials-try-extend-their-reach-abroad-not-so-far-away>

¹¹ "China's Fox Hunt in Canada Strains Trust That an Extradition Treaty is Possible", Nathan Vanderlippe, September 23, 2016. Accessed online: www.theglobeandmail.com/news/world/chinas-fox-hunt-in-canada-strains-trust-that-an-extradition-treaty-is-possible/article32042306/

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17. **(U) More Guidance to Reporting Entities is Required:** In addition to what is available through open sources,¹⁵ FINTRAC has produced an *Operational Brief on Indicators of Money Laundering in Financial Transactions related to Real Estate*^{16 17} - for the Real Estate sector – that outlines a set of indicators related to risk factors such as value, anonymity, “flipping”, transaction speed, loan characteristics, home renovations, income generation associated with property, structuring, geography, inconsistencies between transactions and given reasons for transactions, defaulting, as well as suspicious direct purchase transactions. This can assist public and private sector actors in distinguishing between ML-relevant and non-ML relevant Chinese inflows and real estate-related activity. Further guidance is necessary for reporting entities, to assist them in managing their risk related to transactions emanating from China and Hong Kong.

CAVEAT

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¹⁵ (U) Financial Action Task Force (FATF), “Money Laundering & Terrorist Financing Through the Real Estate Sector” (29 June 2007).

¹⁶ (U) FINTRAC, *Operational Brief on Indicators of Money Laundering in Financial Transactions related to Real Estate*, FINTRAC-2016-OB001

¹⁷ (U) Salient points from unpublished analysis on real estate sector trends & typologies (February 2014) was integrated into the Operational Brief.






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<p>Product Description</p>	<p>A Financial Intelligence Report (FIR) provides fundamental intelligence on the development, nature and/or extent of money laundering (ML) or terrorist financing (TF) inside and/or outside Canada to assist FINTRAC clients in detecting, preventing and deterring ML/TF. Unless otherwise flagged as collateral information from other sources, the intelligence facts presented are derived exclusively from FINTRAC data. All judgements and analytic comments are the responsibility of the Strategic Intelligence & Data Exploitation Lab (SIDEL). A FIR may not directly or indirectly identify an individual who provided a report or information to FINTRAC, or a person or entity about whom a report or information was provided.</p>
<p>Intelligence Metadata</p>	<p>Requirement: Intelligence for the Government of Canada on the ML/TF threat environment; Risks associated with nature and extent of money laundering in Canada and/or abroad.</p>
<p>Feedback / Contact</p>	<p>Analyst(s): [REDACTED] A/Team Leader: XXXX, Strategic Intelligence Group (SIG), (613) XXXXXXXX Manager: [REDACTED] Strategic Intelligence & Data Exploitation Lab (SIDEL) [REDACTED] UNCLASSIFIED EMAIL: [REDACTED] <i>[Please indicate "Strategic Intelligence Feedback", and reference product serial number]</i></p>

s.16(2)(c)

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<h1>China-Nexus Money Laundering Risks: Analysis of Vancouver-Focused STRs Related to Real Estate</h1> <p>October 2016</p>		
<p>Overall Classification: Protected B</p>		

Overview of Presentation



1. Context
 - The issues at play
 - B.C. Data vs. FINTRAC STRs
2. Financial Intelligence Insights into China-related ML Risk Issues
 - Trends in China-related Threshold-based EFTs and \$50K structuring
 - High Level of Individuals Benefiting from Inflows from China
 - Capital Inflows from Hong Kong and China
 - 15% Tax on "Foreigner" Buyers
 - Methods Used by Chinese Nationals to Transfer Value to Canada
3. Indications of How Higher Risk "Upstream" China-nexus Financial Activity Intersects with BC Real Estate
 - Criminal Cash Pools Potentially Used for Real Estate
 - Sanitized Example – Interpol Fugitive Purchasing Real Estate in Canada
4. Assessment and Outlook



Context:

Analysis of Vancouver-focused STRs related to Real Estate and/or China-Nexus issues was undertaken to determine the extent to which B.C. real estate purchases by foreign buyers represents a money laundering risk for Canada.

Real Estate and Money Laundering



Why Real Estate is Attractive for Money Laundering:

- Represents a "secure" investment (e.g. better enables criminals to be successful in keeping the proceeds of crime).
- Buying/selling real estate is a common economic activity and is critical to the functioning of the legitimate economy (e.g. more opportunities to hide in plain sight, less likely to be scrutinized).
- In high value markets, real estate sector can absorb large amounts of money (e.g. more efficient for processing proceeds of crime).
- Speculation is traditional in the real estate sector (e.g. harder to distinguish legitimate from questionable activity).
- Can sustain new financial returns [proceeds of crime can be leveraged] (e.g. renting properties purchased with proceeds of crime).

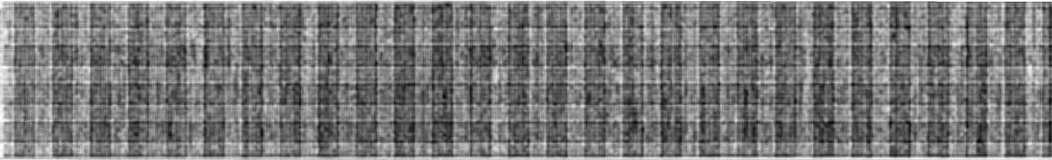
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Protected B

- Purchasing real estate can be a profitable investment without even intending to step foot in the dwelling, especially in Canada's largest cities, where housing prices increase substantially each year.
- Part of this increase is due to economic demand driven by foreign buyers.
- 
- Such fraudulently obtained wealth is thought to be crossing borders into Canada and investing in luxury real estate, which is said to be creating an artificial bubble, pricing Canadian's out of their cities.
- The perceived impact of foreign real estate buyers in the Vancouver real estate market has attracted significant media attention, calling attention to the money laundering risks associated with this high volume of Chinese investment.

B.C. Data vs. FINTRAC STRs



- In early July 2016, the B.C. Government released new data for June 10 to June 29, 2016 on real estate purchases drawn from filings of Property Transfer Tax forms.
- For this time period, B.C. Government data shows that 337 real estate transactions were undertaken by foreign nationals (3.3% of the total for that period), worth CAD\$390 million (5.1% of the total).

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15% Tax on Foreigners



- On August 2, 2016, in an effort to stem the growing unaffordability of British Columbia's real estate market, the government of British Columbia introduced a 15% tax on foreigners buying property in Greater Vancouver.

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