



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Finance

FINA • NUMBER 111 • 1st SESSION • 41st PARLIAMENT

EVIDENCE

Thursday, March 21, 2013

—
Chair

Mr. James Rajotte

Standing Committee on Finance

Thursday, March 21, 2013

•(0845)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order. This is meeting number 111 of the Standing Committee on Finance.

Orders of the day are pursuant to Standing Order 108(2), continuing our study of tax evasion and the use of tax havens.

We're very pleased to have six witnesses before us this morning. From BMO Bank of Montreal, we have vice-president and senior consultant, Mr. Jean Richard. We have from the Canadian Imperial Bank of Commerce, Mr. Steven Blackburn, vice-president and chief anti-money laundering officer. From HSBC Bank Canada, we have Mr. Scott Bartos, senior vice-president and chief compliance officer. From RBC Royal Bank, we have Mr. Russell Purre, deputy chief anti-money laundering officer. From Scotiabank, we have vice-president Nanci York. From TD Bank Financial Group, we have the head of global anti-money laundering compliance, Carmina Hughes.

Welcome to all of you. Thank you so much for being here this morning. We will proceed in the order I introduced you. We'll have each witness present an opening statement of five minutes, and then we'll proceed to members' questions.

We'll begin with Mr. Richard, s'il vous plaît.

[Translation]

Mr. Jean Richard (Vice-President and Senior Consultant, Wealth Management Group, BMO Nesbitt Burns, BMO Bank of Montreal): Distinguished members of the committee, Mr. Chair, on behalf of BMO Financial Group, I'm pleased to join my colleagues from other financial institutions to assist in your discussion of tax havens and tax evasion. As you know, my colleagues from the other financial institutions mainly focus on this issue from a perspective of Canadian and international compliance. I offer a different kind of expertise, which concerns our financial institutions wealth management advisory relationship with its individual clients who have domestic, national and sometimes international financial interests.

As you have already heard from the Canadian Imperial Bank of Commerce, the CIBC, and as you will hear from my other colleagues at the table, BMO, just like the other financial institutions, does not advise clients to fraudulently avoid the payment of tax, either in Canada or elsewhere. And of course, just like any other Canadian bank, we have policies and procedures that ensure that our employees comply with both the letter and spirit of the law they are subject to. My colleagues will be able to discuss that with you.

That is why we believe it is important to tell you about the services we provide for our clients.

First, we are aware that as a financial institution, we must not give our clients legal or tax advice. We recognize that advice of that kind falls exclusively within the realm of the private practice of law and tax consultancy, a practice that is limited to lawyers and accountants. Only law firms and accounting firms may give opinions to their clients, be they private individuals, corporations or public organizations. We therefore never give our clients opinions on legal or tax matters. Our role relates to the management of our clients' high net value estates and focuses on matters relating to their family, protecting their lifestyle, investing for retirement, estate planning, business continuity, and philanthropy.

Our role is limited to identifying their needs and informing them about the difficulties and the rules and the strategies available in their particular situation. For each of these areas, tax issues are an unavoidable corollary to achieving maximum effectiveness. To that extent, our mission is to make sure that our clients are informed about the tax opportunities and risks they encounter and are therefore able to seek out the professional support that will enable them to improve their situation. It is inherent in my responsibilities to ensure that our clients obtain the advice they need in order to achieve their objectives effectively. This means that in my role at BMO, I bring together the knowledge and experience of our teams of experts to provide assistance to the bank's investment advisors, to help them create sound wealth management plans for their clients.

BMO's investment advisors don't just look at tax, of course. They draw on our resources, for the exclusive benefit of our clients, by tackling the questions we have described, in order to provide them with an integrated and multidisciplinary wealth management solution. This includes all aspects of managing, protecting and transferring wealth, investment strategy, insurance, estate planning, retirement planning, cash management, planned giving, powers of attorney, trusts and wills.

Our information includes the tax aspects. However, they are only incidental to the myriad of supports we offer our clients. We work exclusively within the laws that are in force and within the limits they impose. Our goal is to make sure that our clients are not the victims of bad advice or of the risky or improper use of tax rules. Our aim is always to protect our clients and not put their personal situation at risk, and thus destroy our relationship of trust.

This committee will know of the myriad of excellent programs that are in place to give Canadians the opportunity to be tax efficient within the fiscal policies decided by Parliament. The RRSP, for instance, has long been one of the most successful retirement savings tools ever developed in Canada. There are many other tools that operate alongside it.

BMO Financial Group is a strong supporter of the recent creation of new instruments that have the dual advantage of supporting Canadians who are saving for retirement, through tax relief, while helping to achieve an important social goal: financial security for our fellow Canadians in retirement. New tools such as the tax free savings account, or TFSA, the voluntary retirement savings plan, or VRSP, disability savings plans, and for some time now, education savings plans, have been added to the fiscal tools put in place to help achieve clear public objectives.

The function of our wealth management service is to make sure that our clients take advantage of the opportunities that Canadian tax policies offer and avoid the traps that can be hiding behind the shiny returns or the smoke and mirrors. Our function is to inform them and encourage them to explore the opportunities available to them with their legal and tax advisors.

● (0850)

At the international level, we also have to ensure that our clients do not fall into traps, whether because of double taxation when they hold assets or property outside Canada, estate taxes on their property if they have heirs who reside outside Canada, or any other complexity that arises when different legislation intersects, whether in relation to the personal nature of liability for tax, the economic basis of tax liability or conflicting rules. International tax advice is intended primarily to avert the dangers of double taxation.

The same is true for foreign nationals who invest in Canada...

The Chair: Mr. Richard, I am going to ask you to finish, please.

Mr. Jean Richard: I am at the end, Mr. Chair.

The same is true for foreign nationals who invest in Canada, who do not want to see the capital they have invested in our economy penalized by the impact of Canadian tax liability on income from Canadian sources, while at the same time being taxed in their country based on citizenship or residence. Our role is therefore to inform our clients and make them aware of the options, within the rules.

Mr. Chair, ladies and gentlemen of the committee, BMO Financial Group is pleased to be here to discuss international taxation questions with you.

The Chair: Thank you for your presentation.

[English]

Next we'll hear from Mr. Blackburn, please.

Mr. Steven Blackburn (Vice-President and Chief Anti-Money Laundering Officer, Canadian Imperial Bank of Commerce): Thank you, Mr. Chair, and good morning.

It's a pleasure to be with you this morning at this hearing of the Standing Committee on Finance. I commend you for undertaking

this study on tax havens, which is clearly an issue for all members of Parliament.

My name is Steven Blackburn, and I am the vice-president and chief AML officer for CIBC.

As many of you know, CIBC is a Canadian-based financial institution. Through our three main business units—retail and business banking, wealth management, and wholesale banking—our 42,000 employees provide a full range of financial products and services to more than 11 million individuals, small businesses, commercial entities, corporate entities, and institutional clients in Canada and around the world. CIBC was recently named the strongest bank in North America, and the third strongest bank in the world by *Bloomberg Markets* magazine.

In my role I am responsible for all aspects of CIBC's anti-money laundering and anti-terrorist financing regime, including our AML program, our policies and standards, inherent risk assessment, AML training, effectiveness testing, and reporting to the Financial Transactions and Reports Analysis Centre of Canada, otherwise known as FINTRAC, as well as to law enforcement agencies.

CIBC has implemented procedures to ensure that all relevant regulatory obligations with respect to client identification and reporting of suspicious transactions, large cash transactions, electronic funds transfers, and cross-border movements of cash and monetary instruments are met in each jurisdiction in which we operate.

In addition to running CIBC's financial investigations unit, I provide advice to business units with respect to the application and interpretation of AML law, our policy and standards, and the application and interpretation of Canadian and American sanctions. I also assist individual business units with the development, implementation, and monitoring of policies and procedures under our AML compliance regime, including the regular testing of their effectiveness in partnership with CIBC's internal audit group.

I know that our appearance here today is a small part of your larger study, and I'm aware that the Canadian Bankers Association presented a broad-based financial services sector perspective to you a few weeks ago.

I look forward to answering your questions this morning, along with my colleagues, and I hope we're able to provide some clarity and useful commentary as you consider this important subject.

Thank you.

● (0855)

The Chair: Thank you, Mr. Blackburn.

We'll hear from Mr. Bartos, please.

Mr. Scott Bartos (Senior Vice President and Chief Compliance Officer, Chief Anti-Money Laundering Officer, HSBC Bank Canada): Thank you, Mr. Chairman.

Good morning. My name is Scott Bartos, and I am the senior vice-president and chief compliance officer for HSBC Bank Canada. I'm the senior executive responsible for the oversight of HSBC Canada's regulatory and AML compliance program.

Just to give you some context about HSBC, we are a Canadian chartered bank operating under Canadian law and regulated by the Office of the Superintendent of Financial Institutions. Our bank is a member of the global HSBC group, and a subsidiary of HSBC Holdings PLC, U.K., one of the largest financial institutions in the world.

HSBC Canada is currently the seventh largest Canadian bank with over 140 branches across the country and roughly 6,000 employees. HSBC Canada is a significant Canadian taxpayer, having paid approximately \$252 million in federal, provincial, income, and capital taxes in 2012 alone.

Since my last appearance before this committee in February 2011, events have occurred that have reinforced the need to further strengthen our efforts to combat tax evasion and all other financial crimes. The entire HSBC group, including HSBC Bank Canada, is committed to implementing industry leading controls and best practices for combatting financial crimes and tax evasion.

As a whole, the HSBC group invests approximately \$500 million per year to ensure regulatory compliance and combat financial crimes. In addition, the HSBC group has taken a new approach in the industry, and they have appointed, or established, a financial systems vulnerabilities committee, which will be advised by subject-matter experts in money laundering, terrorist financing, organized crime, and tax evasion.

Our anti-financial crime strategy can be described as deter, detect, and disclose. To successfully execute this strategy, HSBC Canada has instituted the following controls and safeguards: to deter, we have instituted controls to ensure that we've verified the identities of our customers and that we understand the intended purpose of their banking relationship with us; to detect, we monitor account activity to identify transactions that do not match usual patterns, or stated customer purposes—any transactions that appear unusual are subject to further review or formal investigation by the compliance team; and to disclose, we file suspicious transaction reports, large cash transaction reports, and electronic fund transfer reports with FINTRAC, the federal government agency. To give you some idea of scale, in 2012 HSBC disclosed approximately 725 suspicious transaction reports, over 96,000 large cash transaction reports, and approximately 600,000 electronic fund transfer reports. In addition, we cooperate fully with Canadian legal authorities with respect to any formal investigations they initiate.

While we're confident that these measures will help deter, detect, and disclose financial crimes and tax evasion, we must always be vigilant. To quote our HSBC group chief executive, Stuart Gulliver, "There is no finish line when it comes to combatting financial crimes. Money launderers, tax evaders, terrorist financiers continuously implement new means of abusing financial institutions. Their efforts represent a threat to the integrity of the global financial system, and to national security. We must always be one step ahead of them. As a steward of the global financial system, we must play a full part in protecting it. In doing so, we will work side by side with governments and regulators."

I would like to thank the committee for the opportunity to be here this morning, and to share our observations on this important topic. I would be happy to answer questions in due course.

Thank you.

• (0900)

The Chair: Thank you, Mr. Bartos.

We'll now hear from Mr. Purre.

Mr. Russell Purre (Deputy Chief Anti-Money Laundering Officer, RBC Royal Bank): Thank you.

Good morning. My name is Russell Purre, and I'm the deputy anti-money laundering officer for RBC. Prior to this, I was chief compliance officer for RBC Dominion Securities, and head of wealth management compliance here in Canada and for Latin America.

While many of you know RBC because of our presence in Canada, you may not be as familiar with our broader organization, which obviously is of importance to your committee's study. I will take a few minutes to tell you about who we are and what we do from a global perspective.

We are Canada's largest bank, as measured by assets and market capitalization. We are also among the largest banks in the world, based on market capitalization. We are one of North America's leading diversified financial services companies, providing personal and commercial banking, wealth management services, insurance, investor services, and wholesale banking, all on a global basis. We employ approximately 80,000 full-time and part-time employees who serve more than 15 million personal, business, public sector, and institutional clients through our offices in Canada, the U.S., and 49 other countries globally.

Our international activities are predicated on client service and exploring business opportunities. To use the Caribbean as an example, we've been active in that region since 1864. We actually had branches in the Caribbean before we had branches in most parts of Canada. The reason for this was that we followed the trading activities of our clients as they sailed from our original headquarters, which was based in Halifax, to pursue business opportunities to the south. Those same client services and business considerations motivate our international activities now. We are looking for competitive opportunities to service clients in our key business lines, wherever they may be.

Our goal is to have a positive impact on the economies of the communities and countries in which we do business by delivering shareholder returns, creating good jobs, paying our fair share of taxes, and purchasing goods and services responsibly from suppliers of all sizes.

To this end, last year RBC helped create economic prosperity by providing good jobs to our 80,000 employees with compensation and benefits of approximately \$9.3 billion globally, by paying taxes of \$3.1 billion, and by buying 5.9 billion dollars' worth of goods and services globally from 36,000 suppliers of all sizes.

We provided loans, services, and advice to businesses and organizations around the world, enabling them to operate, build, and grow.

Our reputation for trust is the foundation of our relationship with clients and the reason for our success both at home and abroad. We go to considerable lengths to ensure that we do not undertake activities that would compromise this reputation, by conducting ourselves with integrity in everything we do, guided by our comprehensive code of conduct. All RBC employees are governed by this code, which reflects our fundamental values and provides the integral foundation for the way we do business. Based on eight guiding principles, it is for all RBC companies and for all our employees globally.

We work hard to uphold the principles, policies, and procedures that promote integrity and ensure compliance with applicable regulatory requirements. Of interest to this committee will be our activities in 2012 to update our framework for managing regulatory compliance risk. We recently updated our anti-money laundering framework and related policies, and we'll continue to ensure our policies and procedures are updated to comply with new regulatory requirements, industry developments, and business processes. In the area of taxation, we fully comply with all domestic and international regulations, and we have extensive internal risk management and governance controls in place.

For any type of account opening, we follow know-your-client rules. This is the case anywhere we do business globally. This includes beneficial ownership of the funds, source of wealth, and the purpose of the activity intended in the account. We do other background checks as well, such as running our clients against a variety of global AML lists and checking to see if they are politically exposed persons.

There is an RBC enterprise-wide baseline policy that drives information collection, which derives from OSFI and FINTRAC. This is closely monitored and tested by OSFI, and we are always improving standards and procedures.

On top of our baseline policy, we also apply local standards based on local regulations in the markets in which we operate. The regulatory standards of all the jurisdictions in which we operate are very high, and the internal policies and procedures build on and enhance these global standards.

Thank you for your attention to these matters. I would be pleased to answer any questions from the committee.

• (0905)

The Chair: Thank you for your presentation.

We'll now hear from Ms. York, please.

Ms. Nanci York (Vice-President, Enterprise Regulatory Projects, Scotiabank): Hello. My name is Nanci York. I am vice-president of enterprise regulatory projects at Scotiabank.

I am the bank's point person for the implementation of the Foreign Account Tax Compliance Act, or FATCA. In this role I am responsible for FATCA readiness and compliance across our global operations, and as a result, have experience with international efforts to address tax evasion and tax reporting. My hope is that this

experience will be of assistance to the committee as it looks for practical approaches to addressing tax evasion and tax avoidance concerns in Canada.

In reviewing past testimony before the committee, we know that bilateral approaches such as the TIEAs as well as multilateral efforts such as the OECD's Global Forum have been discussed.

If there is one key lesson I can take from the U.S. approach with FATCA, it is how important it is for Canada to avoid the problems of this model and instead pursue a multilateral, government-to-government exchange, such as the Global Forum. The peer reviews within the Global Forum must lead to changes in order for the transparency and reporting to be enhanced. With G-20 and Canadian government attention, Scotiabank believes that the most effective way to address tax evasion and tax avoidance is through this mechanism.

I'd also like to quickly add that we believe recent efforts by the CRA around self-reporting and raising awareness around tax issues, such as tax avoidance, are helpful steps in enhancing a culture of compliance and transparency within Canadian businesses.

Our own experience in international markets and our success in meeting or exceeding the requirements of the jurisdictions where we operate hinge on Scotiabank's history and continued focus on our culture of risk management, governance, and compliance. We value our reputation tremendously, and it guides our actions across our global network.

I look forward to answering your questions.

The Chair: Thank you, Ms. York.

We'll now hear from Ms. Hughes, please.

Ms. Carmina Hughes (Head, Global Anti-Money Laundering Compliance, TD Bank Financial Group): Good morning. My name is Carmina Hughes. I'm very pleased to be here today representing the TD Bank Group.

At TD, I am the global anti-money laundering officer or, as we call it, the GAMLO. I am responsible for AML compliance in all the jurisdictions in which TD operates. I have the pleasure of leading a team that works to build and sustain a culture of anti-money laundering compliance, where all of TD's business partners understand the goals of AML and link them to their business objectives.

I have over 30 years' experience in anti-money laundering and compliance-related work in the financial sector, mostly in the U.S. I have served as a federal prosecutor, a regulator, a teacher, and a private consultant to the financial services industry, as well as working directly for TD.

As special counsel for enforcement and special investigations for the Board of Governors of the Federal Reserve System, I served on the front line of the U.S.A. Patriot Act and the Bank Secrecy Act implementation efforts and compliance. I represented the board at the Financial Action Task Force, FATF, an international standard setter, and at other international bodies, thereby gaining a broad understanding of other AML regimes, as well as commonly recognized money-laundering and terrorist financing schemes.

In my years as a federal prosecutor, I investigated and prosecuted many fraud and financial sector crimes, including money laundering and income tax evasion.

I'm happy to be here today to speak to the Canadian AML regime and the ways in which the AML rules help to prevent and deter the illegal use of tax havens, and to discuss any other topics to which my experience may be relevant or helpful.

Thank you.

• (0910)

The Chair: Thank you, Ms. Hughes, for your presentation.

We'll begin questions from members with Ms. Nash.

I will indicate to our witnesses that there is a five-minute maximum for a member's time as well, so their time is limited.

I would ask the members to direct their questions as best they can to one or more witnesses.

Ms. Nash, please.

Ms. Peggy Nash (Parkdale—High Park, NDP): Thank you, Mr. Chair.

Good morning, everyone. Thank you for being here today.

Because I have just five minutes, I'm going to try to get in three different questions.

I want to start by referring to a point made by Ms. York. You indicated that, given your experience with FATCA, you are in favour of multilateral rather than bilateral agreements. This is something that we have been looking at.

Could I get a quick yes or no from each of the witnesses as to whether you favour multilateral agreements or bilateral agreements? Multilateral, yes or no?

Monsieur Richard.

Mr. Jean Richard: Multilateral.

Mr. Steven Blackburn: Multilateral.

Mr. Scott Bartos: Multilateral.

Mr. Russell Purre: First, I commend the work that's been done in establishing international tax treaties and also the establishment of TIEAs, which I think are ultimately a much more effective tool in terms of addressing the needs of the Canadian government and the Canadian populace.

Ms. Peggy Nash: So do you prefer bilateral agreements?

Mr. Russell Purre: I would prefer multilateral agreements.

Ms. Peggy Nash: Multilateral.

Ms. Hughes.

Ms. Carmina Hughes: Multilateral.

Ms. Peggy Nash: Okay, thank you.

Going back to you, Mr. Purre, you talked about the RBC approach, know your client, and the importance of determining beneficial ownership for clients who open accounts. You talked about compliance with regulations in Canada and in the country where the subsidiaries are based.

In those countries where you have subsidiaries, does RBC comply only with the local regulations, or are there company-wide standards that would apply regardless of the country?

Mr. Russell Purre: I probably should have been clearer up front, my apologies.

We start off with a baseline RBC policy that applies globally across the organization as a whole, to all our employees and to all our subsidiaries. That's our starting place for all things, so that's effectively the minimum standard.

We overlay local regulations, policies and procedures, and best practices that again we've learned globally.

Ms. Peggy Nash: Okay, thank you.

Can you briefly describe the policies you have in place that ensure your subsidiaries in tax havens or in jurisdictions that are known for their secrecy are not facilitating money laundering or tax evasion?

Mr. Russell Purre: There are a couple of things. We always need to be conscious about.... You used the words "tax havens". I would say that RBC does not operate in any tax havens, which I look at as jurisdictions that don't ascribe to FATF rules around transparency and sharing of information.

RBC ensures that each of our global subsidiaries is adhering to the RBC global standard by regular audits and tests, taking resources centrally from here in Canada to test what takes place in those units.

On top of that, when we look at rules, such as many of the members here have, ultimately the reason all of us have jobs from a global AML perspective is to ensure the exact question you've asked, that those international units are adhering to the standards that we adhere to globally.

Ms. Peggy Nash: Shining a light on the information is really key to knowing what's happening and getting that information.

I have to move on.

Mr. Bartos, you described a number of provisions in place to ensure transparency at HSBC. HSBC, of course, is a huge bank with \$2.7 trillion in assets worldwide. I know that over the last year it's paid about \$4 billion in fines and settlements due to various investigations. Were these measures that you talked about in place prior to those investigations, or were these changes the bank made in response to those investigations, and therefore you would expect that won't be a problem going forward?

Mr. Scott Bartos: Mr. Chairman, the short answer is that high levels of standards and policies have always been in place. We discovered they were not observed as strictly as we had expected they would be. So in the new model for HSBC, we have implemented a compliance assurance function, which sits at the global centre, whose sole task is to go to the various subsidiaries to ensure that not only are the policies and procedures in place, but they're being observed.

• (0915)

Ms. Peggy Nash: Thanks very much.

The Chair: Thank you, Ms. Nash.

We'll go to Ms. McLeod, please.

Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC): Thank you, Mr. Chair.

Thank you to all the witnesses for coming today.

This is a study that all parties agreed to. You can see the importance we place on it, because certainly, we all know that people are evading their taxes in Canada, to the detriment of all of us.

Does your organization have policies, procedures, or standards whereby the same information you would collect on someone opening a bank account in Canada is collected in your subsidiaries? I'm asking for a quick yes or no.

Mr. Richard.

Mr. Jean Richard: I would refer that to the specialists in compliance. I am not in that field.

Mr. Steven Blackburn: The short answer is yes. We apply the same policies in the other jurisdictions in which we operate as we apply in Canada for client identification.

Mr. Scott Bartos: In the case of HSBC, the short answer would also be yes. HSBC group has set a standard global requirement that sets the baseline, which is the minimum standard, and all countries and subsidiaries must observe it. It may be enhanced, if a particular country has higher standards, but there is a minimum threshold that all countries and businesses must meet.

Mrs. Cathy McLeod: Would Canada be at the minimum threshold?

Mr. Scott Bartos: Actually, in the case of Canada, in certain respects it would set a component of the minimum threshold. If I were to give an example, in Canada we take two pieces of identification, whereas many other countries or many other laws will only require one piece of identification. So many group offices have set that as a minimum standard.

Mr. Russell Purre: What's interesting about the question is that when we look at the developments internationally around the requirements from an anti-money laundering perspective, as more countries sign onto the OECD guideline, you see very similar rules and regulations when it comes to things such as verification and beneficial ownership, collecting the purpose of the account, and determining the ultimate intent of transactions within that. For us, Canada is the minimum standard. On top of that, we overlay local regulations and best practices on a global basis. When we talk about those core elements, that's a global standard for us.

You said something earlier which I thought was interesting about the importance of addressing individuals who evade taxes. I think that is a key point. The evasion of taxes is a criminal act and is illegal. When we talk about reverting to the code of conduct for our organization, certainly if we ever had an employee who was facilitating the evasion of taxes in any way, those are grounds for dismissal, and we would act on them.

Ms. Nanci York: At Scotiabank we also have global standards, which are detailed from our global AML office in Canada. We do layer on that the local requirements in the jurisdictions where we operate, and we always apply the higher standard.

Ms. Carmina Hughes: At TD we follow the same courses you've heard of from the other banks. We have a global standard. We have to assure ourselves that we have reasonable proof as to who we are dealing with in terms of our customers. Of course, in different jurisdictions there are different peculiarities arising from the regime there, and that's what we adhere to wherever we are.

Mrs. Cathy McLeod: Thank you.

We do understand that there are countries that have bank secrecy laws, and that tends to be part of the issue. Do you find that some of these bank secrecy laws in place in some countries actually preclude you from moving forward in areas you are concerned about, regarding possible tax evasion? How directly do these secrecy laws in the countries that you operate in impact your ability to deal with concerns and issues?

• (0920)

The Chair: Who is that directed to?

Mrs. Cathy McLeod: I'll ask Mr. Blackburn.

Mr. Steven Blackburn: I think there are two answers to that question.

Absolutely, the legal framework in the jurisdictions in which we operate internationally may be different from that in Canada and to the extent that they have different privacy standards from those that apply in Canada, there may not be a free flow of information between those jurisdictions and Canada. That's not to say, however, that it in any way impairs our ability to run our compliance program and run our AML program. On the contrary, because CIBC takes the approach of applying a very strict standard based on our Canadian operations, or the higher standard required in other jurisdictions, we will pursue the same measures we pursue in Canada to identify any suspicious activity, including tax evasion.

The Chair: Thank you, Ms. McLeod.

Mr. Brison, go ahead please.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you, Chair.

To the witnesses, thank you very much for joining us today.

I'll begin with Ms. York. Last week I was at a conference and met Omar Davies, a former finance minister in Jamaica. He reminded me that the Bank of Nova Scotia was in Jamaica before it was in Toronto. That just indicates the degree to which our banks in Canada are not only prudentially strong but are among the most global banks in the world.

Canada played a leadership role in the genesis of the G-20 as well.

Given that confluence of factors, could Canada be playing a leadership role in building global governance, with the operative vehicle being the G-20, to create a more effective vehicle than FATCA?

Ms. Nanci York: I think Canada, with its strong banking system, its strong support to combat tax evasion and tax avoidance, can certainly play a key role, along with the other members of the G-20, to form a global multilateral approach to dealing with this issue.

Hon. Scott Brison: Is the Canadian government playing that role within the G-20?

I mean, it was Paul Martin as finance minister who actually led the charge in creating the G-20.

Ms. Hughes, perhaps.

Ms. Carmina Hughes: Actually, I'm not sure how extensively the Canadian government is involved in leading the charge, but certainly it's a well-respected member of the G-20 along with a number of other international initiatives. When I was at the Federal Reserve Board, for instance, Canada took the lead in redrafting the 40 recommendations for FATF.

I can tell you that not only is Canada involved in all of this, but the various banks, TD among them, are very involved with the OECD.

Hon. Scott Brison: Thank you very much.

In terms of know your client rules, at most or I think all of your banks, either the private wealth management or the private banking arms, your client forms have a question: Do you have investment accounts anywhere else, and if yes, where?

What happens if they say yes? What's the next question you ask these people?

Mr. Russell Purre: Maybe I could take a stab at that.

Hon. Scott Brison: That's if in fact you.... You said your bank doesn't do business in tax havens, Mr. Purre, but depending on who you ask, some people would define the Bahamas, Bermuda and Panama as tax havens.

Mr. Russell Purre: As I said earlier, I think we do need to be careful about where we use terms, because where we have information-sharing agreements and those governments are fully transparent in terms of their laws and regulations with us, whether that is or is not a tax haven, per se, is I think a point of contention.

To the question we ask about accounts elsewhere and where those might be, traditionally that's something that is captured within a brokerage account agreement. Historically, the origin of that was looking at trading activity in the marketplace to give securities regulators insight on trading activity.

Hon. Scott Brison: Thank you very much.

The point is that once they answer "yes" to the question and then say where, if it happens to be a country that some people may consider a tax haven, there is the possibility that they have legitimate investments in those places that are not tax-evasive investments. How do you determine...?

We do not want to create approaches that penalize or prevent Canadians from making legitimate investments in those countries. How do we determine and create rules that enable Canadian companies and individuals to make legitimate investments but avoid the tax-evasive vehicle? How do you go further on that?

I'd really appreciate your help in understanding that.

• (0925)

The Chair: Who would like to take that question?

Hon. Scott Brison: There are a lot of Canadians with legitimate investments in some of these places. We want to ensure that whatever regimes we recommend do not prevent them from making those investments.

The Chair: Mr. Blackburn, do you want to respond?

Mr. Steven Blackburn: Thank you, Mr. Brison and Mr. Chair.

The approach by CIBC is twofold in that regard. First of all, we will ask, to the extent that we are asking the initial question and the answer is positive, the purpose of the investment overseas, the account overseas, to better understand the nature of the client relationship and better position CIBC to monitor whether or not there's any unusual activity.

If there is something identified that's unusual about the fact that this individual has an account overseas, an offshore account, then we would certainly, to the extent it's suspicious, report it to FINTRAC.

In the Canadian context, as well, if a client presented themselves and suggested that they were based in an offshore jurisdiction, our methodology for risk assessment would immediately put that client into a higher threshold for monitoring. We would monitor the activity of that client to a greater extent than we would a non-offshore jurisdiction.

Hon. Scott Brison: Isn't that broadly the practice of all your institutions?

The Chair: Mr. Brison, your time is up. Could we just get a nod of the heads. Yes.

Thank you.

We'll go to Mr. Hoback.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Chair, and my thanks to the witnesses for being here on this nice snowy morning in Ottawa. I'd like to ask a three-part question, probably to all of you.

I'm trying to understand how you go about identifying if somebody is a potential tax evader or terrorist. Once you've gone through the process of saying the person could potentially do that, what is the next step? Whom do you contact? Do you contact local authorities? Do you contact FINTRAC, or the RCMP? If it's a Canadian or non-Canadian, do you use a different process for different authorities, depending on where they originate from?

Based on that, as we see new technologies, creative ways of money laundering and different things, do you have any suggestions on improving the system and making it better that we could add to our report?

Ms. Carmina Hughes: I think you've already heard that one of the things we all do, and we have an obligation to do, is to know our customers from the front end. We determine what we expect to be the baseline type of activity as well as the purpose of the account. We look into other aspects of the customer such as where the customer resides, if it's an individual. If it's a company, we look into the type of company structure and how you get to ultimate beneficial ownership. We all identify under Canadian law our beneficial owners at a 25% threshold.

At TD we have two tiers. For those we judge to be high-risk customers, we identify down to a 10% threshold, as do all IIROC regulated businesses in Canada. We've taken that standard and we've made it worldwide. In particular, in the United States there are now no beneficial ownership rules enshrined in regulations.

Mr. Randy Hoback: If there's a customer you've identified in your organization, do you share that person's name across all the other organizations?

Ms. Carmina Hughes: For what purpose would we identify the customer?

Mr. Randy Hoback: I'm referring to a high-risk individual.

Ms. Carmina Hughes: If it's a high-risk individual, we have centralized enhanced due diligence groups in Canada and in the United States, as well as in other locations, such as the U.K. We try as best we can to have a global view of our customers, but it's not always possible, for reasons that have already been stated, such as privacy considerations and things like that. Because of the way we're structured, we do have a money-laundering reporting officer in each of the jurisdictions. Through our governance structure, we have regular meetings and we discuss high-risk activities, high-risk customers, and suspicious activities.

If we do identify activity that we think is tax evasion, which I will tell you is very difficult to detect, we certainly file in the appropriate jurisdiction a report with the authorities. If it's something like terrorist financing, and it's imminent, and we think it really does pose a threat to us or to the citizenry, we certainly contact law enforcement directly.

• (0930)

Mr. Randy Hoback: Would that be local authorities in whatever country?

Ms. Carmina Hughes: Yes, in whatever country.

Is there anything else that I missed?

Mr. Randy Hoback: Just some suggestions, but maybe that's too much of a question, so that's fine.

Ms. Nanci York: Much like my colleague at TD, we would report suspicious transactions in the local jurisdiction in which they apply. Because of privacy and data issues, we would not necessarily report back up into the Canadian head office. In each of our jurisdictions we have what are called FIUs, financial investigation units, where transactions of a suspicious sort are referred, and further enhanced due diligence is undertaken.

With regard to sharing the information among the other banks, privacy dictates that we cannot share. I can tell you that in my previous role, I have had off-the-record conversations with some of my colleagues at other banks to give them a heads-up about an account transferring to them. At Scotiabank we have walked up the street to the OSC or to OSFI with information that we felt they should have in order to undertake investigations.

The Chair: There are 30 seconds left in your round, Mr. Hoback, so perhaps one other witness can comment on this question.

Mr. Bartos.

Mr. Scott Bartos: The only thing I would add is that, like my colleagues, we have very much the same process. I would like to emphasize how you flag this sort of activity. I put it in two large categories: it's people and it's systems. We train our front-line staff, our relationship managers, and people who interact with customers to be attuned to behaviour, actions, and transactions that don't make sense. They then escalate those up to an FIU, which is a team under the compliance function, which then investigates matters. We employ former law enforcement, etc. We use a system that monitors account activity for specified types of rules to see if people are behaving outside of those rules, which may suggest something unusual. That is then escalated through the system and further investigated. Those two processes help us identify behaviour.

The Chair: Thank you.

Thank you, Mr. Hoback.

[Translation]

Mr. Caron, you have the floor. You have five minutes.

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): Thank you, Mr. Chair.

I have a number of questions to ask. I would like to address Mr. Purre first.

I am still not able to understand what your definition of a tax haven is. A former economic adviser for the island of Jersey gave me one. He identifies a tax haven as when you see the existence of a tax structure established deliberately to exploit a worldwide demand for opportunities to engage in tax avoidance. Does that definition seem adequate to you?

[English]

Mr. Russell Purre: I have a couple of things within that. A jurisdiction established for the purposes of tax evasion is not a jurisdiction in which RBC would ever operate or engage in business activities.

[Translation]

Mr. Guy Caron: In the definition, we referred to tax avoidance.

[English]

Mr. Russell Purre: With respect to tax avoidance, when we talk about tax avoidance or tax minimization, almost all governments on earth have some form of that, including the Canadian government. If we look at the RSP program and RESPs, they are effectively tax avoidance regimes. Those are useful tools for Canadians as far as saving for their retirement and for their children's education is concerned, and it's something that is fully encouraged by the Canadian government and others. When we talk about the extreme of that, about regimes set up for the purposes of facilitating the evasion of taxes, that's where we have to look at multilateral frameworks and the government's ability to share information.

• (0935)

[Translation]

Mr. Guy Caron: I understand, but I am asking whether you consider that definition, which refers to tax avoidance, to be accurate. So that is a tax haven, as the former economic advisor to the island of Jersey put it. I would like to have your definition of what constitutes a tax haven.

[English]

Mr. Russell Purre: Ultimately, I would look at a tax haven or a jurisdiction that again facilitates tax evasion. I view those as very similar, and that's where at the outset I had mentioned that our view of what a tax haven is does fall in that category of where we would not conduct business activity.

[Translation]

Mr. Guy Caron: I would like to come back to something in your presentation.

You said that RBC, the Royal Bank, has established branches in the Caribbean, for example, to take advantage of business opportunities. When we talk about business opportunities, we are generally talking about emerging countries where there are opportunities to invest in rapidly developing economies.

However, if we look at places like the Cayman Islands, in 2011 alone, Canadians invested about \$28.5 billion there. The Cayman Islands has a population of about 55,000 people, which is about the equivalent of the population of Rimouski, in my riding, and about half the population of my riding. I can imagine what the people of Rimouski might do with an investment of \$25 billion. That is what they have in the Cayman Islands at present.

So I would like to know why you say you are simply following people's desire to invest in business opportunities in places like the Cayman Islands, for example, when, if we are talking about direct foreign investments, we are generally talking about countries where investments can be made in the economy when there is an indication that the economy is growing, such as in the emerging countries, for example.

[English]

Mr. Russell Purre: I think \$25 billion would be a windfall for any riding in Canada. That said, I think that number is a little misleading because that \$25 billion is with respect to the flow of transactions through a jurisdiction such as Cayman. If you look at a country—take Canada—that is a very trade and export oriented economy, engaging in international business is a key element of the Canadian

success story when it comes to the economy of our country. The ability to facilitate that through a variety of jurisdictions, Cayman among them, is important within that as far as the global competitiveness of Canadians, Canadian business, and financial institutions is concerned, which ultimately brings benefit back to this country. Barbados would be another good example where you do see a high volume of activity flowing through that country. That is not \$25 billion invested in Cayman. That's \$25 billion flowing via financial transactions through that jurisdiction.

[Translation]

Mr. Guy Caron: Thank you.

[English]

The Chair: Thank you, Monsieur Caron.

Mr. Adler, go ahead, please.

Mr. Mark Adler (York Centre, CPC): Thank you, Mr. Chair.

I want to thank all of you for being here today. Today seems to be a very popular day for bankers in Ottawa. I don't know what's going on.

I want to preface my comments by saying that our government has been fairly active on the closing of tax loopholes since 2006. In fact, we closed over 50 of them, recouping about \$2.5 billion annually in taxes owed, all measures and all initiatives which were opposed by the NDP and the Liberals, I may add.

I want to discuss with you the measures you take against terrorist financing. I first want to get an indication of how closely you evaluate potential candidates for employment within your organizations.

Carmina, I'll start with you, because you also have the U.S. experience to speak about. How closely do you evaluate before you hire someone, and then how closely do you monitor them during the course of their employment?

Ms. Carmina Hughes: We do a number of things upon someone's application in order to determine whether they are worthy of being hired at TD Bank, whether in the U.S. or in Canada. One of the things we do for all employees is to run through the sanctions lists with them. There are multiple lists here as well as in the EU and the U.S.

We do background checks in both jurisdictions. In order to ferret out things like illegal drug use, etc., we take urine tests, and we take fingerprints. We do quite a bit of work to make sure at the outset that our employees are people who should be entrusted with these positions on a going forward basis.

I think TD worldwide has 83,000 or more employees, quite a large number, and to suggest that we monitor every single action of every one is, I think, impractical, but we do have other things in place to look at financial activity. Their accounts are monitored just as anyone else's accounts at TD would be. Certainly for trading and other activities, we have heightened types of processes to look at where they're trading and how they're trading.

• (0940)

Mr. Mark Adler: Okay. When comparing Canada to the U.S., because you have the experience of working under the Patriot Act, how do our two jurisdictions compare in terms of combatting terrorist financing and terrorist transactions?

Ms. Carmina Hughes: I think they're very similar, actually. There are some nuances, certainly, that are different. In Canada there are more prescriptive requirements in terms of opening accounts than there are in the U.S. I think it's an often misunderstood notion that the U.S. is more regulated than are other countries in this area, because it's not. The regulations that came about as a result of the Patriot Act were the first big slew of regulations that the U.S. had promulgated in some years. The Americans are generally quite opposed to anyone having information about them personally, particularly their banks. So as a result there has been in the U.S. an evolution of regulatory guidance and expectation. That's really the case anywhere we operate. It's the same in Canada. There are rules and then there are what the regulators expect you to have over, above, and beyond the rules. We all adhere to those expectations.

Mr. Mark Adler: Okay.

Mr. Bartos, you indicated earlier that there is no finish line in combatting financial crimes. How sophisticated are these terrorist organizations when it comes to laundering money and to financing operations? Is this kind of activity limited to terrorist organizations or do you find different states also engaged in it?

Mr. Scott Bartos: Certainly, I think we find that the illicit actors, whether they be terrorist financiers or what you might call organized crime or other money launderers, are quite sophisticated. The tactics they use to avoid detection continually evolve and change, so detecting them always places strains on governments, law enforcement, and banks. I would say the level of sophistication is relatively high. They're continually finding new techniques.

Mr. Mark Adler: How much coordination is there between all the banks when it comes to trading information on best practices and that sort of thing?

Mr. Scott Bartos: There are two forms.

One is obviously the sharing of best practices. There are a number of industry initiatives, whether it's through the CBA or some non-industry associations where we meet, learn, and discover best practices by others. There's obviously informal interaction.

The second way is through a legally enshrined ability to share information between banks. When we believe there are people conducting suspicious transactions, there is an ability for bank-to-bank communication about that client once we meet the legal threshold. I approach it from two ways, both learning best practices and then following up on the specific—

Mr. Mark Adler: Can I ask one more question?

The Chair: You're well over your time, Mr. Adler. I apologize.

[*Translation*]

Mr. Côté, you have the floor.

Mr. Raymond Côté (Beauport—Limoilou, NDP): Thank you, Mr. Chair.

I want to thank all the witnesses for being here with us.

I would like to thank you, Mr. Richard, for addressing the question of the agreements to avoid double taxation that have been signed with some countries. That principle is entirely valid, in essence. In addition to sitting on the Standing Committee on Finance, I have the privilege of being on the Standing Committee on International Trade. Unfortunately, I have been in a position to observe the very naive and very problematic approach this government takes to free trade agreements. I see that it takes the same problematic approach to these agreements.

On Tuesday, at our meeting on Bill C-48, we were able to demonstrate the problems that are inherent in the process that involves introducing a 1,000-page technical bill after a very, very long time has passed. Brigitte Alepin talked about the new rules for upstream loans. I will not ask you to comment on that subject, which is really very technical and very difficult to grasp. She said that in themselves, these new rules were perfectly valid, which was very interesting. However, she saw a problem, a potential contradiction, in putting these agreements to avoid double taxation in place with certain tax havens, or certain countries that might be considered to be tax havens. Obviously, this is a political issue. It is a matter of making decisions. I hope the government will hear what I am saying about this kind of problem someday. I will not ask you to voice an opinion on that, but do you and your colleagues think that every country in the world merits an agreement with Canada to avoid double taxation? Could we very well think that we might avoid entering into this kind of agreement with certain countries?

• (0945)

Mr. Jean Richard: First, Canada has signed slightly over 80 double taxation agreements. I am not including agreements for the exchange of information in those agreements. About 190 countries are members of the United Nations. So we can see that there are double taxation agreements with fewer than half of those countries. There are reasons why this is the case. Some countries do not need to have a double taxation agreement, because they do not collect the same kind of income tax as we do. In any event, all countries need financial resources to meet their needs. In some countries, the word "merits" is a word that has a value connotation and I would not want to express an opinion on that. Does Canada need to have double taxation agreements with every country? I think not, given the situation. On the other hand, I think that signing information exchange agreements should be the norm.

Mr. Raymond Côté: Obviously, but that is another matter.

Mr. Jean Richard: Should they be individual or multilateral? A multilateral agreement promotes a healthier exchange.

Mr. Raymond Côté: I agree with you.

Mr. Jean Richard: As well, the exchange must be done on request or be mandatory, again based on the information. All of that is subject to the constraints imposed by the Charter and by privacy legislation. These are very complex areas.

Mr. Raymond Côté: Thank you.

Do any other witnesses want to comment on that?

[*English*]

The Chair: Anyone else?

Raymond.

[Translation]

Mr. Raymond Côté: Mr. Richard, I would like to take you to another area. Two years ago, MÉDAC, which is the movement to educate and defend shareholders, presented a document entitled *Plaidoyer pour un système fiscal plus juste...* I know that some of your institutions have been at odds with MÉDAC. That report was submitted at the time when Claude Béland was the president of MÉDAC. Mr. Béland is a man who has a great deal of credibility. At one point, in fact, he was the president of the Mouvement Desjardins. He had a long career there. In that report, MÉDAC called for a number of things, but one thing it revealed was that the big Canadian banks had avoided paying \$12.5 billion in taxes by using tax havens and aggressive tax planning. Would anyone like to comment on that?

[English]

The Chair: Could we have a brief response to that, please. Who would like to respond?

Mr. Richard, go ahead.

[Translation]

Mr. Jean Richard: I cannot really comment because it is difficult to determine what the aggressive tax planning in issue is. It is hard to establish figures like that with any certainty. These are evaluations that could be analyzed...

Mr. Raymond Côté: Mr. Béland does come from within the system.

Mr. Jean Richard: I respect Mr. Béland, but that does not mean I can assess the weight of his claim.

• (0950)

The Chair: Thank you, Mr. Côté.

[English]

Mr. Van Kesteren, go ahead, please.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): This is a very interesting topic. I want to carry on with what Mr. Côté was saying. We have been discussing this large bill that has to do with implementation of taxes. We've come to the conclusion that in a society, we have to trust institutions. Trust is a basic and essential part of any society that's going to move forward. The very fact is that none of us is able to understand those tax measures. We must look to the finance department, we must look to institutions that give us advice, and we must collectively then come.

I mention that because whenever I've been involved with moving forward in some type of project, I get together with people. I always ask everybody at the table, "What is the motivation?"

I want to ask you that question, too. What is your motivation for doing the things that you're doing? In this committee, we've often quoted Adam Smith. One of my favourite lines of Adam Smith's, and I will paraphrase, is that the baker doesn't get up at five o'clock in the morning for the benefit of the butcher. That means there is his own self-interest. That's okay. We have to understand that. What is your motivation to make sure that you don't get involved? I don't want to lead the witness but I want to suggest that if we have banks that have proper assets, cash flow that's not necessarily looking for

other areas, is that possibly something that will be a deterrent, as well, to not going after illicit funds?

I'll start with you, Ms. Hughes.

Ms. Carmina Hughes: I'll be very brief. I think what I say will be universally held by others.

From a bank's perspective, of course we have an obligation to our shareholders to operate in a responsible manner and to return to them as best a return on their investments as we can. As a corollary to that, one of the reasons none of us wants to be, and TD most certainly doesn't want to be, in a position to do anything that even comes close to the line is the reputational damage we could suffer as a result of any activities that would drag us down into the mud, so to speak. From TD's perspective and from a tax planning perspective, we have a very robust tax policy governance structure. It's on our social responsibility website, which outlines that very clearly. We have been very out-front with the OECD and have participated and continue to participate in activities there in the tax realm in particular. Knowing TD as I know TD and the members of the board as well as senior management, not one of them would want to see TD tagged with any type of reputational risk as a result of this.

Mr. Dave Van Kesteren: I suspect that all of you will have much the same response. I want you to touch on the second part of my question. We know that we have a strong banking system. How has that enabled you to not be tempted to maybe go after those illicit funds? Does anybody want to talk about that?

Ms. Carmina Hughes: Well, I think it's a business strategy. You have to look at where you are and how you intend to grow your business. For us, to go into risky areas is not part of our strategy. Our risk appetite is fairly conservative. I think that has served us well over the last so many years. As a result, we continue to function very strongly as a North American bank, and that's where we focus our energies.

Mr. Dave Van Kesteren: Anyone else?

Ms. Nanci York: I can agree with my colleague, and I think all of us would agree that our reputation is key, and none of us would like to see our institutions on the front page of, say, *The Globe and Mail*. We're in business to serve our customers in a prudent manner. We grow with them and we serve them on a daily basis, but our reputation is paramount to doing business, because it brings customers to us. That's how we grow.

The Chair: Mr. Blackburn, you wanted to briefly comment.

Mr. Steven Blackburn: I have an additional comment. I completely agree with what my colleagues have said, but I think it goes even a step further. Many of the witnesses today come from the perspective of anti-money laundering and anti-terrorist financing operations. Part of our mandate is to protect the integrity of the Canadian financial system, and that goes beyond maximizing shareholders' values, and that actually, if anything, could in many cases limit shareholders' values by rejecting the concept of taking on clients who propose undue risk.

• (0955)

The Chair: Thank you.

Thank you, Mr. Van Kesteren.

Mr. Rankin, go ahead please.

Mr. Murray Rankin (Victoria, NDP): Thank you, Chair.

Thank you, witnesses, for coming out today. I really appreciate it.

Mr. Purre, I was startled to learn that RBC does not work in tax havens, if I understood you properly.

I would therefore suggest you must not agree with the Canada Revenue Agency's definition, in a study called "Using Tax Havens to Avoid Paying Taxes", where it defines as a tax haven a jurisdiction with one of the following: no tax, or very low rates of taxation; strict bank secrecy provisions; a lack of transparency in the operation of its tax system; and a lack of effective exchange of information with other countries.

You seem to say that if there were a TIEA, or some information exchange agreement, that would be sufficient, but how do you account for places like the British Virgin Islands where there are more than 400,000 corporations and no financial records or personal information records need to be kept whatsoever?

If your definition is predicated on the existence of an exchange agreement where there's no information being exchanged, it seems a little odd and contrary to at least what our government appears to take as a tax haven jurisdiction definition.

Mr. Russell Purre: I think my simple answer on that would be that we don't actually have operations within the British Virgin Islands.

Mr. Murray Rankin: Well, how about Barbados, with a population of 284, 000, where \$53 billion was invested by Canadians in 2011, or the Cayman Islands, with a population of 55,000, and \$25.8 billion was invested by Canadians in 2011 alone?

RBC does business in those jurisdictions.

Mr. Russell Purre: Absolutely. Again, when we talk about...in reference to, I'm thinking, the honourable member's earlier question, those dollars represent the flow of trade that takes place through those jurisdictions. RBC supports, as do all other global financial institutions, global financial transactions.

Mr. Murray Rankin: And they're not tax havens?

Mr. Russell Purre: Again, when we look at both the Cayman Islands and Barbados, from an information-sharing standpoint, their compliance with OECD standards, I wouldn't define them as tax havens.

Mr. Murray Rankin: All right. The Government of Canada appears to differ.

May I ask Mr. Bartos a question.

You indicated, I think, in your anti-financial crimes approach, that the key elements are deter, detect, and disclose. You indicated as well that you had new models of compliance assurance, as you termed it. That is, there were policies in place that were simply not being enforced and now there's a better enforcement climate, if I can call it that, within your bank, if I'm understanding you properly.

Do you think it would be, for this committee's benefit, a good recommendation that there be whistle-blower arrangements put in place within the banks? I'll be asking other witnesses this as well. For example, it was only because of a whistle-blower that we

became aware of the Liechtenstein tax evasion situation, where a disgruntled employee sold computer discs to German authorities, and that led to hundreds of millions of dollars being recovered, including more than \$20 million in Canada alone, as I understand it.

Wouldn't that be a useful addition to your compliance objectives?

Mr. Scott Bartos: Yes, Mr. Chairman, we do in fact employ whistle-blower controls within our organization, on a couple of levels.

One is that the parent organization, HSBC Group, operates a compliance disclosure line, as we call it, which is in essence a whistle-blower line. That is staffed by people who are independent of the business line and monitored by the central compliance function.

I guess to have a sort of double check or a fail-safe system, in Canada we also operate our own disclosure line, which feeds in to me and our general counsel and our CFO. There are numerous people who are involved, independent people who are involved in the whistle-blower process to ensure follow-up and action.

Mr. Murray Rankin: Could I ask others for their view on the recommendation on whistle-blowers? Do you have them? If not, do you recommend that we take the view that whistle-blower protection would be a useful addition to our efforts to combat tax evasion in tax havens?

• (1000)

The Chair: Could we have some brief responses on this.

Ms. Nanci York: Scotiabank does have a whistle-blower policy, both globally and in Canada.

Ms. Carmina Hughes: As does TD.

Mr. Steven Blackburn: As does CIBC.

Mr. Murray Rankin: How much time do I have?

The Chair: You have about 20 seconds.

Thank you, Mr. Rankin.

Ms. Glover, please.

Mrs. Shelly Glover (Saint Boniface, CPC): Thank you, Mr. Chair.

I want to thank the witnesses for appearing.

I have a number of questions and I'm going to start with something that HSBC mentioned. You gave us disclosure numbers. Through you, Chair, I'd like to ask all the other banks to provide the same information. It would be very informative, but I want to get the numbers straight from Mr. Bartos, if I could. I heard you say there were 725 suspicious transactions. I think it was 9,500 large money transfers and then you said one more and I missed it as you were providing your opening statement.

Mr. Scott Bartos: Mr. Chairman, I'll repeat those figures. You were correct. There were approximately 725 suspicious transaction reports in 2012, 96,000 large cash transactions, which is where a customer comes in and transacts more than \$10,000 over a 24-hour period, and 600,000 electronic fund transfer reports. Those are reports where there is \$10,000 or more cross-border.

Mrs. Shelly Glover: I appreciate that information so much because there are some who would bank-bash and say you're not doing enough, but those are pretty impressive numbers. I'm interested in hearing from the other banks, not now, but if you could submit that to the committee it would be much appreciated.

These are clients who you are now reporting on, but do you also have policies about your competition? If a client were to come to you and say, "I was a member at XYZ bank and I discovered they were doing this, and that doesn't sit well with me and so I've traded and come to you", and if you learn of information about your competition whether you are in Canada or abroad, do any of you have policies to report your competition?

Mr. Richard.

Mr. Jean Richard: I couldn't comment on that because it's not really a matter I have crossed paths with.

Mrs. Shelly Glover: Okay, Mr. Blackburn.

Mr. Steven Blackburn: Can I ask for some clarification on the question? What would we be reporting with respect to the competition?

Mrs. Shelly Glover: A client comes to you and says, "Bank XYZ is doing something that I feel is immoral or illegal, and so I switched and came to your bank." Do you report your competition when you gain information about them across the sea or here in Canada?

Mr. Steven Blackburn: Not that I'm aware of.

Mrs. Shelly Glover: Mr. Bartos.

Mr. Scott Bartos: I'm not aware of a particular instance where that has arisen.

Mrs. Shelly Glover: Mr. Purre.

Mr. Russell Purre: Certainly not among this group. I would say where we have had concerns on a global basis with a particular financial institution we do look at our activities and exchange of transactions with them and apply different scrutiny with respect to that going forward.

Mrs. Shelly Glover: Okay, Ms. York.

Ms. Nanci York: I would agree with Mr. Purre's response.

Mrs. Shelly Glover: Last, TD.

Ms. Carmina Hughes: Yes, in that we file suspicious transaction reports if within the course of the payment we discover there is a financial institution involved in the payment that we think may have done something wrong.

Mrs. Shelly Glover: Okay, good.

I have two minutes. I'm going to run out of time.

On reporting to FINTRAC, I want to know if when you're operating offshore all of the countries in which you are operating have an equivalent to FINTRAC and if you are sharing information with them. Are you also sharing information about Canadians offshore with FINTRAC and following Canada's best practices, or are you following the best practices of the country you're in or lack of best practices?

Mr. Richard.

Mr. Jean Richard: It's not my expertise.

Mrs. Shelly Glover: That's right.

Mr. Blackburn.

Mr. Steven Blackburn: We comply with the regulatory requirements of the jurisdictions in which we operate and, as one of my colleagues mentioned earlier, we are subject to their privacy laws among other regulatory obstacles that will not allow the sharing of information. However, as I mentioned earlier, at CIBC we have a common denominator based on Canadian regulations that we apply across our operations, so if we are to identify any activity, we will report in those jurisdictions.

Mrs. Shelly Glover: Very good. I'm sure that applies to all of you, so my question is, and I'm not going to ask all of you, how can we, as a government, help fix that, the fact that the privacy laws sometimes prohibit that information sharing? Aside from TIEAs, is there anything we could be doing better to make sure we get that information flowing?

• (1005)

The Chair: Perhaps we could get one person. Mr. Blackburn, could you respond to that?

Mr. Steven Blackburn: First of all, there are global organizations that allow the sharing of information between regulatory bodies that are established. Canada sits on those organizations, so I believe that sharing is already under way. In addition to that, we spoke of TIEAs earlier, which I think is an appropriate answer.

Mrs. Shelly Glover: Yes. Okay, excellent.

Thank you.

The Chair: Thank you, Ms. Glover.

Mr. Jean, please, for your round.

Mr. Brian Jean (Fort McMurray—Athabasca, CPC): Thank you, Mr. Chair.

Thank you to all the witnesses for appearing today.

To follow up on Mr. Rankin's question, do you have the same policies abroad as you have domestically? Are they identical in nature? I'm talking tax evasion policy. Policy and procedure for your employees, are they the same locally in Canada as you enforce abroad?

Ms. Carmina Hughes: Yes, we have enterprise standards in that regard.

Ms. Nanci York: Yes, so do we.

Mr. Russell Purre: Yes. As I mentioned earlier, we start with a Canadian standard, use that as a baseline, and build on top of that.

Mr. Brian Jean: Are they identical standards, as far as your policies and procedures are concerned, in your employees manual, for instance, for senior management, for people who deal with transactions?

Mr. Russell Purre: Absolutely.

Mr. Brian Jean: Would that be fair to say, Mr. Bartos?

Mr. Scott Bartos: Yes, it would.

A voice: Yes.

Mr. Brian Jean: Great.

You didn't answer, but would it be fair to say, Mr. Richard, it's the same?

Mr. Jean Richard: It would be the same.

Mr. Brian Jean: The CBA came here several weeks ago and said, "...member banks have comprehensive governance and compliance regimes to prevent tax evasion". Would anybody here today disagree with that statement? No?

My simple question is how people do this. How do they use Canadian banks to undertake this type of behaviour without being caught? We've talked about suspicious transactions. We've talked about large cash transactions, which I imagine is the \$10,000 route. Is it standard across the board that you report anything over \$10,000? Is that fair to say, Mr. Purre?

Mr. Russell Purre: Yes, it is. That's the regulatory requirement.

Mr. Brian Jean: Yes. You would do that in any jurisdiction. What initiates suspicious behaviour? Is it computer algorithms? What is it? You must go through a tremendous number of transactions.

Ms. Carmina Hughes: It's both. I think one of my colleagues said that there is the front line and then there's after-the-fact monitoring. There are activities that occur at the time of the transaction that we may be aware of, that are red flags and may cause us to raise a suspicion. Those front-line folks then take what they have seen and put it in a report called an unusual transaction report. That goes into our financial intelligence unit, and then we investigate further and determine whether an STR, a suspicious transaction report, should be filed. We also have automated monitoring systems, and there are certain things that hit those thresholds, be they jurisdictional or the types and frequency and volume of activity that might come out of a particular account.

Mr. Brian Jean: Do all the banks here follow the same practice?

For instance, Ms. Hughes, how often would your particular company change your algorithms and your computer-generated...? Obviously they change dramatically.

Ms. Carmina Hughes: Yes, we review them at least on an annual basis. We test them; we don't just change them. We change them based upon where we think they are productive, in terms of providing us with the best information. Then we test below the thresholds to make sure we're not missing anything if we raise those thresholds or change them.

Mr. Brian Jean: Is that how all the banks do it: a yearly review, with changes depending on what's happening in the marketplace?

Mr. Russell Purre: Yes, we're very much driven by what's taking place in the marketplace and internationally at a given point in time. If there are changes in that space, we obviously amend to that.

The one item I would add is when we talk about tax evasion, and our ability to detect it, which is very challenging from a technology perspective, we basically put the puzzle together to end up with that type of conclusion. The most common way, and I was speaking with my colleagues yesterday about this, we actually uncover tax evasion is our clients tell us.

Mr. Brian Jean: Yes, I agree with that.

The U.K. has looked at a code of practice. I think Alistair Darling announced it in 2009 for the Royal Bank of Scotland and also

Lloyds Bank. It was revealed by *The Guardian*, and this is a little different, that the Royal Bank of Scotland tied up £25 billion in international tax avoidance schemes, of which £500 million was lost tax revenue to the Government of the U.K.

• (1010)

The Chair: You have one minute.

Mr. Brian Jean: Are any banks here in any kind of scheme?

I'm sure you're aware of what was happening in the U.K. In that particular case, they had a department set up to specifically avoid taxes and to allow some of the senior executives to pay taxes in other jurisdictions. Nothing like that goes on in any of the banks here in Canada, does it? Is that fair to say?

A voice: Absolutely not.

Mr. Brian Jean: I can't imagine your saying anything else, to be honest.

Voices: Oh, oh!

Mr. Brian Jean: We all know they're doing it. Something's happening here, and people are taking money they shouldn't take, and they're avoiding taxes, which makes everybody else pay more taxes, so they're stealing.

Do you see any benefit in a voluntary code of practice for the banks abroad, specifically relating to tax avoidance, and in particular for dealing with tax evasion? That would include self-reporting and possibly, or probably, some form of reward for the—

The Chair: Thank you, Mr. Jean. Could one person answer that as we're over time.

Mr. Brian Jean: Mr. Blackburn, would you mind answering that question?

Mr. Steven Blackburn: I believe there would be a benefit to that. I'm not sure exactly what that would look like. I think it would need to be thought through in detail.

The Chair: Thank you.

We'll go to Mr. Rankin, please, again.

Mr. Murray Rankin: Thank you, Mr. Chair.

I want to continue on Mr. Jean's line of questioning, if I could.

First of all, the premise is there's a lot of interest in going after individuals for tax evasion, but of course corporations are legal persons as well. I'm interested in what the CRA terms "abusive offshore tax shelters" or "abusive tax planning", whereby corporations are using trusts and offshore corporations and subsidiaries, etc., essentially to go right up against the line of tax evasion, but probably trying to keep on the side of the angels.

Mr. Bartos, and others as well, in your subsidiaries in tax havens abroad, I wonder if you come across examples of where subsidiaries are going right up to that line, and you're suspicious. Does that trigger anything in any of your offices that you have to do something, that they may be over the line, but you're not sure?

Mr. Scott Bartos: First of all, HSBC in Canada is in a bit of a different position from my colleagues in the sense that we do not operate any wealth management or lending to businesses in any countries outside of Canada. I'd have to speak to HSBC Group. I'm not as knowledgeable about their practices.

Mr. Murray Rankin: All right.

Mr. Blackburn, could I ask you to comment on that, please?

Mr. Steven Blackburn: To the extent that we can, there are already mechanisms for sharing information among Canadian operations and subsidiaries in jurisdictions outside of Canada, albeit many of them are formal, based on the fact that we must comply with the respective privacy legislation and the respective other legislation that inhibits our ability to share.

However, as you may know, CIBC is the largest shareholder of FirstCaribbean International Bank and there are relationships between those two entities. While CIBC and FCIB are distinct entities, we have informal relationships between those entities that allow the sharing of information to the extent that it is not personal information, but which helps us identify transactions, individuals who may be suspicious.

Mr. Murray Rankin: All right.

Some of you have commented on TIEAs, the tax information exchange agreements, as if they were successful. We've had witness after witness tell us that these may not be as effective as we think in addressing the problem of tax havens. They tend to be one-off agreements which, once in place, are seldom used. The simple reason may be that we as Canadians need to know something to trigger a question seeking information exchange. That's why people have talked to us about the possibility of automatic tax information exchange agreements.

Ms. York, I know you're the expert on FATCA in your institution. I know we've certainly been well aware of the difficulties with FATCA as the United States implements it, but I'd be very interested in your views on whether or not we in Canada can craft a good automatic information exchange agreement to get around some of the problems I've mentioned.

Ms. Nanci York: We could. I think it would be a combination of working with the government and the financial institutions but also looking at it from a multilateral and multinational approach. I don't think one-offs solve the problem.

The OECD has recently signed off on the universal reporting schema. There's the basis for moving forward on global reporting and automatic exchanges, at least on the OECD level. I think that would be a very good place to start.

•(1015)

Mr. Murray Rankin: If, for example, Canada enters into economic partnership agreements, such as with Panama and other countries that some would define as tax havens, why couldn't we do it, rather than in a TIEA type of arrangement, an automatic arrangement, whenever we go into these particular agreements?

Ms. Nanci York: With the complexities of having so many different agreements, different standards, it would be very difficult, I think, to put in place the same automatic exchange agreement with

every country that Canada would be looking to do business with or negotiate with.

Again, that would add to very different playing fields on a daily basis.

Mr. Murray Rankin: Does anyone else wish to comment on that?

Mr. Purre.

Mr. Russell Purre: I might comment further in terms of advising some caution with that. I say that because when you look at the success of the Canadian financial services industry in recent years, and think of new immigrants to this country, the flow of money into Canada, and how Canada has benefited from that, the idea that we would have an automatic information-sharing agreement with, frankly, some countries that don't have the same standards as Canada does, that's a two-way street.

The nice thing about TIEAs is that they provide a legal framework. That comes with pluses and minuses, obviously, but they provide a legal framework that ultimately protects the citizens of our country.

Mr. Murray Rankin: Well, if they're used, if they actually get used, I suppose.

The Chair: Thank you.

I'm going to take the next round as the chair.

I want to follow up on that, because witnesses who have come before us previously have argued that we should have automatic exchange of information between tax authorities in Canada and tax authorities in other jurisdictions.

The one example that others bring up, and that your institutions have brought up, certainly, with many members of this committee, is the problems with FATCA and in terms of a bilateral agreement.

Perhaps as a follow-up, Mr. Purre, do you oppose automatic exchange between our tax authorities and other tax authorities unless it's done in terms of a multilateral framework?

Mr. Russell Purre: [*Inaudible—Editor*]...TIEAs, and looking at a multilateral framework is the correct approach, ultimately, in terms of ensuring the ability of Canadian financial institutions, Canadians, and Canadian corporations to compete on an international basis.

Wherever we start creating a framework that is bilateral, ultimately we're creating inequities in terms of the ability of Canadian companies to compete on a global basis.

The Chair: But the concern raised, which I know you're well aware of, is that this does not go far enough. So your response....

Does anyone want to respond to that, in terms of TIEAs do not go far enough, you need automatic exchange, so how do you answer that concern that people have raised? Does anyone want to address that?

Mr. Purre, again.

Mr. Russell Purre: I'll continue on from there.

I think when we look at the tool itself and how it's used, those are two separate things. I think the tool and the framework that's been established there are ultimately effective, especially when combined with the other information available to FINTRAC and other government regulators here in Canada.

This is a complex base, and ultimately, how we come to terms with putting together those various pieces of information to facilitate the finding of tax evaders, so to speak, is a challenging exercise, but an important one.

The Chair: Let me drill down into that, because there are different actors at play here. There are individuals, there are individuals who may have companies, there are governments and government regulatory agencies, and then there are financial institutions.

In the past year, I went into one of your financial institutions to do an investment property. I was filling out a whole whack of forms and complaining about filling out all these forms, and the lady opposite me, who knew who I was, said, "Well, blame yourself, because it's your own laws that have caused you to do all this."

Voices: Oh, oh!

The Chair: I said, "Okay, touché."

Her argument was that it was Canadian domestic law, it was FINTRAC, that was then compelling the financial institutions in Canada to put all this onus on me as an individual to prove that what I was doing was a valid investment.

So that's what you have: individual, financial institution, government, regulatory agency. Some may argue that in certain countries, and I think you're hearing some of that at the committee today, other governments are not as diligent as the Canadian government. FINTRAC obviously does not exist in every country. The regulatory agencies are not as active in other countries in terms of making sure that individuals are doing valid investments, that they're not tax evading.

Can any of you address that question or concern that people would raise?

Ms. York, or Ms. Hughes.

• (1020)

Ms. Carmina Hughes: If I understand your question, I think it is indisputable that not all countries are as good as Canada is in asking the types of questions that you were asked when you endeavoured to open up an account for an investment property, or whatever it was. There is no question there is not necessarily a level playing field out there in that arena and, as a result, there are many who think we overregulate. I'm not among them.

That's unquestionably the case, so I think that the issue for us as financial institutions is how important it is to us to keep that type of activity out of our bank wherever it exists. From my perspective, from TD's perspective, we have a very low tolerance for risk, as I said earlier. We're going to make sure that wherever we're doing business we are employing the right standards and that we're ferreting this out.

The Chair: Following up on that, you've all indicated today that you would have the same sort of baseline standards. If I were doing an investment property, let's say, in any country in which any of your institutions were operating, would I be facing the same sort of standard as an individual or as a company in terms of reporting to that institution and then the institution reporting to the government?

Ms. Carmina Hughes: I can tell you that from the account opening process and from the regulatory requirements that are embedded in this in Canada, we push that throughout the world. Now, in terms of credit or other types of policies, there may be differences, depending upon where that occurs. I can't speak to that. I would doubt it, because we also have a central risk process throughout the bank. From TD's perspective, we try to be as uniform as we can throughout the world.

The Chair: Does anyone else wish to briefly comment?

Do you all have the same policies? Yes?

Ms. Nanci York: Yes. If you walked into one of our branches in the Bahamas, we would put you through the same process.

The Chair: The exact same process? Okay.

Thank you. I appreciate that.

We'll go to Mr. Brison, please.

Hon. Scott Brison: I'd like to go back to my previous questions. If a client were to say on the form that he or she had investments outside of Canada, so if he or she answered yes, but then said, for instance, that one of the investments was as a shareholder in a company registered in Panama, would that trigger any additional questions? I'm asking that question because Panama is on the OECD and G-20 tax haven blacklists, as an example.

Mr. Russell Purre: I think there's interesting history there with respect to Panama in particular. The first thing we would look at is what type of corporation that is. For example, is it a bearer share company? That has been a challenge historically within Panama.

It's all part of the process of learning the key elements of that client and their financial situation, and whether that makes sense for that client within the context of their investment needs. Ultimately, if we found there was something suspicious within that, it is something we would report via an STR and ultimately decide not to take on the client if challenged by that.

Hon. Scott Brison: How many of you have operations in Panama? Is it just Scotiabank?

How about Montserrat? Scotiabank doesn't have anything in Montserrat?

Ms. Nanci York: No, we don't.

Hon. Scott Brison: Okay. Costa Rica?

• (1025)

Ms. Nanci York: Yes, we do.

Hon. Scott Brison: Panama and Costa Rica are both on the G-20 and OECD lists, as are, in fact, a number of other countries within which Canadian banks operate.

First of all, I make the assumption that Canadian banks operate at the highest legal and ethical standards. The challenge is how you discern which is a legitimate investment. A Canadian may own a home in one of these tax havens, for example in Montserrat, hopefully not too close to the volcano, or a Canadian may invest in infrastructure in one of these countries. I go back to this: the existence of investment in a tax haven does not mean that it's tax-evasive investment.

That's where I'd like to have a clearer understanding in terms of your organization's processes to determine what is legitimate investment. These are fast-growing economies in many cases, with a lot of need for Canadian capital, expertise, and infrastructure, as an example.

How do you discern, and I guess the question is—we need your guidance—how do we discern ways to prevent a tax-evasive investment or offshoring and legitimate investment? We could benefit from your guidance on that. It may start with this: how do you do it?

The Chair: Mr. Purre.

Mr. Russell Purre: I think at the outset and returning to my earlier answer, the key element within that, and I think this applies equally to regulatory authorities and government agencies as it does to the banks, is ultimately having an understanding of that individual's financial circumstances. The determinant for us is a witness test on does it make sense given the nature of that client's investments. For example, if you were an engineering firm, it does possibly make sense for you to be investing in the rebuilding of Montserrat at this point in time. That makes sense within the context of that business. If, on the other hand, you were an individual, a retiree from Penticton, to be investing a large portion of your net worth into an investment in Montserrat simply doesn't make sense.

Those are the types of questions we would ask. I would say that within our inquiries we're asking whether you have investments at other institutions, much as on your tax return you're asked whether you have significant assets outside of the country. Those are the avenues to follow up on that in terms of what those are and does it make sense.

The Chair: Okay. Last question.

Hon. Scott Brison: The Royal Bank does not have a branch in Montserrat?

Mr. Russell Purre: The Royal Bank does not have a wealth management branch in Montserrat.

Hon. Scott Brison: It has a branch.

Mr. Russell Purre: We may as part of, again, RBC retail banking in the Caribbean, be servicing local residents in Montserrat. I'm not positive one way or the other on that, to be honest.

Hon. Scott Brison: Finally—

The Chair: Last question means the last question.

This is the last, last question.

Hon. Scott Brison: If somebody says yes, and indicates there's an investment, is there a separate form and could you provide it?

The Chair: Thank you, Mr. Brison.

We will go to Ms. McLeod, please.

Mrs. Cathy McLeod: Thanks again, Mr. Chair.

I just want to say one thing before I head into my questions. We were very enthusiastic about this opportunity to talk about the nuts and bolts of the banking system to help us understand in moving forward on this important issue, so I'm a little disappointed that BMO didn't send someone who actually could speak to those issues. You clearly indicated up front that you weren't prepared to address what was the thrust of the subject we're investigating. Hopefully BMO can look to some of the questions that have been asked today in our study and actually respond directly in terms of some of the issues that Mr. Richard isn't able to speak to because it's not his area.

The Chair: Is this a point of order, Mr. Brison?

Hon. Scott Brison: Yes, it is a point of order. I just want to make the point that in fact somebody in wealth management understands these issues.

I'm just saying this respectfully, Cathy, that somebody in wealth management does understand from a different perspective, so it's not —

Mrs. Shelly Glover: This isn't a point of order, Chair.

The Chair: That is a point of debate, Mr. Brison, as you know.

Ms. McLeod.

Mrs. Cathy McLeod: Again, I think there were many questions that he indicated he wasn't able to respond to.

Mr. Jean Richard: May I say that all the answers you have heard from the other witnesses would be essentially the same from a BMO representative, essentially the same. They would be similar. So what was the purpose of my coming here? It was simply to bring another angle.

• (1030)

Mrs. Cathy McLeod: Thank you.

There are two areas I want to touch on in terms of my specific questions.

One, which follows up on my initial line of thinking, is on the whole question of reporting. I understand that if you're in a jurisdiction you do your own investigation and you report to local authorities, but if there are bank secrecy laws in those local authorities, do you actually do the reporting? Again, I'm going back to where I was originally questioning. Do the bank secrecy laws in those jurisdictions.... Even though you said that when you have suspicious transactions you sort of follow them through and then you would report them to local authorities, is there anything in those laws that preclude you from doing that reporting?

Maybe Mr. Blackburn and Mr. Bartos could respond.

Mr. Steven Blackburn: There is nothing in the laws and in the jurisdictions in which CIBC operates that would inhibit us from reporting suspicious transactions, for example.

I would make a point of clarification. The only limitation is in respect of the flow of information between jurisdictions. There are no limitations on what we can report in those jurisdictions. Every jurisdiction in which CIBC operates is either a FATF member or a subsidiary organization member, so they are all subject to the same requirements. Their legislative requirements are similar to those of Canada, though they're worded differently.

Mrs. Cathy McLeod: I would presume that's the same answer for everyone else. If no one has anything different...

I was a little puzzled on whether there were any challenges with local authority reporting.

My next question is this. Certainly one of the tools we have is the unnamed person, and there is often some frustration with that, certainly from Canada Revenue Agency's point of view. Could you talk as an organization about the pros and cons or about what some of the challenges are for you, in terms of how this unnamed person tool we have presents you with challenges?

It looks as if Mr. Blackburn is ready to answer.

Mr. Steven Blackburn: I'm afraid I don't have the experience to respond to that question. I apologize.

The Chair: Is there anyone who would like to respond?

Go ahead, Mr. Purre.

Mr. Russell Purre: Maybe you could provide us with more details on it. I don't want to be in the same position as my colleague from BMO. If you would expand on the question possibly....

The Chair: You have about one minute left.

Mrs. Cathy McLeod: Perhaps you could move that question into your organizations and someone who is more familiar with how the unnamed person requirement works could actually get back to us in regard to what the challenges and positives are. Basically it's a tool we have that's available.

The Chair: Thank you. If you could all submit that to me, as the chair, the clerk will ensure all members get that.

We'll go now to Mr. Caron, s'il vous plaît.

[Translation]

Mr. Guy Caron: I asked Mr. Purre this question before, but I would also like to have the opinion of the other witnesses who are here with us.

I quoted a definition given by Geoffrey Colin Powell, who is a former economic advisor to the island of Jersey. That island has been recognized as a tax haven. His definition of what constitutes a tax haven is a tax structure established deliberately to exploit a worldwide demand for opportunities to engage in tax avoidance.

I would like to know from each of you, except for Mr. Purre who has already answered, whether you think this is a good definition. Otherwise, what is your own definition? It seems there is no agreement at present on what constitutes a tax haven.

Perhaps we could go from left to right, starting with Mr. Richard.

Mr. Jean Richard: The definition of a tax haven can vary widely and depends on many things. You have given one from an economist. To some Canadians, Alberta is a tax haven. To some

people, it is always the place where you pay the least tax. To others, as you say, it will be a place where there is a structure that favours avoidance. It all depends on the situations and the structures. However, in the usual definition, a tax haven is essentially a place where there are protections that allow aggressive tax avoidance. Tax evasion is the more usual term. When we are talking about tax evasion, as Mr. Purre said, that is an entirely acceptable definition. However, other people might go further and even include Alberta as being a tax haven within Canada. So the concept is an open one.

• (1035)

[English]

Mr. Steven Blackburn: My response would reflect that provided by Mr. Purre earlier.

[Translation]

Mr. Guy Caron: Mr. Bartos, what do you think?

[English]

Mr. Scott Bartos: To my knowledge at least, HSBC does not attempt to really define what a tax haven would be; rather, we try to look at the various countries from a combination of risk factors. There may be corruption within the country, and we would look at the corruption perception index. It might be things like secrecy laws. It might be FATF ratings. Rather than focus on trying to define a specific definition, we look at a combination of factors by which we then rate the country for its risk.

[Translation]

Mr. Guy Caron: Ms. York, what do you say?

[English]

Ms. Nanci York: The term "tax haven" has such a broad level of definition. Every jurisdiction to some degree has either low taxes, transparency, economic activity, or corruption. To do business in those countries you need to look at a number of different factors in order to make an investment.

[Translation]

Mr. Guy Caron: Ms. Hughes, what do you say?

[English]

Ms. Carmina Hughes: We take an approach similar to that of HSBC. We find that looking simply at the tax laws in a jurisdiction doesn't provide us enough information to determine what the risk of that jurisdiction is from a money laundering and terrorist financing and anti-corruption and anti-bribery perspective, so we look at a number of factors as well.

[Translation]

Mr. Guy Caron: My question is for anyone who wants to answer.

Let us talk about direct foreign investment. In the case of Barbados, as Mr. Rankin mentioned, we are talking about \$53 billion in direct investments; for the Caymans, it is \$25 billion; for Ireland, it is \$23 billion; and for Luxembourg, it is \$13 billion. Under your own definitions, are these countries tax havens?

Mr. Jean Richard: I would ask this. Are these financial destinations the end destinations, or are they places of transit for the funds?

That distinction has to be made. Most of the time, with the exception of Ireland, these are countries of transit, not countries of destination.

Mr. Guy Caron: These are countries of transit, to avoid a tax system in one country or the other: the country of origin or the country to which the funds are destined.

Mr. Jean Richard: It could be simply to avoid double taxation. There are multiple reasons. We cannot make assumptions and draw conclusions without having the facts, however. That would be leaping to conclusions.

Mr. Guy Caron: I will conclude by saying that your definition of a tax haven is actually very broad, but it does not apply to many countries, despite what some economists at the Canada Revenue Agency will tell us. That is what I conclude.

Mr. Jean Richard: It all depends on what you are looking for. In fact, it is more a question of fiscal competitiveness. Each country chooses to tax certain sectors differently. For example, if you are talking about the Caribbean, taxation will relate much more to what comes into the island than to income. However, that does not mean that the country does not levy taxes. It has chosen other taxes specific to its situation and its capacity to develop its economy.

I do not think we can attack a country and say it is a tax haven based simply on the fact that it does not levy taxes that are similar to ours.

[English]

The Chair: Merci.

We'll go to Mr. Adler, please.

Mr. Mark Adler: Thank you, Mr. Chair. I'll be sharing my time with Ms. Glover.

I just have a couple of questions. I think we can all agree that the integrity of the global financial system is of paramount importance.

The first of my very short questions is, could any of you tell me if you've ever identified a sovereign state behind an illegal financial transaction? Is there anybody from any of the financial institutions who has ever identified a sovereign state? No? Yes? No?

A voice: [Inaudible—Editor]

Mr. Mark Adler: Okay.

My second question, before I turn it over to Ms. Glover, is that I read an article recently that the Pentagon in the U.S. doesn't import any of its software. They manufacture their own software because they have identified bugs in software that has been manufactured overseas, and it's the ability, perhaps, of foreign governments or foreign entities to trigger certain mechanisms within the software at particular times to infiltrate the computer systems of the Pentagon. Is that a practice at all within the financial institutions that any of you are aware of? Do you import all of your software, or don't you know?

•(1040)

The Chair: Mr. Purre.

Mr. Russell Purre: The short answer is I honestly don't know. I think when we look at software, as a rule much of the software per se we end up writing ourselves, just based on the nature of activity and

the organization as a whole. Our vulnerability to actually buying dedicated pieces of software and bringing those into the organization, in each instance those are going to be significantly customized, if not written from scratch, internally.

Mr. Mark Adler: The software then would be domestically manufactured.

Mr. Russell Purre: In many instances, yes.

Mr. Mark Adler: That probably goes with the others, I would suspect.

Ms. Nanci York: Yes. When that's not the case, we have very stringent information security that all of our new software must go through.

Mr. Mark Adler: Thank you. That's what I need to know.

The Chair: Ms. Glover, please.

Mrs. Shelly Glover: Mr. Bartos, you mentioned that recent events occurred that led your organization to change or enhance your regime, which I found interesting. I'm not sure if you can tell me whether it was an internal event or an external event, but I'd like to learn from you what might trigger that kind of enhancement.

RBC, I'd ask you to answer as well because you said the same thing, that recently you had an enhancement.

Mr. Scott Bartos: Certainly, there were external events that caused us to re-examine our overall control structure. It was well publicized that HSBC group had a large settlement with the U.S. authorities and U.K. authorities. That was preceded by a lengthy investigation in which we cooperated fully with law enforcement. I think through that process HSBC Group learned many lessons about control structures and what we needed to do better.

There was a case study issued by the U.S. Senate that has many lessons learned that other financial institutions are focusing on. I would say it is a combination of those external factors as well as interaction with local regulators and regulators around the world that is increasing the focus on bringing standards

Mr. Russell Purre: I would say in this instance we were somewhat thankful to be able to learn from the lessons of others. By that I mean certainly the experience of HSBC, but we also look at Standard Chartered, UBS, Citigroup, and J.P. Morgan, all very large global institutions with historically significant very strong controls in place due to a changing landscape and ultimately a continuously evolving challenge in terms of anti-money laundering controls. There are always lessons to be learned from that, and our policies and procedures evolve with that.

Mrs. Shelly Glover: We're trying to learn how we might make sure those safeguards are put in place too.

Was OSFI involved at all in directing your organizations to make changes following these types of outside events, and should they be involved in that kind of thing?

Mr. Russell Purre: There are two rounds of changes to guideline B-8 that are under way presently, so OSFI certainly has taken learnings from that and been a participant in that process.

I believe one of my colleagues mentioned earlier that you have the regulations and then you have regulatory expectations. The expectations usually evolve at a faster rate than the regulations themselves, and it's ultimately those expectations to which we hold ourselves.

Mrs. Shelly Glover: If there is ever a situation where you think you have a recommendation for us, where we might help you avoid this type of after-the-fact change, by all means we look to you for your expertise.

Thank you.

The Chair: Thank you, Ms. Glover.

I'm going to wrap up here. I wanted to follow up. Colleagues wanted a couple more questions answered.

Ms. Glover, you raised that you wanted all the banks to provide the information that HSBC has provided. I think the paragraph was that HSBC Canada disclosed some 725 suspicious transaction reports, over 96,000 large cash transaction reports and approximately 600,000 electronic fund transfer reports.

You'd like the information from all the banks.

•(1045)

Mrs. Shelly Glover: That was from 2012.

The Chair: That was 2012, okay. If we could ask the banks to provide that to the clerk, we would appreciate that.

We've also been asked for information from CIBC, strategic strategies to reinforce banking operations in the Caribbean or other countries that are excluded from this.

Mr. Steven Blackburn: Sorry, could you clarify that request?

The Chair: Mr. Côté, I think we'll have to send that to the bank. I could send that as the chair.

We are unfortunately out of time, so we'll follow up with CIBC on that.

Is there anything further that any of your organizations wishes to share?

Go ahead, Ms. McLeod.

Mrs. Cathy McLeod: Yes, there was my question regarding the challenges with unnamed persons, complying with requests from CRA around unnamed persons.

The Chair: Yes, could we have all the institutions respond to that as well?

Mr. Rankin, do you have another question?

Mr. Murray Rankin: Yes, forgive me if I'm out of turn.

I had a notice of motion that was presented a while back on the measurement of tax gaps, which I provided to the committee. I think this may be our last day for this particular topic, in which case is this the time to move my motion?

The Chair: I wasn't informed that you wanted to move it today. I would have allowed for time at the end of the meeting.

Mr. Murray Rankin: If it's still within my time to move it later, even though we may not be doing tax evasion, I'm happy to do it another day.

The Chair: You can move it at any meeting. It's a notice of motion, so the 48 hours requirement has been fulfilled.

Mr. Murray Rankin: All right, thank you.

The Chair: You can move it at any meeting in the future.

I want to thank all the individuals and organizations for appearing here today, for responding to our questions. If you can respond to those specific questions and provide any further information you wish the committee to consider in its deliberations, please submit it to me as the chair and I will ensure all the members get it.

Thank you so much for being with us here today.

Thank you, colleagues. The meeting is adjourned.

Published under the authority of the Speaker of
the House of Commons

SPEAKER'S PERMISSION

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Also available on the Parliament of Canada Web Site at the following address: <http://www.parl.gc.ca>

Publié en conformité de l'autorité
du Président de la Chambre des communes

PERMISSION DU PRÉSIDENT

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la *Loi sur le droit d'auteur*. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la *Loi sur le droit d'auteur*.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante : <http://www.parl.gc.ca>