



Financial Transactions and
Reports Analysis Centre
of Canada

Centre d'analyse des opérations
et déclarations financières
du Canada

Feedback on Suspicious Transaction Reporting

Securities Sector

FEEDBACK ON SUSPICIOUS TRANSACTION REPORTING: SECURITIES SECTOR

1.0 Introduction

This report has been prepared for the Canadian securities sector with the objective to provide feedback on financial transaction reports that have been submitted to FINTRAC. The Centre regularly provides feedback on issues relating to this reporting, including timeliness, volume, quality of reports and areas for improvement. This document provides additional feedback to the securities sector on FINTRAC's use of the transaction reports they have provided, with particular emphasis on suspicious transaction reports (STRs). Guidance and sanitized samples of completed STRs are also provided. Additional guidance on suspicious transaction reporting can be found in *Guideline 2: Suspicious Transactions* from the Guidelines page of FINTRAC's Web site (www.fintrac-canafe.gc.ca).

1.1 Reporting volumes

The *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) and its Regulations oblige the following persons and entities (known as "reporting entities") to make reports to FINTRAC:

- financial entities (includes banks, credit unions, trust and loan companies, etc.);
- life insurance companies, brokers or agents;
- securities dealers;
- persons engaged in the business of foreign exchange dealing and money services businesses;
- agents of the Crown that sell money orders;
- accountants and accounting firms;
- real estate brokers and sales representatives; and
- casinos.

In addition to meeting client identification and record keeping requirements, these reporting entities must provide the following information to FINTRAC:

- suspicious transaction reports (STRs) related either to money laundering or to terrorist activity financing regardless of dollar value;
- international electronic funds transfer reports (EFTRs) involving \$10,000 or more;
- large cash transaction reports (LCTRs) of \$10,000 or over; and
- terrorist property reports (TPRs) that report the existence of terrorist property in their possession or control, or information about a transaction or proposed transaction in respect of such property.

The securities sector reported 71 STRs and 14 LCTRs in fiscal 2006-2007. A detailed breakdown on reporting volumes is included in Annex 1.

1.2 How reports are used in FINTRAC cases

Reporting entities are critical partners in Canada's efforts to detect and deter money laundering and terrorist financing. Success in combating these crimes depends, to a considerable degree, on their vigilance in complying with the reporting, record keeping and client identification requirements of the PCMLTFA. The accuracy, completeness and timeliness of reports are fundamental to FINTRAC's effectiveness.

A main product of FINTRAC's analysis of the reports received from reporting entities is the case disclosure to law enforcement. Reports, along with other information available, are analyzed to uncover connections among parties and to identify financial activity associated with patterns of suspected money laundering and terrorist activity financing. Once FINTRAC determines there are reasonable grounds to suspect that the information would be relevant to the investigation or prosecution of a money laundering or terrorist activity financing offence or threats to the security of Canada, FINTRAC must disclose "designated information" to the appropriate police force or security agency.

Since February 10, 2007 the following information can be included in a case disclosure¹:

- names and addresses of any person or entity that is involved in the transaction, attempted transaction, importation and exportation, or any person or entity acting on their behalf;
- names of every account holder;
- transit and account numbers, transaction number, date and time of transaction, type of transaction;
- names of the parties to the transaction;
- name, address and type of business where the transaction occurred;
- name and address of the company(ies) involved in the transaction(s);
- transaction number and account number;
- type and value of transaction(s), including the amount and type of currency or monetary instruments involved;
- citizenship;
- passport number, record of landing number or permanent resident card number;
- alias, if any, and date of birth;
- name of importer or exporter, and the date and jurisdiction of its incorporation and its incorporation number; and

¹ Additional information can now be included in a case disclosure since June 30, 2007 and is listed in Annex 2.

- publicly available information.

As shown in Figure 1, reports from the securities sector were included in less than 1% of money laundering and terrorist activity financing case disclosures in 2006-2007.

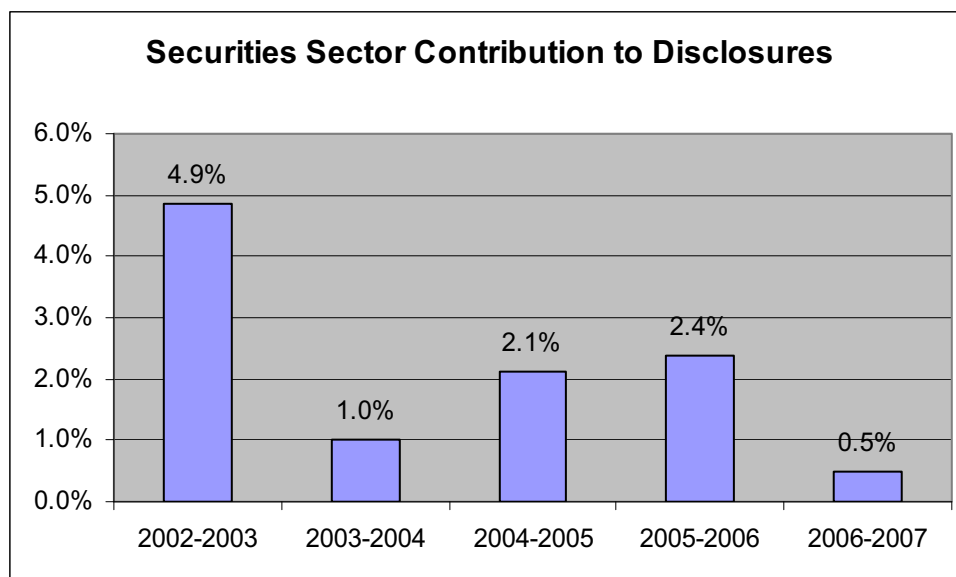


Figure 1

2.0 Tips on reporting

2.1 The value of an STR

Reporting entities are required to send an STR to FINTRAC when there are reasonable grounds to suspect that a transaction is related to the commission of a money laundering offence or a terrorist activity financing offence. The STR contains specific information about financial transactions and must be sent within 30 calendar days after a reporting entity has become suspicious. A suspicion in relation to a money laundering or terrorist activity financing offence may also be related to more than one transaction. In this case, all transactions that contributed to the suspicion should be included in the same report.

STRs assist FINTRAC to identify patterns of suspect financial transactions and can support identifying links and connections among individuals, entities and accounts that may otherwise not have been known. STRs, in conjunction with LCTRs and EFTRs, provide context for the overall flow of funds. In the case of a suspicious transaction report, a detailed explanation of what led to the suspicion is also extremely important to FINTRAC's analysis.

Completing all applicable fields in the STR makes an important contribution to FINTRAC's ability to isolate activity pointing to possible money laundering or

terrorist activity financing. While STRs account for less than 0.25% of all reports the Centre receives, they represent on average 8% of all of the reports disclosed to law enforcement and security agencies for investigation and possible prosecution.

2.2 What makes a good STR?

In addition to the reporting entity's reasons for suspicion, STRs provide valuable analytical information, such as the following:

- the names of individuals and entities involved in transactions;
- directorships and signing authorities for business entities;
- account numbers and other key identifiers (e.g. date of birth, government-issued ID, addresses, telephone numbers);
- the flow of funds;
- historical transaction activity; and
- associated entities and individuals and relationships between them (e.g. family members, business associates).

The complete and consistent reporting of client details (name, address, ID documentation, date of birth, etc.) will ensure that FINTRAC has accurate information to search and verify its data holdings. Using the information on an STR, FINTRAC can also refer to open source information (e.g. media) to identify and verify links.

2.3 Reasons for suspicion in FINTRAC's case disclosures

FINTRAC conducted a review of the STRs provided by the securities sector that appeared in case disclosures and extracted reasons for suspicion from *Part G* of these reports. In isolation, each of the reasons below may be insufficient to raise a suspicion of money laundering, however the broader context of the entire information contained in the case disclosure allows this association to be made. Many of the reasons reported are also internationally recognized money laundering indicators.

Common reasons that the securities sector provided for submitting STRs to FINTRAC include:

- use of cash to purchase securities;
- structured transactions;
- atypical trading activities;
- no economic gain in the transactions (deliberately incurring losses);
- long term securities cashed out a short time after the initial investment;
- transfer of the proceeds from the sale of a business's securities to a personal account followed by wires to other locations;
- shareholders living in a safe haven country; and

- customer refusal to provide identification.

When completing an STR, it is important for reporting entities to describe, using narrative, why a transaction is suspicious and not to rely solely on the types of indicators set out above. The complete context of why transactions seem suspicious is key for FINTRAC’s analysis as it can assist in reaching the threshold of reasonable grounds to suspect that the information would be relevant to a money laundering or terrorist financing activity investigation or prosecution.

2.4 Sample suspicious transaction reports

The following are some sanitized samples from the STR’s *Part G: Description of the Suspicious Activity* submitted by the securities sector. General observations on the usefulness of the information are also provided.

It is important to note that, in addition to *Part G* of the STR, FINTRAC also relies on the complete and accurate identification of individuals and entities (e.g. address, date of birth, complete name) in other sections of the STR (*Parts A to F*) to identify links and connections.

Suspicious Transaction Report # 1
PART G: Description of suspicious activity
<ul style="list-style-type: none"> ▪ Company A was suspected of insider trading, money laundering, and acting as an unlicensed broker in a foreign jurisdiction. ▪ The names of the signatories on Company A’s account, as well as their titles with respect to the business, were provided. ▪ A review of the account’s activity over the last six months was provided that outlined their reasons for suspicion.

The key information provided in this STR that assisted FINTRAC to develop a case includes the following:

- names of four individuals and their roles; and
- a comprehensive account history supporting the suspicion of Company A’s involvement in illicit activities.

Suspicious Transaction Report # 2**Part G: Description of suspicious activity**

- Client 1 frequently deposited and withdrew funds from investments held at a securities dealer.
- Client 1's stated investment objective was long term capital gains. Therefore, the economic sense of the frequent deposits/withdrawals was highly questionable.
- When Client 1's advisor was questioned concerning the frequency of the withdrawals, the advisor stated that unplanned expenses had caused Client 1 to need cash immediately.
- According to the securities dealer's records on Client 1, Client 1 had a multi-million dollar annual income. The individual's constant need to withdraw from long term investments was therefore considered suspicious.
- Both Client 1 and Client 1's advisor were named in the STR.

The key information provided in this STR that assisted FINTRAC to develop a case includes the following:

- narrative questioned the economic sense of the transactions and provided the advisor's explanation for the suspicious activity;
- the discrepancy between Client 1's salary and the frequent need to draw funds from investments was emphasized;
- the names of both Client 1 and the advisor were provided.

Annex 1

REPORTING BREAKDOWN FOR THE SECURITIES SECTOR

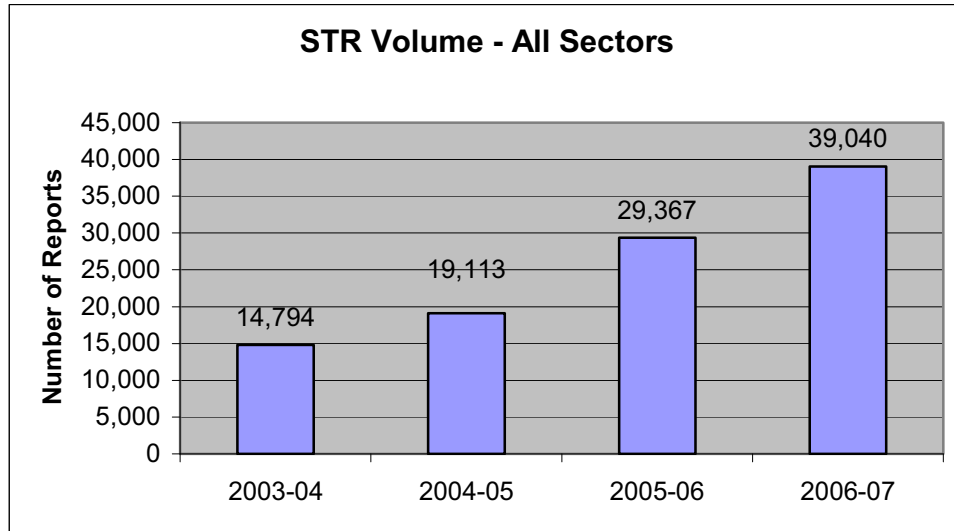


Figure 2

As Figure 2 illustrates, suspicious transaction reporting levels have steadily increased since 2003-04.

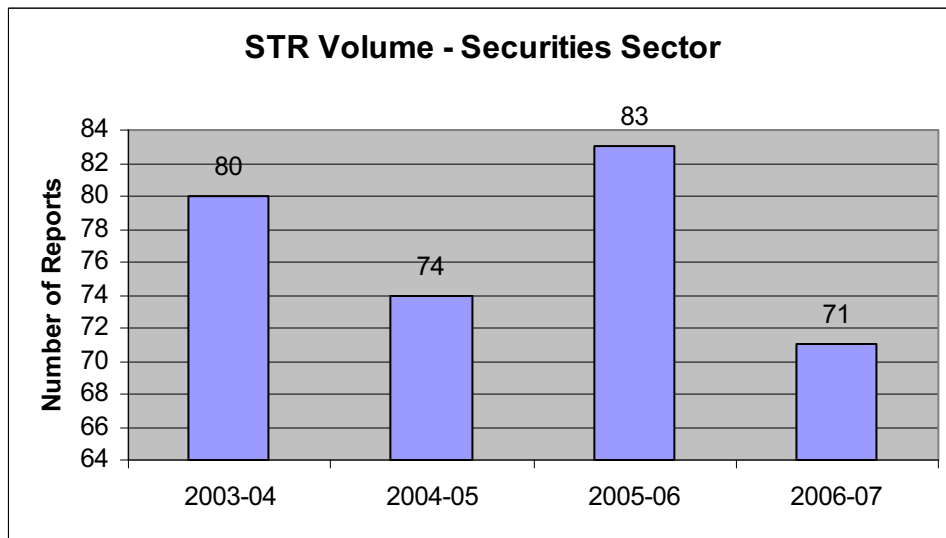


Figure 3

The number of STRs submitted by the securities sector has remained fairly stable since 2003-04.

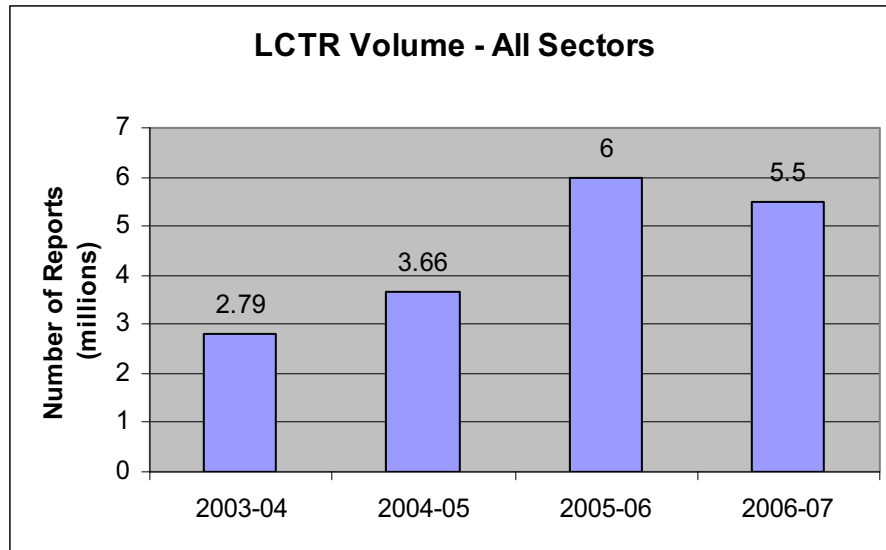


Figure 4

The number of LCTRs received by FINTRAC has also increased steadily since 2003-04, reaching 6 million reports in 2005-06 and slightly decreasing in 2006-07.

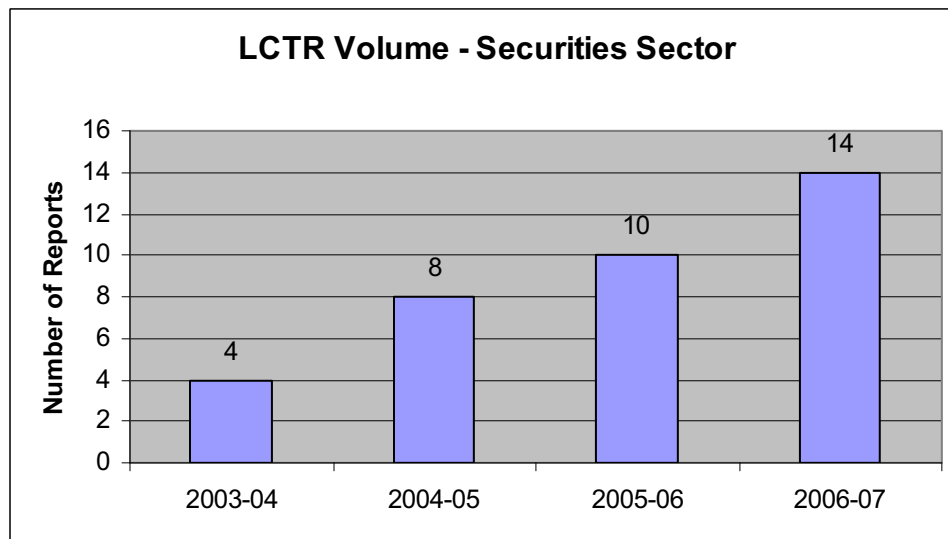


Figure 5

The number of LCTRs submitted by the securities sector has increased since 2003-04 to 14 reports received in fiscal 2006-07.

Annex 2

Since June 30, 2007 the following additional information may be included in a case disclosure:

- name, address, electronic mail address and telephone number of each partner, director or officer of an entity involved in transactions or of an entity acting on their behalf;
- address and telephone number of its principal place of business;
- any other similar identifying information;
- details of any criminal record of a person or entity involved in a transaction and any criminal charges laid against them relevant in the circumstances;
- relationships between any persons or entities suspected on reasonable grounds to be involved in a transaction or persons or entities acting on their behalf;
- any financial interest that a person or entity has in the entity on whose behalf the transaction was made or attempted;
- name of the person suspected on reasonable grounds of directing the suspected money laundering or terrorist financing;
- grounds on which a person or entity made a suspicious transaction report;
- number and types of reports on which a disclosure is based;
- number and category of persons or entities that made the reports;
- indicators of a money laundering offence or a terrorist activity offence related to the transaction or attempted transaction that FINTRAC uses to justify a disclosure;
- type of account;
- name and address of all persons authorized to act in respect of the account;
- telephone number and electronic mail address of any persons or entities involved in transactions or any person or entity acting on their behalf;
- telephone number of the place of business where the transaction occurred;
- the type of report;
- attempted transactions;
- name and address of any person or entity on whose behalf the financial transaction or attempted financial transaction is conducted or on whose behalf the transaction is carried out; and
- the telephone number of the place of business where the financial transaction or attempted financial transaction occurred.