

Money Laundering in the Canadian Real Estate Market:

Overview and key challenges for
professionals and stakeholders

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Summary:

- Introduction
- Recent developments
- Schemes and typologies
- Red flags methodology
- Case study examples
- Conclusion

Introduction

What is Money Laundering?

Money Laundering is often defined as:
The funneling of cash or other funds generated from illegal activities through legitimate financial institutions and businesses – including real estate – to conceal the source of the funds.

Consequences of Money Laundering

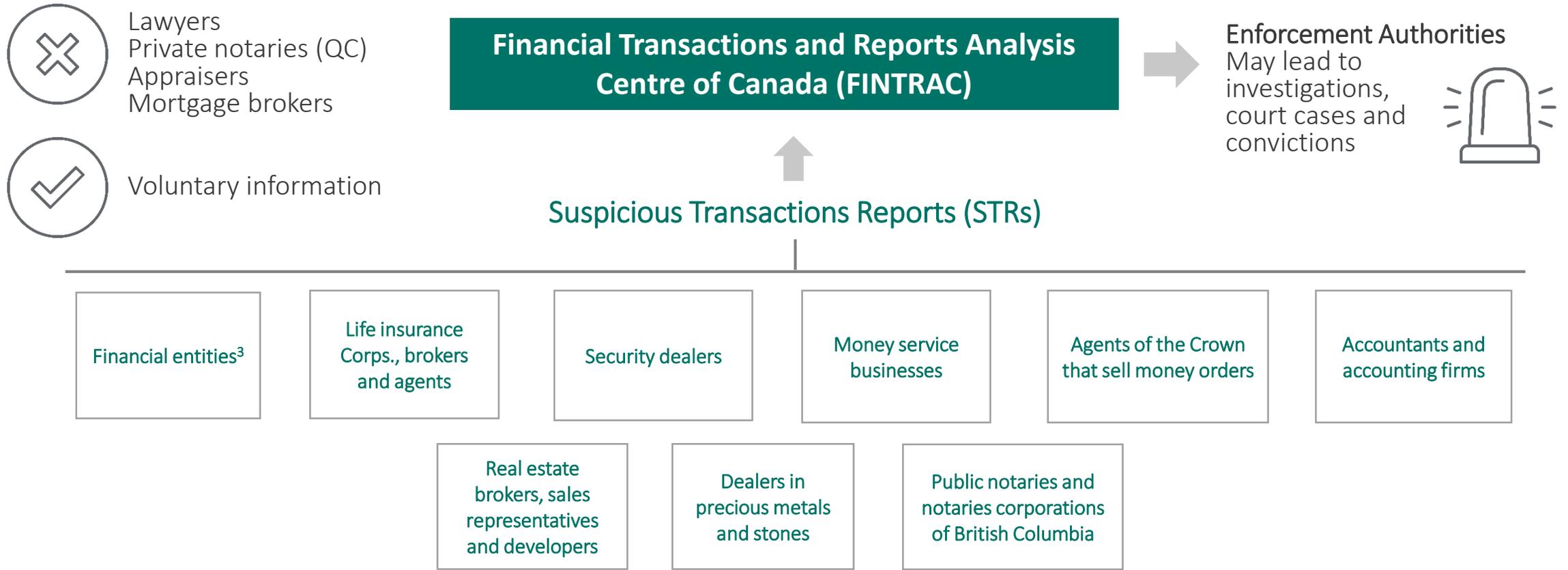
Money laundering can destabilize the economy, compromises the integrity of legitimate financial systems and institutions, and gives organized crime the funds it needs to conduct further criminal activities.

¹ Department of Finance Canada, Reviewing Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime, February 2018.

“Money laundering and terrorist financing harm the integrity and stability of the financial sector and the broader economy and threaten our quality of life.”¹



Anti-Money Laundering (AML) Regime in Canada² – Who must report?



² Canada's anti-money laundering and anti-terrorist financing regime, <https://www.fintrac-canafe.gc.ca/fintrac-canafe/antimltf-eng>.

³ Such as banks (that is, those listed in Schedule I or II of the *Bank Act*) or authorized foreign banks with respect to their operations in Canada, credit unions, caisses populaires, financial services cooperatives, credit union centrals (when they offer financial services to anyone other than a member entity of the credit union central), trust companies, loan companies and agents of the Crown that accept deposit liabilities)

Source: FINTRAC

Recent Developments



Still... the real estate sector remains vulnerable

- In 2015, the Department of Finance Canada had assessed the **real estate sector's vulnerability to money laundering and terrorist financing (ML/TF) as high⁴**.
- The Mutual Evaluation Report 2016 for Canada released by Financial Action Task Force (FATF) states that **"The financial and non-financial sectors are subject to appropriate risk-sensitive AML/CFT supervision, but further supervisory efforts are necessary with respect to real estate..."⁵**

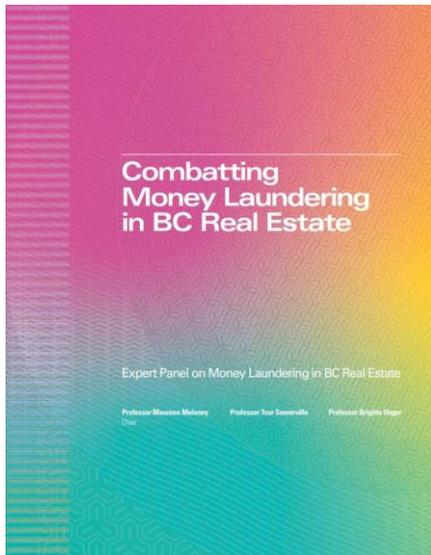
⁴ Department of Finance Canada, Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada, 2015, p. 41.

⁵ FATF (2016), Anti-money laundering and counter-terrorist financing measures – Canada, Fourth Round Mutual Evaluation Report, FATF, Paris, p. 5.



Money laundering has a real impact on housing affordability

“It is estimated that up to \$5.3 billion were laundered on the real estate market in 2018. The effect of this cash influx has apparently led to an overvaluing, by approximately 3.7% to 7.5%, of the average price of residential properties in the province.”⁶



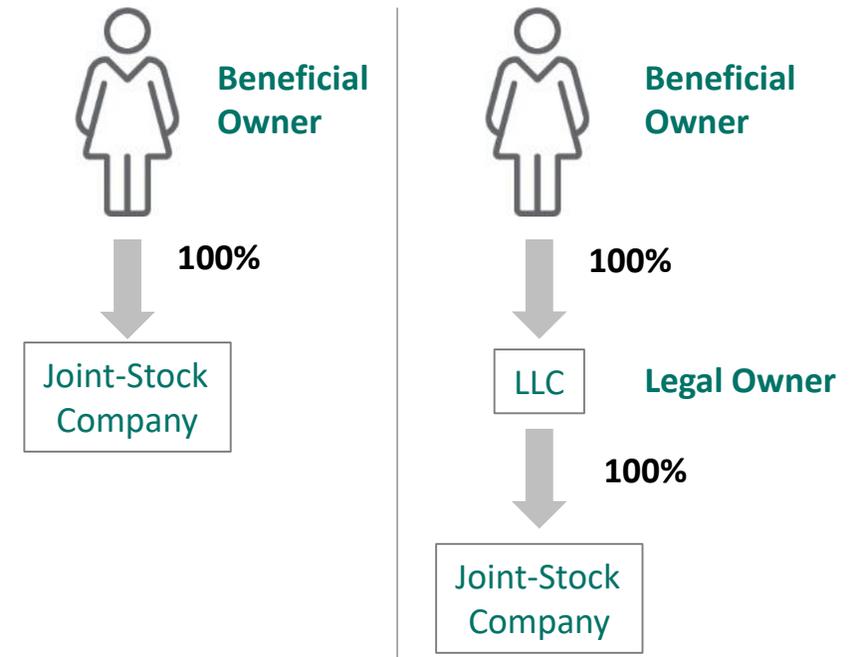
⁶ Professor Maureen Maloney, Professor Tsur Somerville, Professor Brigitte Unger, *Combatting Money Laundering in BC Real Estate*, March 2019.

Recent developments...

New measures implemented to prevent money laundering are mainly related to Corporate Transparency and Beneficial Ownership⁷.

- In BC, the Land Owner Transparency Act (LOTA)⁸ received royal assent.
- Quebec is in process to implement beneficial ownership information in the Corporate Registry.

Fig. 1: Difference Between a Beneficial Owner and a Legal Owner



Note: LLC = Limited liability company

Source: OECD and IDB, *A Beneficial Ownership Implementation Toolkit*, March 2019.

⁷ Beneficial owners (BOs) are always natural persons who ultimately own or control a legal entity or arrangement, such as a company, a trust, a foundation, etc., The Secretariat of the Global Forum on Transparency and Exchange of Information for Tax Purposes, Inter-American Development Bank, *A Beneficial Ownership Implementation Toolkit*, March 2019.

⁸ April 2, 2019, New legislation makes B.C. global leader in ending hidden ownership, <https://news.gov.bc.ca/releases/2019FIN0037-000545>.

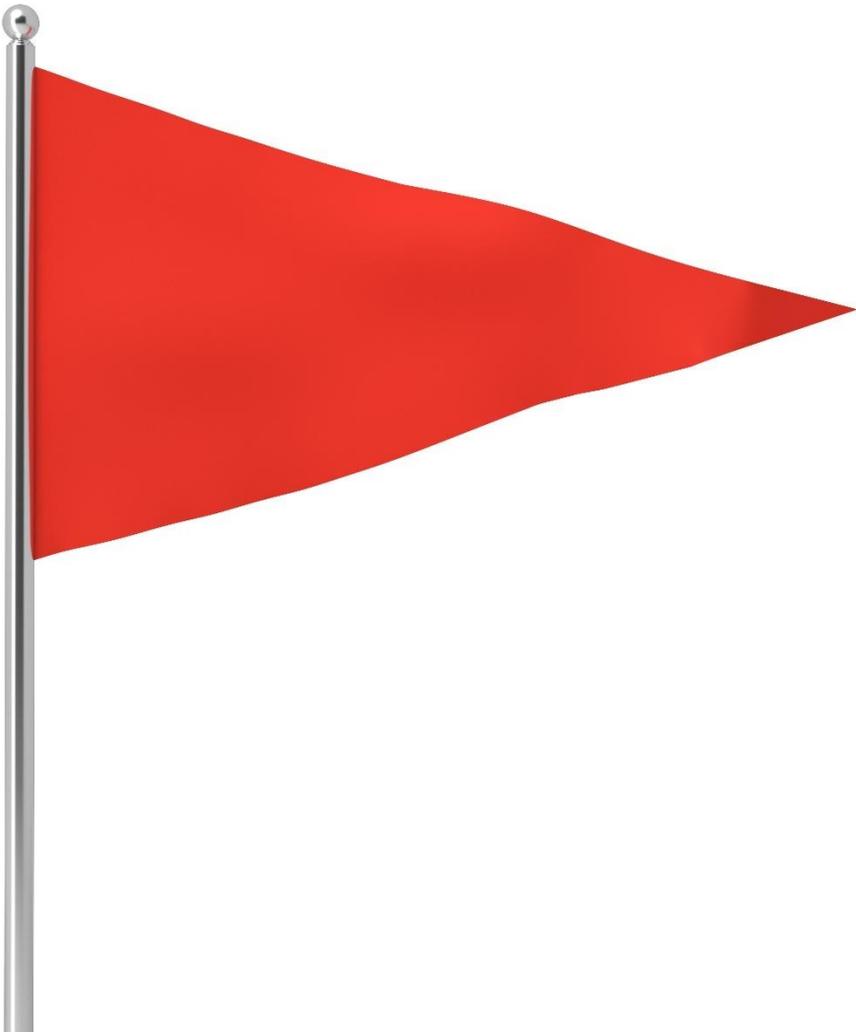


Schemes and Typologies⁹

- Complex Loans and Credit Finance
- Role of Non-Financial Professionals
- Corporate Vehicles
- Manipulation of the Appraisal of a Property
- Monetary Instruments
- Mortgage Schemes
- ...

⁹ June 29, 2007, Money laundering & Terrorist financing through the real estate sector, Financial Action Task Force (FATF).

Red Flag Methodology

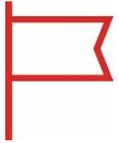


- Specific Indicators and **Red flag methodology** support the identification of suspicious individuals, transactions, properties, real estate professionals and networks that may be involved in these activities.
- Emerging literature on money laundering and financial crimes includes FATF (2007), Unger et al. (2010) and FINTRAC (2016).

List of Indicators

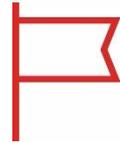
Characteristics related to:

Property



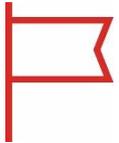
- Traded multiple times.
- Traded at least twice within one year.
- Located in a higher value neighbourhood.

Price



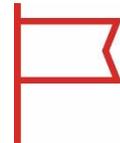
- Price is significantly high/low compared to:
- Average price in the neighbourhood.
 - Assessed value.
 - Previous price of the same property.

Buyer(s)



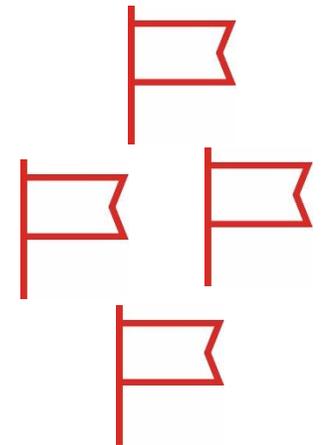
- Provided incomplete address.
- Is from abroad.
- Is a Corporation.
- Owns a large number of properties.
- Properties owned have a high average value.
- High number of properties purchased in a year.
- Days between two purchases is low.

Financing



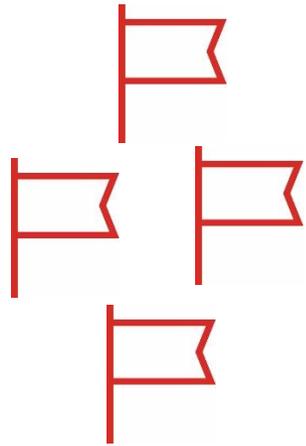
- Mortgage is provided by a natural person.
- Mortgage provider is from abroad.
- No mortgage.

More Red flags
=
More suspicious



Red flags methodology + Second Round screening

Secondary Round Screening for suspicious cases:



- Real Estate Transactions Database
- Land Registers
- Corporate Registers
- Canadian Legal Information Institute (CANLII)
- Consolidated Canadian Autonomous Sanctions List
- Bureau Van Dijk Corporate Database
- Other Open Source info



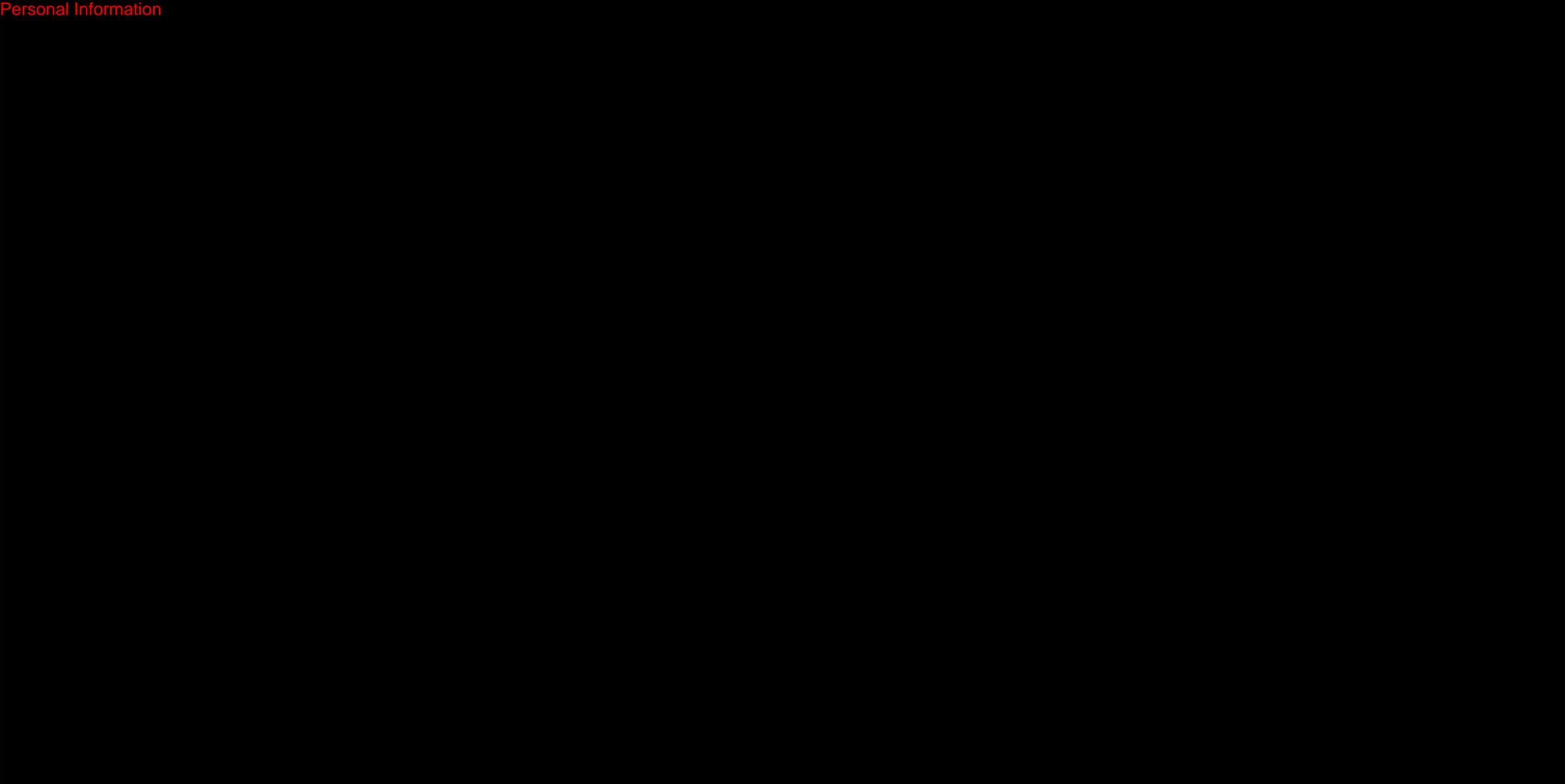
**Highly
suspicious case,
scheme,
network**



Case Studies

CASE EXAMPLE 1:

Personal Information



*: According to the Corruption Perceptions Index (CPI), developed by Transparency International.

Sources: JLR, CANLII, Open sources info, News article: <https://www.journaldemontreal.com/2017/06/20/enquete-tchadienne-sur-des-condos-montrealais>

Unclassified



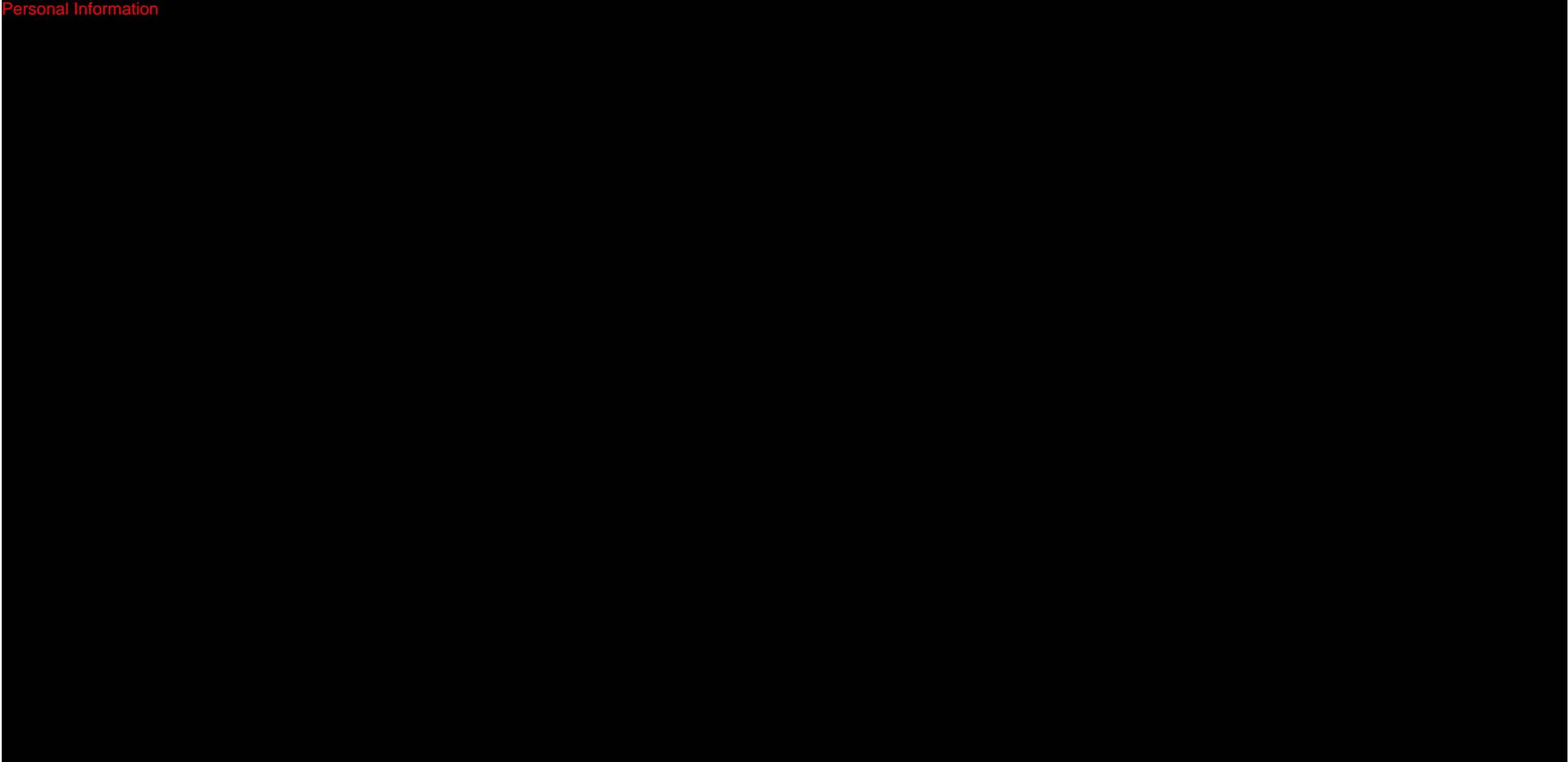
CASE EXAMPLE 1:

Personal Information



CASE EXAMPLE 2:

Personal Information

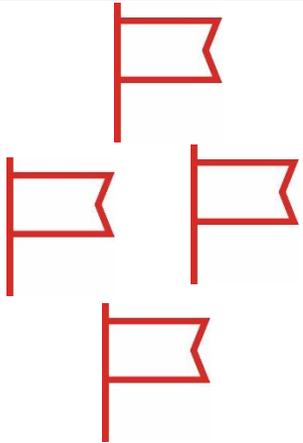


Sources: JLR, CANLII, News article, Open sources info



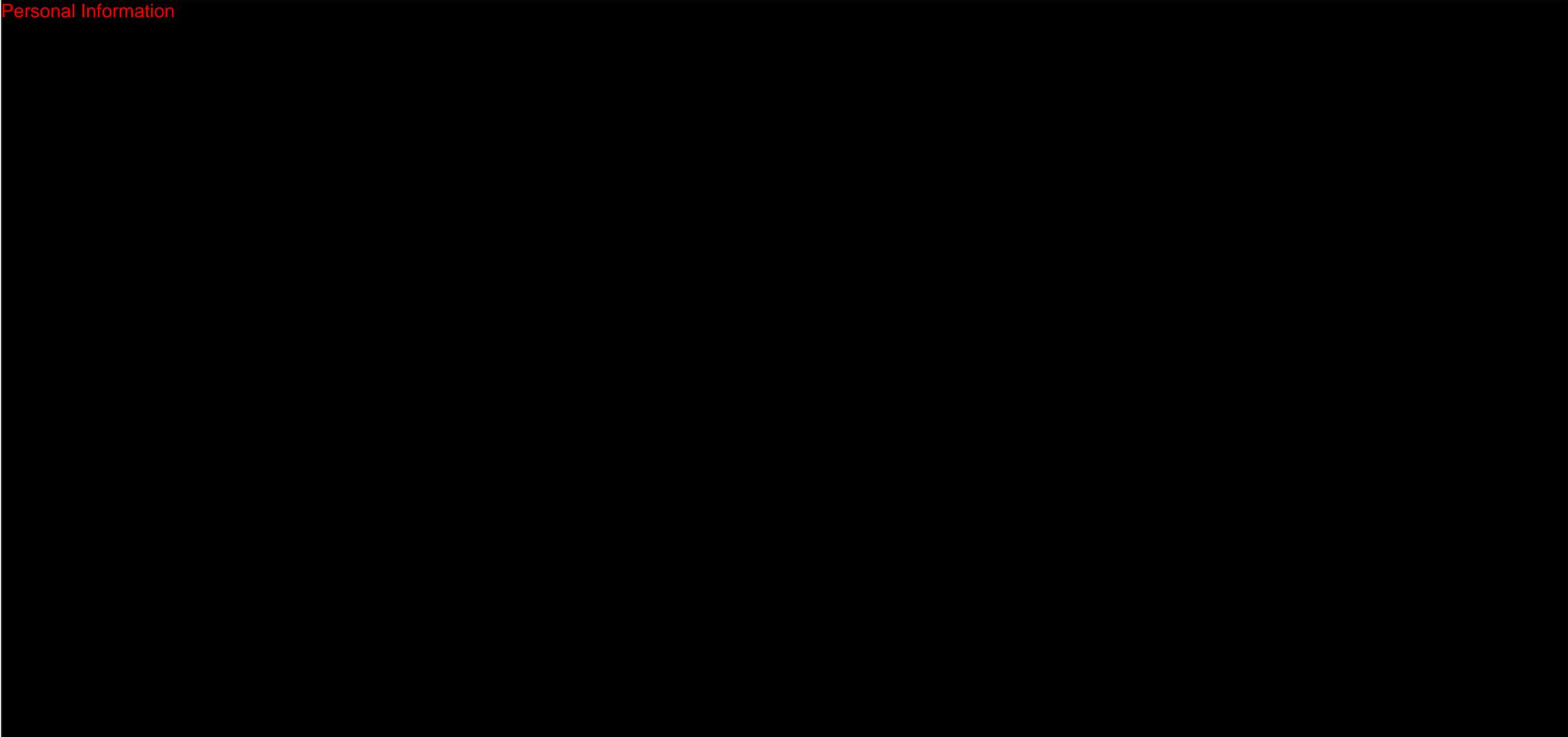
CASE EXAMPLE 2:

Personal Information



CASE EXAMPLE 2:

Personal Information



Sources: JLR, CANLII, News article, Open sources info



CASE EXAMPLE 3:

Personal Information



Sources: JLR, CANLII, News article, Open sources info



Conclusion

- Money Laundering is a prominent concern in real estate.
- Red flags methodology and second round screening could be applied to identify suspicious transactions.
- Awareness of real estate professionals is key to combat Money Laundering.

Annex

Anti-Money Laundering (AML) Regime in Canada – What must be reported?

**Financial Transactions and Reports Analysis
Centre of Canada (FINTRAC)**



Enforcement Authorities
May lead to investigations,
court cases and convictions



Suspicious transactions

Financial transaction that occurs or is attempted, and for which there are reasonable grounds to suspect that the transaction is related to the commission or attempted commission of a money laundering or terrorist activity financing offence (no monetary threshold).

Large cash transactions

When a reporting entity receives \$10,000 or more in cash in the course of a single transaction, or when it receives two or more cash amounts totaling \$10,000 or more made within 24 consecutive hours by or on behalf of the same individual or entity.

Electronic funds transfers

Transmission of instructions for the transfer of \$10,000 or more out of or into Canada in a single transaction or in two or more transactions totaling \$10,000 or more made within 24 consecutive hours by or on behalf of the same individual or entity, through any electronic, magnetic or optical device, telephone instrument or computer.

Casino disbursements

Disbursement of \$10,000 or more in the course of a single transaction, or upon making two or more disbursements totaling \$10,000 or more within 24 consecutive hours on behalf of the same individual or entity. This report is not limited to cash.

Terrorist property

Unlike other reports to FINTRAC, a terrorist property report is only submitted on paper. You cannot send this report electronically.

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