



PROTECTED B

May [REDACTED] 2020

[REDACTED]
Manager
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Dear [REDACTED]:

Subject: Compliance Examination Findings

Examination Number: EXAM-[REDACTED]
Examination Date: [REDACTED]
Examination Period: July [REDACTED], 2019 to December [REDACTED], 2019
Examination Scope: As indicated in FINTRAC's letter dated [REDACTED], 2020

Purpose

The purpose of this correspondence is to communicate the findings resulting from the Financial Transactions and Reports Analysis Centre of Canada's (FINTRAC) recent examination to assess [REDACTED] compliance with Parts 1 and 1.1 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (the Act)* and its associated regulations.

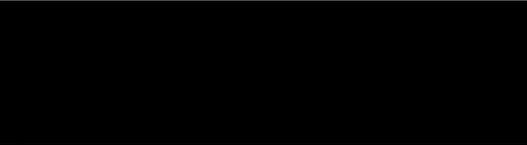
Examination Summary

FINTRAC identified deficiencies, outlined in Appendix I, for which your organization must take immediate action to address. The findings are based on the areas of your organization's compliance program that we examined for the period indicated in our notification letter dated [REDACTED], 2020 and based on correspondence and discussions with you during the examination.

As a result, FINTRAC will be considering a follow-up examination to ensure progress has been made to correct the deficiencies. If the non-compliance continues, an enforcement activity may be considered.

We thank you for your cooperation during the examination process, especially considering these difficult times. Your success is important to us as we work together in the fight against money laundering and terrorist financing. Should you have any questions, please do not hesitate to contact me.

Yours sincerely,

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Compliance Officer
(604) 666-

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Encl. *Appendix I and DDR*

- Determine whether the transactions or activities are consistent with the information previously obtained about the client, including the risk assessment of the client.

Ongoing monitoring means that your organization has to monitor its business relationship with a client on a periodic basis. The frequency of ongoing monitoring will vary depending on your organization's risk assessment of its client. Your organization must monitor the business relationships that it deems high-risk more frequently, as well as update client identification information and adopt any other appropriate enhanced measures. For more information related to ongoing monitoring, please consult FINTRAC's Guidance titled, "*Compliance Program Requirements*".

Deficiency #2: PCMLTF Regulations 71(1)(c) - Compliance Program - Risk Assessment

Your organization has the obligation to assess and document the risk of a money laundering offence or a terrorist financing offence in the course of your activities, taking into account the prescribed factors, as required by paragraph 71(1)(c) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Specifically, as discussed with you [REDACTED], 2020, your organization provided completed business wide risk assessment checklists dated both [REDACTED], as well templates used by your organization to risk rate its individual and corporate clients. The completion of these business wide risk assessment checklists allows your organization to document the frequency of general risks related to the real estate sector. However, your documented risk assessment as an organization is incomplete due the following reasons:

- **Clients and Business Relationships:** As discussed with you during the examination, your organization's documented risk assessment does not assess each type of client and business relationship that it offers its services to. During the examination, it was confirmed that the majority of your organization's clientele base [REDACTED]. The shift towards [REDACTED] [REDACTED] [REDACTED] It was confirmed that due to this, [REDACTED] have become more prevalent and the number of [REDACTED] clients, [REDACTED] has increased for your organization. Each client subset contains a different level of risk for money laundering and terrorist financing. An additional factor that should form part of your organization's assessment of clients and business relationships is their occupation and/ or business activity as the level of risk to money laundering and terrorist financing may differ amongst each type.
- **Products:** As discussed with you during the examination, your organization's documented risk assessment does not assess the products it offers its clients. During the examination, it was confirmed that [REDACTED] of your organization's products it offers is for residential purposes, with the remaining [REDACTED] falling under the investment category. A documented assessment of risk to money laundering and terrorist financing should consider all types of products and services your organization offers.
- **Geography:** As discussed with you during the examination, your organization's documented risk assessment does not assess the geographic locations for which it provides services and products in. During the examination, it was confirmed that although the majority of your organization's products and services are provided in [REDACTED], a small percentage are offered in surrounding areas. Additionally, it was also confirmed that [REDACTED] of your clients

permanently reside in [REDACTED]. Your organization must consider and document the risks involved with all geographic locations involved when carrying out its business activities. This would include the geographic locations of your brokerage offices, the areas in which your organization serves and the geographic locations of your clients.

In addition, your organization needs to assess the risks associated with the following areas:

- New technologies used to deliver its products (if applicable); and
- Other relevant factors related to your business.

If your organization identifies situations that represent a high risk for money laundering or terrorism financing activities, you need to control these risks by implementing mitigation measures, including conducting enhanced monitoring and keeping client information up to date.

FINTRAC has designed a risk assessment workbook available on its website to help your organization with developing its risk assessment. This workbook is structured to help your organization identify its risks by products, services and delivery channels; clients and business relationships; geography and other relevant factors. It will also help your organization implement effective measures and monitor the money laundering and terrorist financing (ML/TF) risks you may encounter as part of your activities and business relationships.

Please refer to FINTRAC's Guidance titled, "*Compliance Program Requirements*" and the "*Risk-based approach workbook for the Real Estate Sector*" for additional information on your obligation to conduct a documented risk assessment.

Deficiency #3: PCMLTF Regulations 71(1)(d) - Compliance Program - Ongoing Compliance Training Program

Your organization has the obligation to develop and maintain a written, ongoing compliance training program for your employees, your agents or mandataries or other persons acting on your behalf, to comply with the Act and as required by paragraph 71(1)(d) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Specifically, as discussed with you [REDACTED], 2020, your organization [REDACTED] where new staff and agents in both [REDACTED], acknowledged reviewing the policies and procedures manual that was provided to them. However, your organization's ongoing compliance training program is found to be incomplete, as it does not have a documented procedure for how and when, ongoing training will be provided. During the examination, it was also confirmed that only initial training is provided to new agents and staff, not ongoing training for all. Your organization is required to develop a documented training program that covers its compliance regime, reporting, record keeping and client identification obligations. In addition, it must document the method of delivery as well as the frequency of ongoing training.

A training program must be in place for employees, agents, or other individuals authorized to act on your organization's behalf. This is to ensure that all who have contact with clients, who see client transaction activity, who handle cash or funds in any way or who are responsible for implementing or overseeing the compliance regime understand the reporting, client identification and record keeping requirements.

When assessing your organization's training needs, the following elements should be considered:

- **Requirements and related liabilities:** The training should give those who need it an understanding of the reporting, client identification and record keeping requirements as well as penalties for not meeting those requirements.
- **Policies and Procedures:** The training should make your employees, agents, or others who act on your organization's behalf aware of the internal policies and procedures for deterring and detecting money laundering and terrorist financing that are associated with their jobs.
- **Background information on money laundering and terrorist financing:** Any training program should include some background information on money laundering so everyone who needs to can understand what money laundering and terrorist financing is and how the process works.

Please refer to FINTRAC's Guidance, "*Compliance Program Requirements*" for additional information on your obligation to have an ongoing training program.

Deficiency #4: PCMLTF Regulations 71(1)(e) - Compliance Program - Review of Policies and Procedures, Risk Assessment and Ongoing Training Program

Your organization has the obligation to institute and document every two years a review of your policies and procedures, the risk assessment and the training program by an internal or external auditor as applicable, as required by paragraph 71(1)(e) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Specifically, as discussed and confirmed with you [REDACTED] 2020, your organization has not conducted a documented two-year review. You are required to conduct a comprehensive documented review of your organization's policies and procedures, risk assessment and ongoing training program once every two years to test their effectiveness.

Moreover, a review by an internal or external auditor could include interviews, tests and samplings, such as the following:

- interviews with those handling transactions to determine their knowledge of the legislative requirements and your policies and procedures;
- a review of the criteria and processes for identifying and reporting suspicious transactions;
- a sampling of clients to see if the risk assessment was adequate;
- a sampling of high-risk clients to review the enhanced measures taken;
- a test of the record keeping system for compliance with the legislation;
- a test of the client identification procedures for compliance with the legislation; and
- a review of the risk assessment.

The scope and the details of the review have to be documented, which will depend on the nature, size and complexity of your organization's operations. Additionally, the review process should be well documented and should note any weaknesses of the compliance program. Moreover, the results of the review also have to be documented, along with corrective measures and follow-up actions.

Please refer to FINTRAC's Guidance titled, "*Compliance Program Requirements*" for additional information on your obligation to conduct a documented two-year review.

Deficiency #5: Act 6 - Record Keeping - Prescribed records

PCMLTF Regulations 39(1)(b) - Client information record

Your organization has the obligation to keep a client information record in respect of a purchase or sale of real estate, as required by paragraph 39(1)(b) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Specifically, of the 50 client information records reviewed, the examination revealed ■ records with the following issues:

- ■ where the client's address is inadequate;
- ■ where the client's occupation is missing; and
- ■ where the client's occupation is inadequate.

The address recorded for your clients should be a complete civic address which serves as the physical address where the client lives. ■ of an inadequate address provided contained a PO Box address, not a physical address.

The occupation recorded for your clients should be sufficiently detailed to determine whether the activity fits their profile. ■ identified as inadequate are vague (■, ■ and "Purchaser") and do not make that determination.

Please find a copy of the enclosed "Details of Deficiencies Report" detailing the deficiencies cited above.