



Financial Transactions and
Reports Analysis Centre
of Canada

Centre d'analyse des opérations
et déclarations financières
du Canada



DETER^{AND} DETECT

MONEY LAUNDERING AND TERRORIST FINANCING
FINTRAC ANNUAL REPORT 2014

Canada 

WHO WE ARE

OUR MISSION

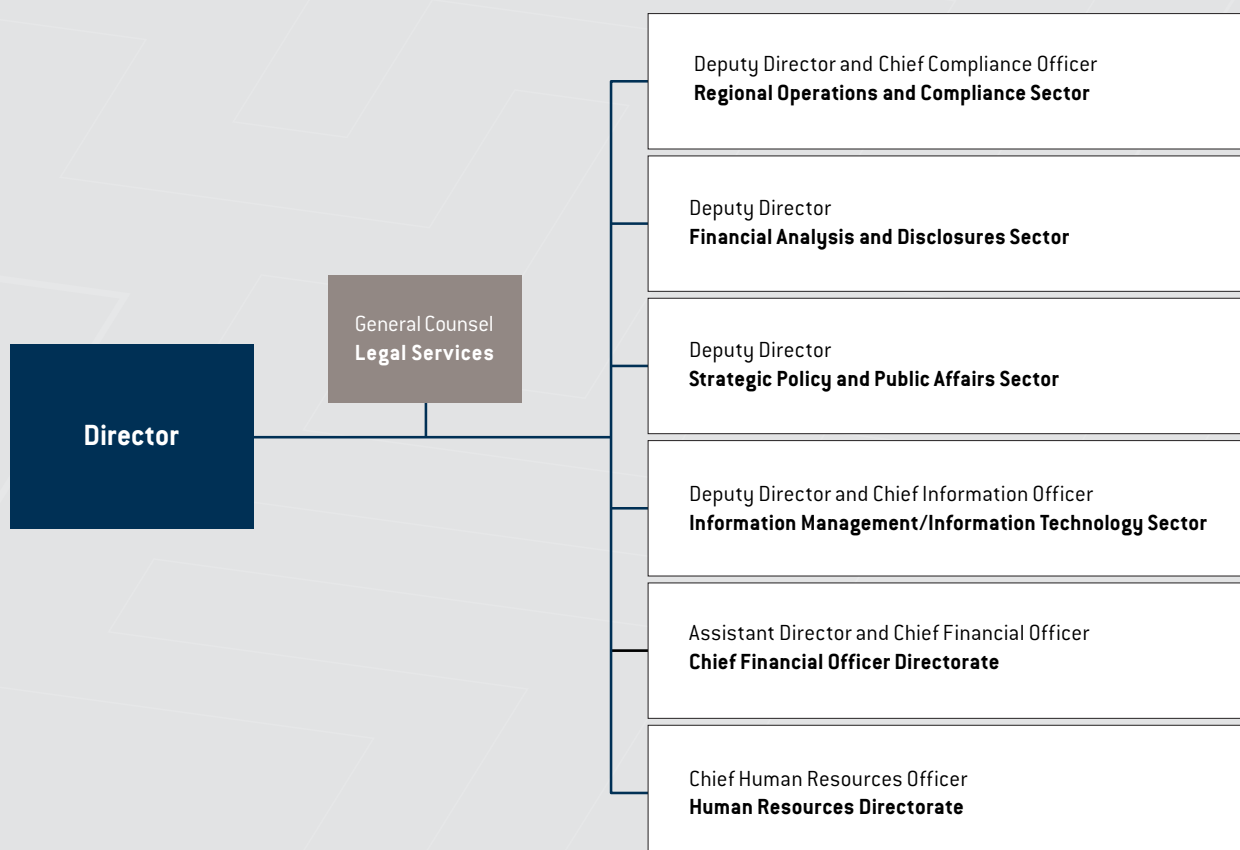
To contribute to the public safety of Canadians and to help protect the integrity of Canada's financial system through the detection and deterrence of money laundering and terrorist activity financing.

OUR VISION

To be recognized as a world-class financial intelligence unit in the global fight against money laundering and terrorist activity financing.

OUR ORGANIZATION

FINTRAC has offices in Ottawa, Montréal, Toronto and Vancouver. The Centre's Executive Committee ensures that the essential conditions are in place to: provide strategic direction; support the Minister; address Parliament and Government of Canada priorities; and deliver cost-effective results for Canadians.



OUR RELATIONSHIPS

DOMESTIC

- Reporting entities and their representative associations
- National and provincial regulators
- Royal Canadian Mounted Police
- Ontario Provincial Police
- Sûreté du Québec
- Royal Newfoundland Constabulary
- Municipal police forces
- Canadian Security Intelligence Service
- Canada Border Services Agency
- Canada Revenue Agency
- Communications Security Establishment Canada
- Integrated Terrorism Assessment Centre
- Criminal Intelligence Service Canada and its provincial bureaus
- National Coordinating Committee on Organized Crime
- Canadian Association of Chiefs of Police
- Public Prosecution Service of Canada
- Department of Finance
- Department of Foreign Affairs, Trade and Development
- Department of Justice
- Department of National Defence
- Public Safety Canada
- Privy Council Office
- Treasury Board of Canada Secretariat
- Office of the Privacy Commissioner of Canada

INTERNATIONAL

- Foreign financial intelligence units
- Egmont Group of Financial Intelligence Units
- Financial Action Task Force and its sub-groups, such as the Americas Regional Review Group
- Other international organizations such as the World Bank, the International Monetary Fund, the United Nations Office on Drugs and Crime, the Counter-Terrorism Committee Executive Directorate, the Caribbean Financial Action Task Force, the Asia/Pacific Group on Money Laundering, and GAFISUD

“ The Canada-U.S. Centre of Operations Linked to Telemarketing Fraud recognized FINTRAC’s contribution to the investigation of a mass telemarketing fraud network operating in Canada and the United States. The network allegedly defrauded \$16 million from American seniors who were promised medical discounts and protection against identity theft. The investigation resulted in the arrest of 23 individuals in the Montréal area in March 2014. ”

2013–14 HIGHLIGHTS

- Contributed to hundreds of investigations of money laundering (including in the context of drug, fraud, theft and other offences), terrorist activity financing and threats to the security of Canada
- Strengthened deterrence throughout Canada's financial system with the efforts of FINTRAC's robust, risk-based compliance program
- Developed a new compliance examination methodology to increase transparency and objectivity throughout the examination process and better align assessment and enforcement activities
- Created a Major Reporters Team to provide tailored engagement with, and regular supervision of, the largest entities in Canada's financial sector
- Overhauled the administrative monetary penalties publication criteria to focus on the most significant cases of non-compliance
- Co-chaired the inaugural International Supervisors Forum with the Australian Transaction Reports and Analysis Centre to improve global coordination in the fight against money laundering and terrorist financing
- Increased the production of strategic financial intelligence assessments to help advance the intelligence priorities of domestic and international partners
- Delivered an interactive workshop for partner agencies as part of the National Action Plan to Combat Human Trafficking, demonstrating how financial intelligence assists investigations and prosecutions of money laundering activity related to human trafficking
- Provided financial intelligence expertise as part of the Tactical Intelligence Analysis Course at the Canadian Police College and delivered a number of presentations and workshops to a variety of law enforcement partners including the RCMP

BY THE NUMBERS

19,750,453 financial transaction reports received from reporting entities across the country

5,075 telephone and email enquiries answered

1,143 case disclosures of actionable financial intelligence assisting money laundering, terrorist financing and national security threat investigations in Canada and around the world

1,126 compliance examinations conducted across Canada

837 money services businesses registered and 169 registration renewals

298 policy interpretations provided to Canadian businesses and other stakeholders

16 administrative monetary penalties issued to encourage change in the non-compliant behaviour of reporting entities



Financial Transactions and
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et déclarations financières
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September 30, 2014

The Honourable Joe Oliver, P.C., M.P.
Minister of Finance
L'Esplanade Laurier
140 O'Connor Street
21st Floor, East Tower
Ottawa, Ontario
K1A 0G5

Dear Minister:

Pursuant to subsection 71(1) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, I am pleased to present you with the thirteenth Annual Report for the Financial Transactions and Reports Analysis Centre of Canada. This report provides details of our operations and activities for the period from April 1, 2013 to March 31, 2014.

As we work to ensure compliance with Canada's anti-money laundering and anti-terrorist activity financing legislation and provide high-quality financial intelligence to our regime partners, we are helping to protect the safety and security of Canadians and the integrity of Canada's financial system. In fulfilling our mandate, we are also focused on safeguarding the sensitive information under our control.

Yours sincerely,

Gérald Cossette
Director

Canada 



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MESSAGE FROM THE DIRECTOR



I am pleased to report on the work FINTRAC carried out in 2013–14 to help to protect Canadians and the integrity of Canada's financial system.

Over the past 12 months, we provided more than 1,000 disclosures of actionable financial intelligence to our law enforcement and national security regime partners to assist them in their investigations of money laundering, terrorist financing and threats to the security of Canada.

These disclosures contributed to hundreds of police investigations and their value was recognized on numerous occasions by law enforcement agencies across the country. For example, in January 2014, the RCMP acknowledged our contribution to Project Anarchy, a two-year investigation of a drug trafficking organization with alleged ties to national and international organized crime groups. Following the investigation, 75 charges were laid against nine individuals and police seized more than 24 kilograms of cocaine, tens of thousands of dollars in cash, and a number of firearms and vehicles.

Over the past year, the RCMP's Integrated National Security Enforcement Teams in Ontario and Quebec also recognized our contribution to a terrorist financing investigation on the International Relief Fund for the Afflicted and Needy-Canada (IRFAN-Canada), an organization allegedly linked to the terrorist entity Hamas. After executing search warrants in Mississauga and Montréal, the RCMP seized an extensive amount of documentary evidence along with stored media, money and other records.

Our ability to produce quality financial intelligence for our regime partners is dependent on Canadian businesses fulfilling their obligations under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA), including the requirement to report specific types of financial transactions. The information we receive from businesses across the country is the lifeblood of our analysis and makes it possible for us to **detect** financial transactions relevant to money laundering or terrorist financing investigations.

The legal obligations also provide important measures for countering patterns and behaviours observed in criminals and terrorists to **deter** them from operating within legitimate channels. The simple requirement of having to identify oneself when completing a transaction or opening an account is a measure of deterrence as it eliminates the anonymity of the transaction.

FINTRAC's compliance program helps to ensure that businesses meet their legal obligations. We refer to this as 'compliance for intelligence', meaning our compliance activities – guiding, assessing, enforcing and providing feedback – are all geared toward ensuring Canadian businesses provide us with the information we need to assist our regime partners in protecting Canada and Canadians.

As you will see in this report, it has been a transformative period for our compliance program. In a year in which we celebrated the tenth anniversary of our first compliance examination, we developed new risk models to identify businesses at a higher risk of non-compliance and implemented a more rigorous examination methodology. We also created a research lab to produce business intelligence and analytics to inform our compliance efforts. Most significantly, we established a Major Reporters Team to provide a more tailored approach to, and engagement with, the largest entities in Canada's financial sector.

As a result of these initiatives and the dedicated efforts of Canadian businesses, we have seen real progress on the reporting front, particularly in relation to suspicious transactions. Improving the quality and timeliness of the information we receive has strengthened our ability to produce actionable financial intelligence for our regime partners. With our ongoing reports validation and reports monitoring projects, enhancing the quality of reporting will remain a priority for us going forward.

Over the coming year, we will also focus on implementing the legislative changes in the *Economic Action Plan 2014 Act No. 1* meant to strengthen Canada's anti-money laundering and anti-terrorist efforts, including increasing our ability to disclose threats to the security of Canada to our partners. As we look to operationalize these changes, we will work with businesses to minimize burden wherever possible and to ensure the new legislative and regulatory obligations are clearly understood.

Another significant priority for us will be the modernization of our analytics system. In 2014–15, we will begin the process of investing in a new system to support our analytical work and assessing our business processes in order to improve our ability to balance reliability, completeness and timeliness in the financial intelligence we provide to our regime partners.

In the coming months, we will also be working with our regime partners, under the leadership of the Department of Finance, to prepare for the Financial Action Task Force's evaluation of Canada's anti-money laundering and anti-terrorist financing regime. We are pleased this international body recently recognized FINTRAC's thorough analysis of financial intelligence and sound supervision of regulated businesses in its 6th Follow-up Report on the Mutual Evaluation of Canada. With our partners, we are committed to demonstrating the overall effectiveness of Canada's regime during the next evaluation round.

Finally, we will continue to reach out, as we have been doing over the past year, to businesses, regime partners, stakeholders and other leaders of industry and academia to ensure the threats we face from money laundering and terrorist financing are clearly understood, and to emphasize the shared responsibility we have in protecting Canada and Canadians.

The success of Canada's anti-money laundering and anti-terrorist financing regime is dependent on the dedicated efforts of all players, from businesses on the frontlines of Canada's financial system to prosecutors securing convictions of money launderers and terrorist financiers. Together, we are producing significant results for Canadians.

Gérald Cossette
Director

WHAT WE DO



FINTRAC'S MANDATE

FINTRAC facilitates the detection, prevention and deterrence of money laundering and the financing of terrorist activities, while ensuring the protection of personal information under its control. We fulfill this mandate by:

- Receiving financial transaction reports and voluntary information on money laundering and terrorist activity financing in accordance with the legislation and regulations.
- Safeguarding personal information under our control.
- Ensuring the compliance of reporting entities with the legislation and regulations.
- Producing financial intelligence relevant to investigations of money laundering, terrorist activity financing and threats to the security of Canada.
- Researching and analyzing data from a variety of information sources that shed light on trends and patterns in money laundering and terrorist financing.
- Maintaining a registry of money services businesses in Canada.
- Enhancing public awareness and understanding of money laundering and terrorist activity financing.

STRATEGIC PRIORITIES

FINTRAC's strategic priorities are as follows:

1. Provide valued financial intelligence to law enforcement and national security partners.
2. Maximize the delivery of an effective and robust national compliance program based on risk considerations for the production of financial intelligence that enhances the quality and quantity of reported data available to FINTRAC and the enforcement of compliance regimes.
3. Pursue policy and legislative opportunities to strengthen the anti-money laundering and anti-terrorist financing regime.
4. Leverage advancements in information technology as FINTRAC seeks to transform its data business processes.
5. Strengthen the leadership capacity throughout the Centre by enhancing its ability to recruit, develop and retain talent that aligns with its objectives and deepens its expertise.
6. Strengthen the Centre's approach to its security posture to ensure a high level of assurance that information, assets, and services are protected against compromise.

PROTECTING THE PRIVACY OF CANADIANS

Safeguarding the information entrusted to FINTRAC is an overarching and fundamental consideration in all aspects of our operations. We understand the protection of privacy is critical to maintaining Canadians' confidence in FINTRAC and the broader anti-money laundering and anti-terrorist financing regime. Clear principles for the protection of privacy are set out in our governing legislation, which respects the *Canadian Charter of Rights and Freedoms* and the *Privacy Act*, and are reinforced by our own operational policies and security measures.

FINTRAC does not have direct access to the bank accounts or any other financial information of Canadians. We do not have any legal authority or technical means to monitor the financial activities of individuals. The financial intelligence we disclose to partners is developed from the information we receive from reporting entities and our partners as specified under the PCMLTFA.

The legislation also establishes that the Centre can only make a financial intelligence disclosure to prescribed police, law enforcement and security agencies. Furthermore, the PCMLTFA clearly defines what information may be disclosed and sets out specific thresholds that must be met before we are able to disclose it. Any other disclosure of information is prohibited and can result in severe penalties, including a fine of up to \$500,000 and/or up to five years' imprisonment for FINTRAC employees.

In order to protect the reports that are received from Canadian businesses, FINTRAC's premises and information systems are guarded by multi-layered and integrated security systems. All personnel must obtain and maintain a high-level security clearance as a condition of employment. Employees have access to sensitive information on a need-to-know basis only and are reminded regularly of their responsibilities to protect personal information. The Centre's Code of Conduct, Values and Ethics also reinforces the legal obligations of employees to protect information.

In October 2013, the Office of the Privacy Commissioner of Canada published its mandated biennial review of how FINTRAC manages personal information in its capacity as a financial intelligence unit. Broadly, the audit recognized that the Centre has in place a comprehensive approach to security, including controls to safeguard personal information. The audit also found that personal information was only used for the purpose for which it was received, and that financial intelligence disclosures were tightly controlled and made in accordance with the legislation.

FINTRAC accepted the Privacy Commissioner's recommendations for improvement and we have implemented changes to our systems and processes to address outstanding issues. For example, in cases where we are aware that we have received information from businesses that does not meet reporting requirements, a process has been put in place to segregate that information. In addition, we have put in place a process to destroy such information.

While helping to protect Canada and Canadians, FINTRAC is determined to meet all of its obligations under the *Privacy Act* and PCMLTFA.



In March 2014, the RCMP's Greater Toronto Area Financial Crime Unit recognized the contribution of FINTRAC to a massive investment fraud investigation. Following the investigation, six people were charged for allegedly running a tax avoidance scheme in which thousands of investors lost millions of dollars. The scheme also resulted in a potential loss of revenue for the federal government of more than \$200 million.

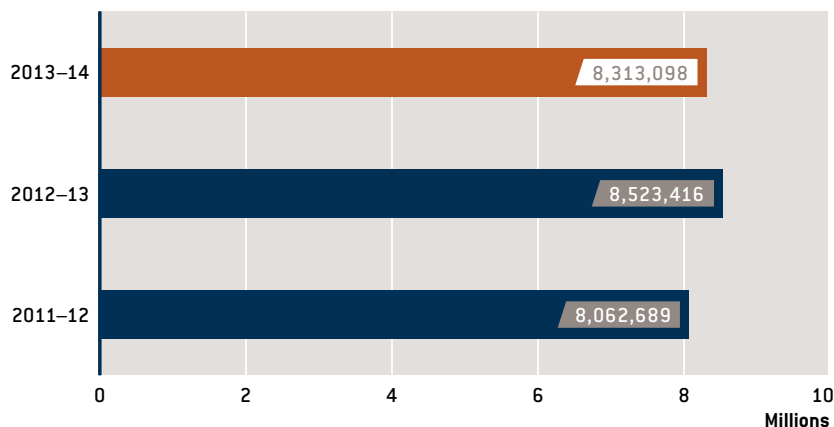


WHAT WE HAVE ACHIEVED

At the heart of our ability to carry out our mission is the financial transaction data that we receive from reporting entities. Without this information, we would not be able to produce actionable financial intelligence that assists law enforcement and national security agencies in their investigations of money laundering, terrorist financing and threats to the security of Canada.

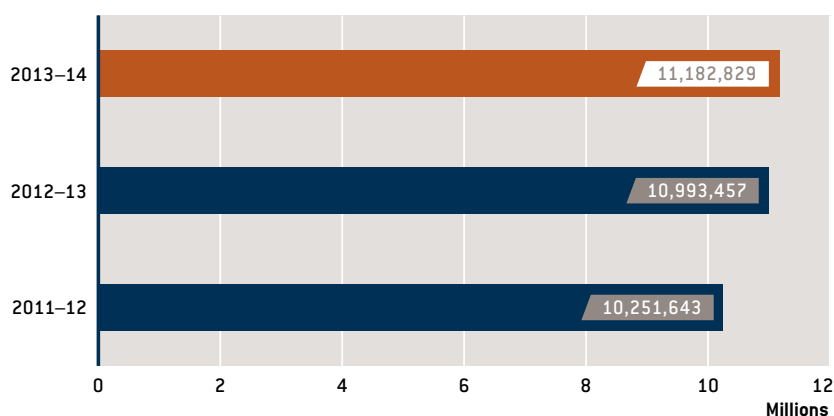
In 2013–14, the Centre received 19,750,453 financial transaction reports. The large number of reports added to our holdings each year underscores the importance of modernizing our analytics system, which is vital to ensuring the effective analysis of the financial data. The following charts illustrate the trends for various reports over the past three years.

Large Cash Transaction Reports



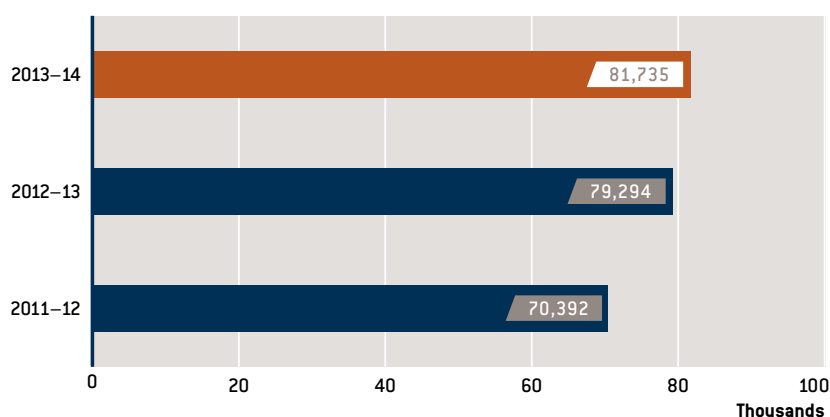
A large cash transaction report is submitted to FINTRAC when a reporting entity receives \$10,000 or more in cash in the course of a single transaction, or when it receives two or more cash amounts totalling \$10,000 or more made within 24 consecutive hours by or on behalf of the same individual or entity.

Electronic Funds Transfer Reports



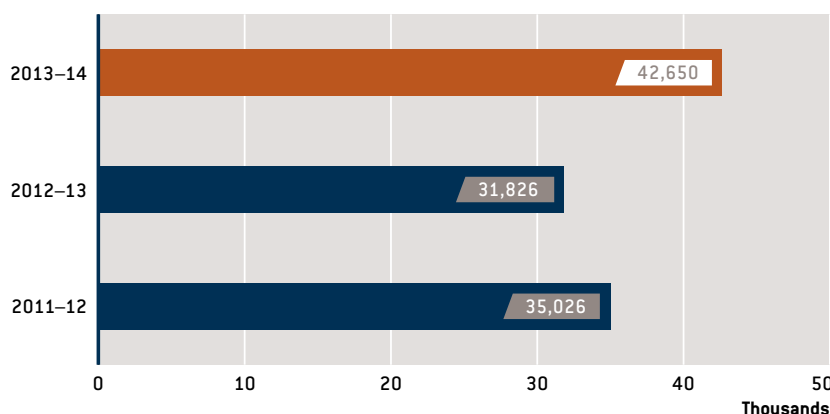
An electronic funds transfer report is submitted to FINTRAC upon a transmission of instructions for the transfer of \$10,000 or more out of or into Canada in a single transaction or in two or more transactions totalling \$10,000 or more made within 24 consecutive hours by or on behalf of the same individual or entity, through any electronic, magnetic or optical device, telephone instrument or computer.

Suspicious Transaction Reports



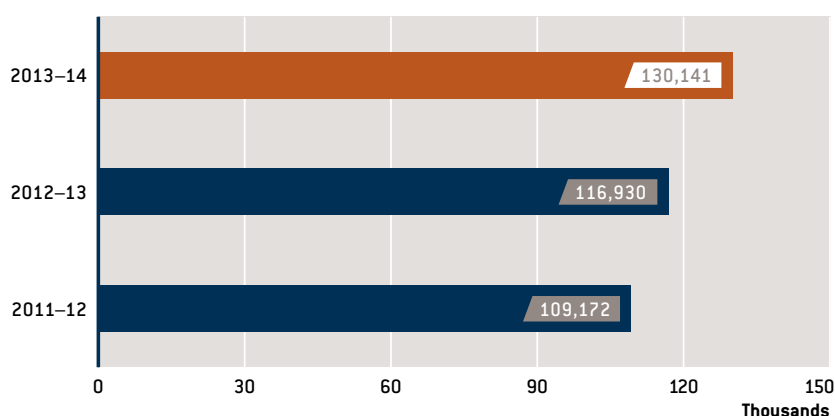
A suspicious transaction report is submitted to FINTRAC in respect of a financial transaction that occurs or is attempted, and for which there are reasonable grounds to suspect that the transaction is related to the commission or attempted commission of a money laundering or terrorist activity financing offence. Unlike all other reporting obligations, there is no monetary threshold associated with the reporting of a suspicious transaction.

Cross-Border Currency Reports/Cross-Border Seizure Reports



A cross-border currency report is filed with the CBSA by a person entering or leaving Canada carrying a sum of currency or monetary instruments of \$10,000 or more, or by a person mailing or sending such large sums into or out of Canada. The CBSA then submits the report to FINTRAC. A cross-border seizure report is submitted to FINTRAC by a CBSA officer upon the seizure of cash or monetary instruments for which reporting obligations were not met.

Casino Disbursement Reports



A casino disbursement report must be submitted to FINTRAC by a casino when it makes a disbursement of \$10,000 or more in the course of a single transaction, or upon making two or more disbursements totalling \$10,000 or more within 24 consecutive hours on behalf of the same individual or entity. This report is not limited to cash.

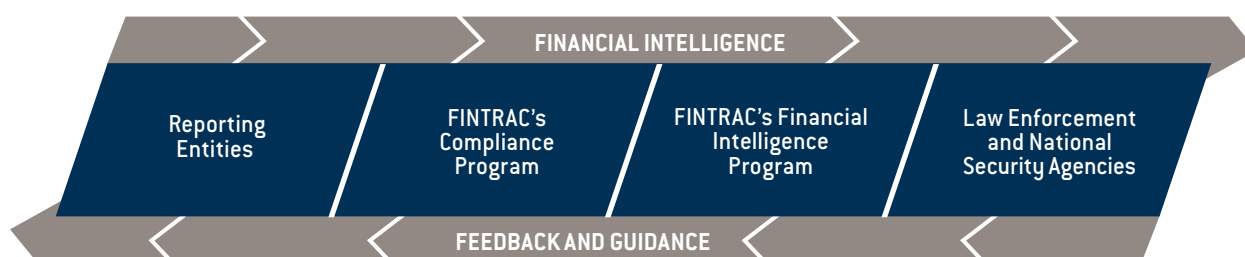


COMPLIANCE FOR INTELLIGENCE

As Canada's financial intelligence unit, FINTRAC houses both supervisory and intelligence functions, allowing us to effectively assess the compliance of regulated businesses and produce financial intelligence for our law enforcement and national security regime partners.

The Centre was created and operates under the PCMLTFA and its associated regulations. This legal framework also establishes obligations for specific business sectors, including the development of a compliance regime in order to identify clients, monitor business relationships, keep records and report on certain types of financial transactions. These obligations help to deter money launderers and terrorist financiers from operating within the legitimate financial system, and to facilitate the detection of their criminal activities through the reporting – and our analysis – of millions of financial transactions.

FINTRAC promotes the concept of 'compliance for intelligence' in operational and strategic decision-making. This concept recognizes that the overall effectiveness of Canada's anti-money laundering and anti-terrorist financing regime, including the financial intelligence that is produced, is dependent upon reporting entities submitting high quality and timely financial transaction reports. To enable the production of actionable financial intelligence, FINTRAC provides directed guidance and feedback on the reports submitted and clarity surrounding the PCMLTFA and its associated regulations, as well as tailored examinations and other compliance assessment and enforcement activities.



Integrated within the 'compliance for intelligence' concept is our risk-based approach to compliance, which sees more of our resources directed at higher-risk reporting entities. This approach is dynamic in that the risks identified one year may change in the next as new products are introduced or as new vulnerabilities emerge within the financial system. Our risk-based approach ensures that our compliance activities are proportionate given the potential or perceived risk of non-compliance. This is done by taking into account two factors: the likelihood and the consequence of non-compliance.

Our assessment of the likelihood of non-compliance is based on a number of factors, including: a reporting entity's profile and the demographic characteristics of its clientele; geographic location; compliance history; reporting behaviour; and any other relevant intelligence gathered.

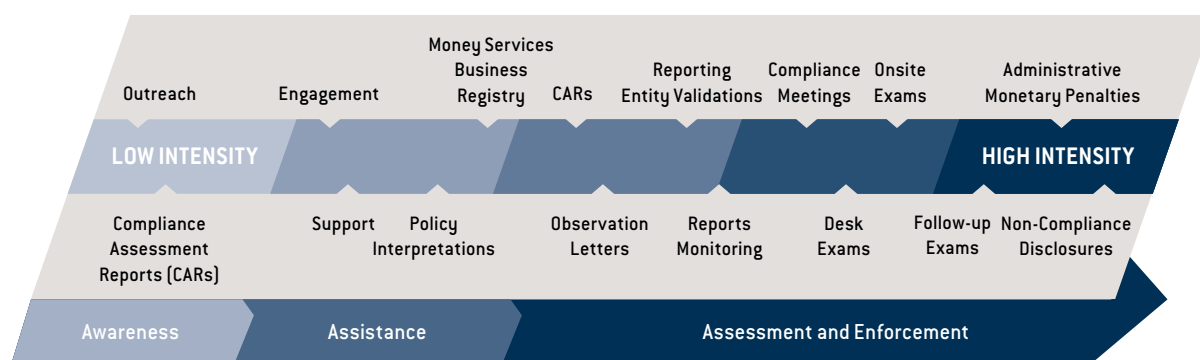
The consequence of non-compliance refers to the overall impact on the safety of Canadians and the integrity of Canada's financial system should a reporting entity not comply with its legal obligations. Three high-level characteristics are assessed to determine the potential consequences of non-compliance, including the size of the reporting entity; the volume of its reporting; and the business sector's vulnerability to money laundering and terrorist financing.

Ensuring Compliance for Intelligence

In the years following FINTRAC's creation, our compliance efforts were focused on awareness and outreach activities with the view that we could achieve greater gains and higher levels of compliance through education and support. This approach was critical in establishing relationships and trust with reporting entities across the country.

With the Centre's operations maturing year over year and the introduction of legislative changes – including the authority to issue administrative monetary penalties – we have adopted a more measured and progressive approach to enforcement. While we will continue to provide guidance and support to reporting entities, we have shifted our focus to the delivery of our nationwide examination and enforcement activities.

FINTRAC undertakes a suite of compliance activities as illustrated below. Over the past year, we created a compliance research lab that provides us with business and analytical intelligence to inform these activities. From an enabling and enforcement perspective, we match our activities based on a sector's level of knowledge of its obligations and compliance behaviour. The intensity of our activities is based on the risk associated with non-compliance.



Note: Concepts used in the above visual are described in greater detail in the following text of the report.

Enabling Compliance

FINTRAC undertakes a range of activities to ensure reporting entities receive effective guidance and feedback, and fully understand their legal obligations. This includes participating in dozens of speaking events, presentations and workshops, as well as responding to enquiries and requests for policy interpretations from reporting entities and their representatives.

In the past year, FINTRAC engaged in consultations with reporting entities from various sectors in Montréal, Toronto and Vancouver on draft guidelines related to revised customer due diligence regulations. Our guidelines are meant to assist reporting entities in implementing and complying with the PCMLTFA and its associated regulations. Through this consultation process, we received significant feedback and substantive questions related to policy interpretation and expectations. With this input, we were able to update and publish the revised guidelines in response to the regulatory amendments coming into force in 2014.

In 2013–14, FINTRAC responded to 5,075 enquiries focusing on a broad range of issues, including reporting obligations, access to reporting systems, and the registration of money services businesses. The Centre also issued 298 policy interpretations to clarify our approach to the application of the PCMLTFA. The most common interpretations related to reporting and client identification obligations.

DO YOU KNOW...

... if you are a reporting entity?

- Accountants
- British Columbia Notaries
- Casinos
- Dealers in Precious Metals and Stones
- Financial Entities
- Life Insurance
- Money Services Businesses
- Real Estate
- Securities Dealers

... the PCMLTFA obligations?

- Money Services Businesses Registration
- Reporting
- Record Keeping
- Client Identification
- Compliance Regime

... the reports FINTRAC needs to produce financial intelligence?

- Suspicious transaction reports related to conducted/attempted transactions
- The existence of and information regarding property in the possession or control of terrorists
- International electronic funds transfers of \$10,000 or more
- Large cash transactions of \$10,000 or more
- Disbursements of \$10,000 or more by casinos

Not all individuals and businesses that operate in sectors covered by the PCMLTFA are subject to the PCMLTFA as they do not undertake the necessary activities to be considered reporting entities. All individuals and businesses in the accountant, British Columbia notary, dealers in precious metals and stones and real estate sectors are encouraged to familiarize themselves with the activities that will trigger their obligations.

FINTRAC interpretation notices are developed when reporting entities require further assistance in understanding their legal obligations. These notices provide clarification on how the Centre administers and interprets provisions of existing legislation, regulations or guidelines. The Centre has published a number of these notices in recent years following internal discussion on an issue or in response to one or more enquiries on a particular aspect of the PCMLTFA.

Enforcing Compliance

FINTRAC undertakes a number of enforcement activities to ensure reporting entities are meeting their legal obligations, including: observation letters, reporting entity validations, reports monitoring, compliance meetings, compliance assessment reports, examinations, follow-up examinations, administrative monetary penalties and non-compliance disclosures to law enforcement.

Compliance examinations remain our primary instrument for assessing and enforcing compliance, and ensuring we receive quality and timely reports from reporting entities. In 2013–14, the Centre conducted 1,126 compliance examinations across Canada.

The Centre has developed the following risk-based criteria to select entities for a compliance examination, including:

- **Concurrent:** FINTRAC and the Office of the Superintendent of Financial Institutions conduct concurrent reviews of federally regulated financial institutions.
- **Market Share:** Entities that represent the largest proportion of their respective sector's market share are examined.
- **Cyclical:** Entities are examined on a cycle given the unique nature of their risk.
- **Follow-up:** Entities with significant non-compliance in previous examinations are re-examined to assess progress.
- **Risk Scored:** Entities are selected on the basis of a risk score calculated by considering core characteristics, including: an entity's vulnerability to money laundering and terrorist financing, business model, size, location, and the quality of its reporting.
- **Themed:** Examinations are used to address intelligence that FINTRAC receives.

FINTRAC and the Office of the Superintendent of Financial Institutions launched a concurrent examination strategy aimed at the federally regulated financial sector in April 2013. Given that the entities in this sector facilitate the largest volume of financial transactions in Canada, the effectiveness of Canada's anti-money and anti-terrorist financing regime is dependent on their compliance.

In order to provide dedicated supervision of this sector, FINTRAC's Major Reporters Team became fully operational in July 2013, marking an important milestone in our compliance evolution. The mandate of the Major Reporters Team includes tailored engagement and examinations of this sector's reporting, record keeping and client identification obligations.

Regardless of the compliance examination strategy employed, when significant or very significant non-compliance is identified, FINTRAC ensures that proportionate and tailored enforcement actions are taken. These actions could include a follow-up examination to assess the level of understanding of obligations or the issuance of an administrative monetary penalty to encourage a change in non-compliant behaviour. A monetary penalty is levied when FINTRAC determines that it is the most appropriate course of action available to address a reporting entity's non-compliance. The Centre issued 16 such penalties in 2013–14, bringing the total to 57 since the Administrative Monetary Penalties Regulations came into force in December 2008.

Over the past year, we revised the criteria used to determine which penalties are reported publicly, focusing on the most significant cases of non-compliance. We also updated the content of our Public Notice of Administrative Monetary Penalties web page to provide more information on penalties imposed, including information on the business sectors subjected to penalties, the total number of penalties imposed and the types of violations committed.

In addition to our examinations, the Centre monitors the quality, timeliness and volume of reports received to determine if enforcement actions are required. Should potential non-compliance be identified, FINTRAC can issue an observation letter and follow up with the reporting entity to ensure remedial action has been taken. The Centre also uses reporting entity validations whereby entities that appear to be conducting business that could be covered under the PCMLTFA are contacted for confirmation of this activity.

FINTRAC also issues compliance assessment reports to enhance our coverage in sectors where we have evaluated the risk associated with money laundering and terrorist financing to be lower. With these reports, businesses are required to answer a set of pointed questions, which help us assess their compliance and address any concerns that may arise.

The Centre also administers the Money Services Business Registry. To register as a money services business, identification and other business information must be provided to FINTRAC. Each money services business must renew its registration every two years. Individuals convicted of certain offences under the PCMLTFA, the *Controlled Drugs and Substances Act*, and the *Criminal Code* are ineligible to own or control a money services business in Canada. Should such a determination be made, the registration is either denied or revoked. To date, FINTRAC has denied or revoked 77 applications. The Centre also continues to track denials or revocations to ensure that business is not being conducted illegally. As of March 2014, FINTRAC had registered 837 money services businesses, including the renewal of 169 entities.

A Decade of Examinations

January 2014 marked the 10th anniversary of FINTRAC's first compliance examination. Since the program's inception, the Centre has completed 6,082 examinations.

What We Are Seeing

The financial transaction reports submitted by reporting entities, particularly suspicious transaction reports, are essential to our intelligence work and the most powerful way in which businesses contribute to protecting the safety of Canadians and the integrity of Canada's financial system.

Over the past couple of years, we have observed a significant increase in reporting levels, which we attribute to a strengthened commitment to compliance from Canadian businesses and our enhanced efforts in relation to education, awareness, assessment and enforcement.

From a broader compliance perspective, we have observed considerable improvement in various sectors and reporting entities. In our follow-up examinations over the past year, we determined that approximately 82% of businesses had addressed the significant areas of non-compliance and the deficiencies identified during the previous examination. The results of our follow-up strategy indicate that our compliance activities, particularly examinations, are effective in bringing about positive behavioural change in reporting entities. They also indicate a willingness among reporting entities to address gaps in their compliance efforts and fulfill their legal obligations.

Given the importance of suspicious transaction reports to our analysis and the intelligence we provide to our regime partners, we have focused considerable resources on updating and communicating the guidance that we provide to reporting entities in relation to this reporting obligation, as well as on enhancing the methodology we use to assess compliance. In recent years, we have cited a number of businesses for neglecting their suspicious transaction reporting obligations. Further to these efforts, we have seen an increase of slightly more than 16% in the number of suspicious transaction reports we received over the past two years.

More specific compliance findings for sectors covered under the PCMLTFA are described below:

Financial Entities: This sector includes banks, credit unions, caisses populaires, financial services cooperatives, credit union centrals, and trust and loan companies. It provides large volumes of high-quality reports, including suspicious transaction reports. The most significant concerns in this sector are centred around the proper assessment of risk, where there is further effort required to strengthen their risk assessments and corresponding mitigation measures and controls for higher-risk clients. In addition, efforts should also be made to strengthen their two-year reviews, specifically in relation to appropriate scoping, enhanced effectiveness testing and overall documentation.

Casinos: This sector includes reporting entities that vary in size, complexity and business models. In recent years, we have observed improvements in compliance regime elements specifically related to risk assessments and ongoing compliance training obligations. At the same time, as this is a cash intensive sector, greater attention is required regarding the quantity, quality and timeliness of the reports submitted to FINTRAC, particularly in relation to suspicious transactions.

PERCENTAGE INCREASE IN REPORTING: 2011–12 TO 2013–14

Casino Disbursement Reports	19.2%
Suspicious Transaction Reports	16.1%
International Electronic Funds Transfer Reports	9.1%
Large Cash Transaction Reports	3.1%

Securities Dealers: This sector includes large businesses and small or single-person operations. It is recognized, internationally, that the reporting of suspicious transactions in this sector remains relatively low, likely the result of low awareness of sector-specific suspicious transaction reporting indicators. As such, we have strengthened our focus on the reporting of suspicious transactions in this sector – to good effect. Over the past year, we have seen a 62% increase in the number of suspicious transaction reports received from securities dealers following our examinations. In April 2013, FINTRAC also published a Trends and Typologies report on the securities sector, highlighting key suspicious transaction reporting indicators. All of these efforts have prompted significant behavioural changes in a number of key industry players.

Securities – Vulnerable to Layering and Integration

The risk of money laundering and terrorist financing in the securities dealers sector resides in the layering and integration stages, rather than the original placement stage. Typical schemes involve multiple transactions (layering) that do not fit the client's profile and do not seem intended to produce any real return on investment.

Money Services Businesses: This sector consists of mostly smaller entities (with a subset of larger entities with numerous agents), with limited resources and compliance experience, and higher turnover rates. All these factors present a unique compliance challenge. In recent years, we have observed progress in this sector with respect to employee training and risk assessment obligations. However, greater work is required in the industry to strengthen its risk-based approach.

Transferable Assets

The money laundering and terrorist financing risks associated with the dealers in precious metals and stones sector reside in the fact that precious metals are easily converted into cash and often transferred with minimal audit trails, making them attractive to criminals.

Dealers in Precious Metals and Stones: This sector typically includes smaller entities with limited resources, compliance experience or industry association representation. Following our compliance examinations in this sector over the past two years, we have seen industry-wide non-compliance, particularly with respect to compliance regime elements that were often completely absent or, if in place, incomplete or inadequate. Over the coming year, we will continue to increase our awareness and assistance activities while beginning progressive and measured enforcement actions within this sector.

Real Estate: The entities in this sector range from large businesses to small or single-person operations. Although this sector benefits from important industry association representation, the level of compliance knowledge and resources varies across the sector and is often a function of an entity's size, capacity and access to resources. In general, we have observed lower levels of compliance within this sector. We will continue to conduct compliance awareness, assessments and enforcement activities, as appropriate, to increase compliance within this sector. We will also work with real estate associations to disseminate compliance information across the industry.

Cashing In on Real Estate

The real estate market is an important part of the Canadian economy and is seen as safe, stable and easily accessible, particularly for foreign investors. The market provides an ideal vehicle to accumulate both legal and illegal investment returns, which increase in value over time.

Accountants and Life Insurance: These sectors include both large businesses and small or single-person operations. Demonstrating similar compliance behaviour, these sectors have displayed gaps in compliance regimes. In order to increase compliance within these two sectors, FINTRAC will continue with assessment and enforcement activities, and will reach out to the broader population through their various associations.

British Columbia Notaries: This sector has demonstrated a high level of familiarity with the PCMLTFA. Through our examinations, we have identified good policies and procedures and training practices. At the same time, we have observed some gaps in the sector's record keeping practices that need to be addressed. We will continue to conduct outreach activities with this sector and undertake proportionate assessment and enforcement activities.

Compliance Going Forward

In order to maintain a strong and modern anti-money laundering and anti-terrorist financing regime, the Government of Canada undertakes regular reviews, addresses gaps and updates the PCMLTFA and Regulations as required, often following a mandatory parliamentary review process. The coming into force of enhanced customer due diligence and the legislative amendments in the *Economic Action Plan 2014 Act No. 1* will strengthen existing compliance provisions and increase coverage in some reporting entity sectors. Going forward, FINTRAC will update and provide additional guidance, as appropriate, to assist reporting entities in understanding their new obligations flowing from the legislative changes.

Over the past year, FINTRAC initiated a project to strengthen the quality of reports received from businesses across the country. Expected to be operational in 2014–15, this project will significantly enhance the validation of reports; if an error is detected in the information provided, the reporting entity will be required to correct the report before it can be received by FINTRAC. In the coming years, the Centre will continue to implement more advanced techniques to monitor suspicious transaction reports and the prescribed reports to ensure that businesses are consistently and accurately reporting, keeping appropriate records, identifying their clients, and maintaining and updating their own risk-based compliance regimes.

In 2014–15, FINTRAC will continue to focus on suspicious transaction reporting across sectors. With the development of enhanced examination methodology to assess this critical obligation, it is expected that the quantity, quality and timeliness of suspicious transaction reporting will increase over time, as will our ability to utilize these reports in the financial intelligence we provide to our regime partners.

In the coming year, FINTRAC will also implement a collaborative agreement with the Canada Revenue Agency related to international electronic funds transfers. Following the announcement in 2013 of new measures to address international tax evasion and aggressive tax avoidance, the Centre began working with the Canada Revenue Agency to facilitate the reporting of international electronic funds transfers of \$10,000 or more to that agency by businesses that currently report these transactions

Global Leadership

In December 2013, FINTRAC co-chaired an International Supervisors Forum with the Australian Transaction Reports and Analysis Centre to improve global cooperation and coordination in the fight against money laundering and terrorist financing.

Providing a venue to share information, data trends and best practices, this forum will help strengthen domestic and international compliance and supervisory regimes.

to FINTRAC. In order to minimize the reporting burden on Canadian businesses, FINTRAC and the Canada Revenue Agency are developing a technical solution that will allow reporting entities to use one system to send international electronic funds transfers reports to both agencies simultaneously beginning in January 2015, when the reporting requirements come into effect.

Going forward, we will also undertake a detailed analysis of all reporting entity sectors and their reporting obligations.

With the upcoming legislative changes, our enhanced examination methodologies and our ongoing investment in compliance research and analytics, we will gain access to new data regarding the compliance characteristics of reporting entities and their sectors. This information will allow us to develop increasingly robust measures to assess compliance and more effectively manage our compliance strategies and activities.

The Bottom Line

The single most important factor in deterring and detecting money laundering and terrorist financing in Canada is reporting entities fulfilling their compliance obligations.



FINTRAC INTELLIGENCE – TACTICAL

FINTRAC's financial intelligence plays a critical role in helping to combat money laundering, terrorist financing and threats to the security of Canada.

Our disclosures contain designated information that identifies individuals and entities, as well as account and transaction information, where FINTRAC has reasonable grounds to suspect that it would be relevant to the investigation and prosecution of money laundering or terrorist activity financing offences or the investigation of threats to the security of Canada.

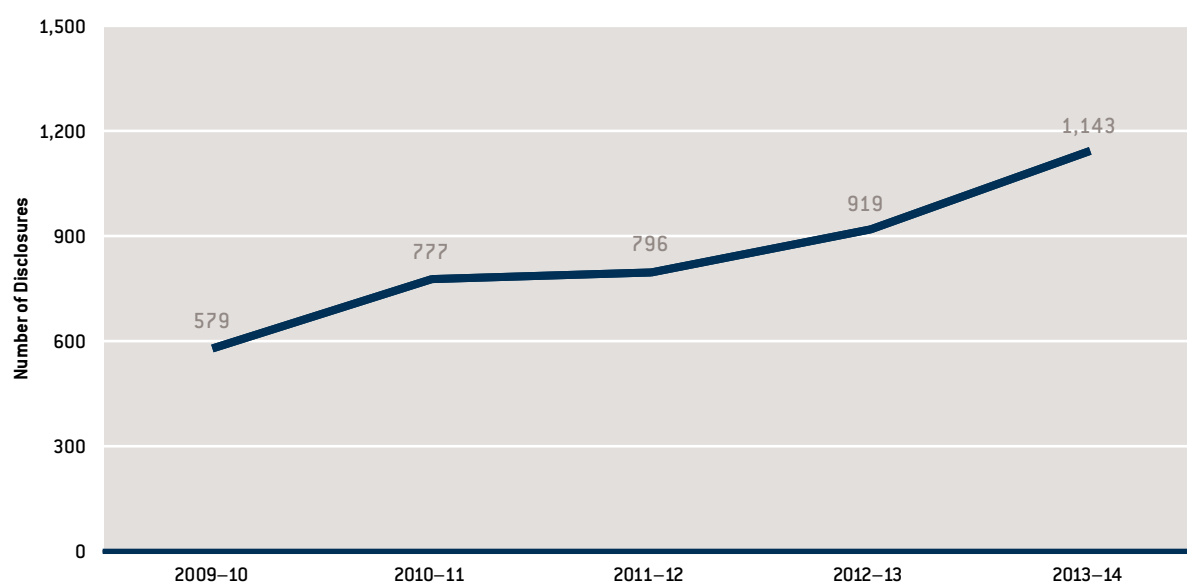
This financial intelligence is used to assist money laundering and terrorist financing investigations in the context of a wider variety of criminal investigations, where the origins of the suspected criminal proceeds are linked to drug trafficking, fraud, tax evasion, corruption, and other criminal offences. With these types of crimes, there are victims, there is often violence, and there is real social harm.

Often based on hundreds or even thousands of financial transactions, our disclosures may show links between individuals and businesses that have not otherwise been identified in an investigation, and help investigators refine the scope of their cases or shift their sights to different targets. They are also used by law enforcement to put together affidavits to obtain search warrants and production orders. See **Annex A** for a summary of a case to which FINTRAC contributed.

Increasingly, our financial intelligence is also used by our regime partners to identify assets for seizure and forfeiture, reinforce applications for the listing of terrorist entities, negotiate agreements at the time of sentencing and advance the government's knowledge of the financial dimensions of threats, organized crime and terrorism.

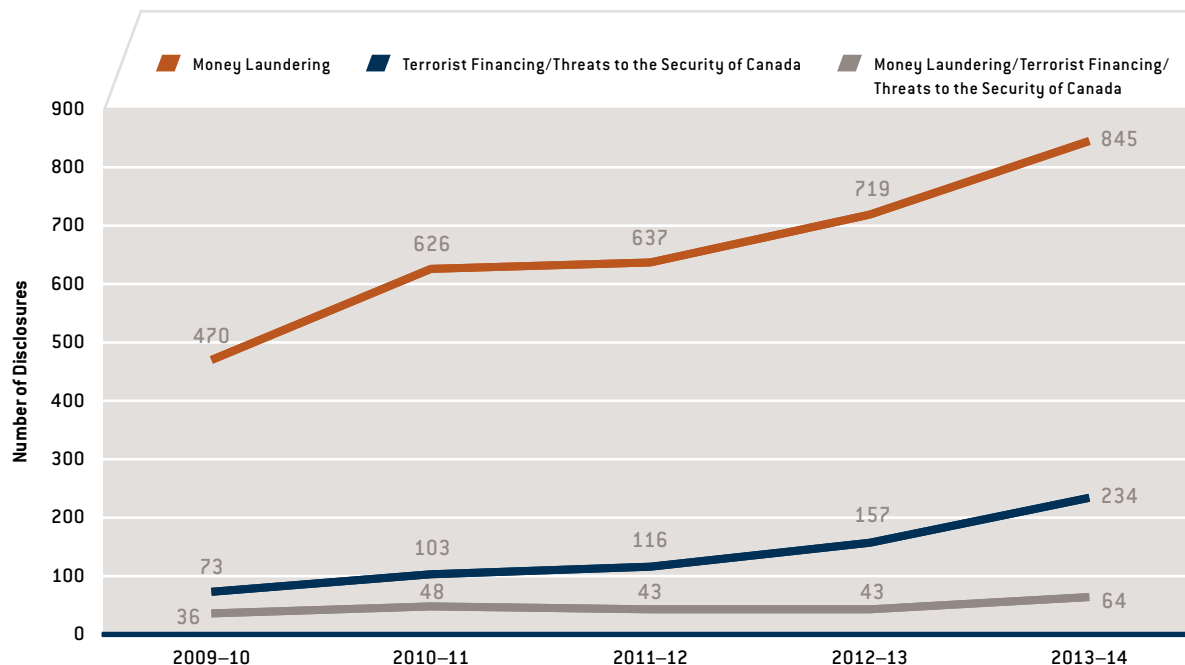
“ In April 2013, the RCMP's Calgary Integrated Market Enforcement Team recognized the contribution FINTRAC made to their investigation of a Ponzi scheme that allegedly defrauded 350 investors of \$27 million. An individual was sentenced to four years in jail for fraud and ordered to pay \$10 million in restitution to his victims. ”

FINTRAC Case Disclosures from 2009–10 to 2013–14



In 2013–14, FINTRAC made 1,143 disclosures to regime partners. Of these, 845 were associated to money laundering, while 234 dealt with cases of terrorist activity financing and other threats to the security of Canada. Sixty-four disclosures dealt with all three areas.

Disclosures by Type from 2009–10 to 2013–14



In October 2013, the Toronto Police Service and the Ontario Securities Commission’s Joint Serious Offences Team recognized FINTRAC’s assistance in an investigation in which a Toronto man was charged for allegedly defrauding five investors of \$7 million over a four-year period.



What Is Money Laundering?

Money laundering is the process used to disguise the source of money or assets derived from criminal activity. There are three recognized stages in the money laundering process:

1. **Placement** involves placing the proceeds of crime in the financial system.
2. **Layering** involves converting the proceeds of crime into another form and creating complex layers of financial transactions to disguise the audit trail and the source and ownership of funds. This stage may involve transactions such as the buying and selling of stocks, commodities or property.
3. **Integration** involves placing the laundered proceeds back in the economy to create the perception of legitimacy.

The money laundering process is continuous, with new “dirty” money constantly being introduced into the financial system.

The value of our financial intelligence rests in its quality and timeliness. The Centre's disclosures must provide law enforcement and national security agencies with actionable financial intelligence. This means that our work must be closely aligned with our partners' priorities. We ensure this alignment through our participation in the Canadian Association of Chiefs of Police and its committees dealing with organized crime and national security, as well as the Canadian Integrated Response to Organized Crime committee. We also cooperate with regime partners at the federal, provincial and municipal levels to promote and facilitate feedback and receive voluntary information records from them.

When FINTRAC has determined there are reasonable grounds to suspect that our financial intelligence would be relevant to the investigation or prosecution of a money laundering or terrorist activity financing offence, we are required to make disclosures to the appropriate regime partner. Canadian police forces – particularly the Royal Canadian Mounted Police – continue to be the main recipients of our financial intelligence.

When separate thresholds are also met, we are required to make disclosures to the Communications Security Establishment Canada, the Canada Revenue Agency and the Canada Border Services Agency. As well, when we have reasonable grounds to suspect that our information would be relevant to the work of the Canadian Security Intelligence Service regarding threats to the security of Canada, we are required to disclose it to that organization.

In 2013–14, FINTRAC's financial intelligence disclosures contributed to investigations at the municipal, provincial and federal levels across the country. The same disclosure may be provided to multiple partners when appropriate thresholds are met.

“FINTRAC's financial intelligence was used as part of a Federal Court judicial review of the August 2013 decision by the Immigration and Refugee Board to deport an individual in Vancouver linked to criminal activities abroad. The deportation order was upheld.”

NUMBER OF DISCLOSURES BY RECIPIENT (2013–14)	
Royal Canadian Mounted Police	703
Canadian Security Intelligence Service	243
Municipal police	207
Foreign financial intelligence units	163
Canada Revenue Agency	153
Canada Border Services Agency	139
Provincial police	135
Communications Security Establishment Canada	33

What Is Terrorist Activity Financing?

Terrorist activity financing is the use of funds, property or other services to encourage, plan, assist or engage in acts of terrorism, where the primary motivation is not financial gain.

Two main differences distinguish terrorist activity financing from money laundering:

- Funds can be from legitimate sources, not just criminal acts; and
- Money is the means, not the end – the goal is to use funds to facilitate or implement terrorist activities.

Over the past year, our financial intelligence was used to assist money laundering investigations in the context of a wide variety of criminal investigations. Based on information provided to the Centre, the following predicate offences generated suspected criminal proceeds that were identified in our disclosures related to money laundering or terrorist activity financing.

Types of Predicate Offences Related to Case Disclosures¹

PREDICATE OFFENCE CATEGORY	2011–12	2012–13	2013–14
Drugs	27%	27%	33%
Fraud	35%	34%	28%
Unknown	11%	8%	11%
Tax Evasion	9%	13%	9%
Corruption	5%	5%	5%
Customs/Excise	5%	4%	5%
Theft	6%	5%	5%
Human Smuggling/Trafficking	3%	3%	3%
Illegal Gambling	1%	2%	1%

¹ A FINTRAC disclosure may relate to proceeds of crime flowing from multiple predicate offences; therefore, the percentages in this table may add up to more than 100 percent.

“FINTRAC’s assistance to the Unité permanente anticorruption’s Project Lauréat was first recognized by the Sûreté du Québec in April 2013, when five people were named in arrest warrants citing charges of fraud, bribery and money laundering in connection with a contract to build the McGill University Health Centre. In May 2013, two more individuals were arrested and further charges of conspiracy and money laundering were brought forward.”

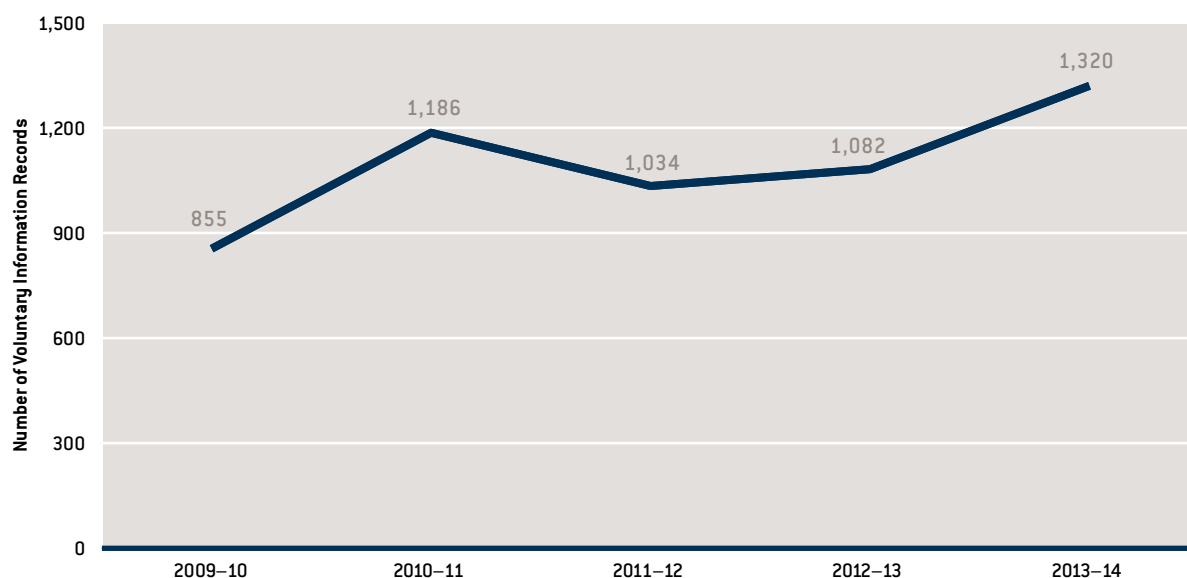
What Are Threats to the Security of Canada?

FINTRAC provides financial intelligence relevant to the investigation of threats to the security of Canada (as defined by the *Canadian Security Intelligence Service Act*), including:

- Espionage or sabotage that is against Canada or is detrimental to the interests of Canada, or activities directed toward or in support of such espionage or sabotage;
- Foreign influenced activities within or relating to Canada that are detrimental to the interests of Canada and are clandestine or deceptive, or involve a threat to any person;
- Activities within or relating to Canada directed toward or in support of the threat or use of acts of serious violence against persons or property for the purpose of achieving a political, religious or ideological objective within Canada or a foreign state; and
- Activities directed toward undermining by covert unlawful acts, or directed toward or intended ultimately to lead to the destruction or overthrow by violence of the constitutionally established system of government in Canada.

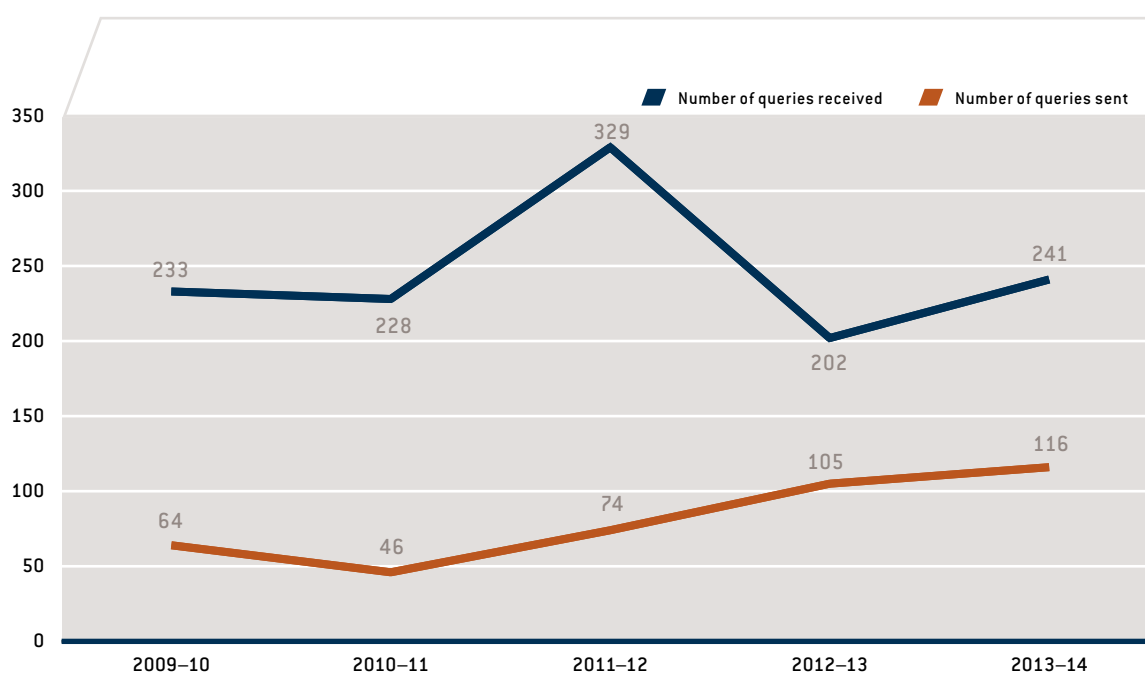
FINTRAC continues to receive a significant number of voluntary information records from our law enforcement and national security partners, as well as members of the public. Voluntary information records are often the starting point for our analysis. They are used to establish connections between individuals and entities – connections that very often provide law enforcement with valuable leads in their ongoing investigations.

Number of Voluntary Information Records Received from 2009–10 to 2013–14



Recognizing the transnational nature of money laundering and terrorist activity financing, FINTRAC is committed to working with foreign financial intelligence units to protect Canadians and the integrity of Canada's financial system. In 2013–14, we received 241 queries for information from foreign financial intelligence units. For our part, we sent 116 requests to foreign financial intelligence units to broaden our own analysis.

International Queries Sent and Received from 2009–10 to 2013–14



“ In August 2013, investigators of the RCMP’s Federal Operations East Unit recognized FINTRAC’s contribution to a 10-month investigation that led to the arrest of two individuals and the seizure of 19,000 methamphetamine pills, 11 kilograms of cannabis resin and 3 kilograms of cocaine. The individuals were charged with trafficking controlled substances and possession of a controlled substance for the purpose of trafficking. ”

Going forward, FINTRAC will focus on strengthening relationships with and improving the level and quality of feedback we receive from our law enforcement, national security and international partners. We are also committed to providing our intelligence analysts with the customized tools and training they need to ensure the Centre continues to deliver high-quality, actionable and timely financial intelligence.

The Value of FINTRAC Disclosures: What our Partners Say

The case is currently before the courts and the information provided helped substantiate allegations. We were extremely satisfied with the quality of the disclosure provided as well as the timeline in which it was completed. FINTRAC is an invaluable resource for financial crime investigators.

– Ontario Provincial Police

The disclosure was very impressive in its detail and scope. Shortly after receiving it, our General Investigation Service Unit generated a file resulting in a large seizure of drugs. The individuals mentioned in the disclosure were identified as involved.

– RCMP ‘G’ Division Federal Investigations Unit

The information obtained led us to start a new investigation focused on the money trail – namely the illegal means used by the accused to launder the money they obtained in this case. [Translation]

– Sûreté du Québec

Targets added to watch list, initiation of further investigation, potential organized crime investigation under the Immigration and Refugee Protection Act. The products provided to our agency were outstanding. The I2 charts were especially helpful and done in an informative yet uncomplicated manner. This information will greatly assist us in our investigation.

– Canada Border Services Agency

The information submitted was detailed enough to assist in the development of the case file and preparation of a Mutual Legal Assistance Treaty request to Canada for additional information.

– Dominica Financial Intelligence Unit

The information shows suspects were laundering money. Thank you for your time in gathering the information. It will assist with our investigation to show which accused parties were responsible for the money laundering.

– York Regional Police

New linkages were established based on the information in this disclosure which have furthered the investigation and have identified additional involvement of the primary subject in a financial activity previously unknown to the Service.

– Canadian Security Intelligence Service

Excellent product as usual. The timeframe for return was good. This was the most revealing disclosure FINTRAC has ever sent me. FINTRAC has now provided a potential money trail on a family of laundering internationals. Excellent work FINTRAC.

– RCMP Toronto Integrated Proceeds of Crime Unit

The financial information corroborated the roles of several persons/entities involved in this money laundering conspiracy, and provided valuable intelligence that allowed for targeted searches of shipments for evidence/contraband at several U.S. ports of entry. The FINTRAC product has been among the more valuable investigative tools I have used in this complex intelligence driven investigation. It was a clear, concise, well-organized packet of information.

– Drug Enforcement Administration—United States

The information provided was extremely helpful. It provided additional information about account relationships that we were previously unaware of. The information assisted in drafting a detailed and comprehensive Mutual Legal Assistance Treaty request.

– Internal Revenue Service—United States



FINTRAC INTELLIGENCE – STRATEGIC

FINTRAC produces valuable strategic financial intelligence in the fight against money laundering and terrorist activity financing. Through the use of analytical techniques, we are able to identify emerging characteristics, trends and patterns used by criminals to launder money or fund terrorist activities. The goal of our strategic intelligence is to inform the federal government, reporting entities and the Canadian public about the nature and extent of money laundering and terrorist activity financing in Canada and throughout the world.

This more holistic type of intelligence helps federal policymakers and other stakeholders to understand the dynamics of the broader money laundering and terrorist financing environment, including providing an early warning on emerging threats. For example, FINTRAC provides insight into trends in financial activity related to terrorist groups or countries of concern. By analyzing our database and the roughly 20 million financial transaction reports we receive every year, along with intelligence from our partners and open source material, the Centre produces strategic intelligence to help constrain or disrupt the operating environment for money launderers and terrorist financiers.

FINTRAC's strategic intelligence on money laundering and terrorist activity financing also supports Canada's broader policing, national security and foreign policy priorities, including in relation to the links between money laundering and criminal activity in Canada and abroad, the resourcing of terrorist groups and high-risk countries that fall under international sanctions.

Over the past year, the Centre provided strategic intelligence to the national security community, domestic law enforcement and other regime partners in support of: the federal government's intelligence priorities; the 2013 Public Report on the Terrorist Threat to Canada and Canada's Counter-Terrorism Strategy; criminal intelligence requirements; and the development of a National Risk Assessment for Canada's anti-money laundering and anti-terrorist financing regime.

FINTRAC also produces reports on trends and typologies based on our data and case analyses. These reports are meant to provide feedback to businesses on reporting trends within their specific sector while, at the same time, informing them of potential risks and vulnerabilities in their own anti-money laundering and anti-terrorist financing programs. These reports also describe money laundering and terrorist financing methods and techniques in relation to specific sectors or across FINTRAC's financial transaction reports or case disclosures regarding certain types of crimes or topics. In April 2013, we published a report on the securities sector, outlining the various ways in which its products and services could be used to launder money.

FINTRAC's strategic intelligence program strives to be a leader in money laundering and terrorist financing analysis, including the delivery of strategic analytical training to foreign financial intelligence units. It also promotes relationships and exchanges with the academic community and has provided important insight with respect to the use of strategic financial intelligence, all of which help to strengthen Canada's anti-money laundering and anti-terrorist financing regime.

Better Intelligence Through Partnerships

As intelligence is a collective enterprise, the Centre continues to solidify its domestic and international relationships with key partners and the academic community. For example, FINTRAC has actively supported the Kanishka Project, a Government of Canada research initiative on terrorism and counter-terrorism. Through presentations and direct consultations, the Centre has offered its expertise in developing the first database of Canadian terrorist and violent extremist incidents. It has also reviewed proposals for research funding, which will help Canada better understand its threat environment. This collaboration is fundamental in helping to degrade the capacity of illicit financial actors to launder the proceeds of crime and/or finance terrorism in Canada or abroad.

The Value of Strategic Financial Intelligence: What our Partners Say

The document showed how existing patterns continue and was forwarded to [a partner agency] that is initiating focused investigations into the matter.

– Royal Canadian Mounted Police

Your report substantiates intelligence from [various sources] and is an excellent piece of analytical work. We and [our partner] will use it in formulating our responses to what is clearly a problem of some description.

– National Crime Agency—United Kingdom

FINTRAC provided a brief and timely summary of the money laundering landscape in Canada. This contribution to CISC's 2013 National Criminal Intelligence Estimate will be shared with [other partners]. CISC would like to collaborate with FINTRAC in the future on additional intelligence products pertaining to money laundering.

– Criminal Intelligence Service Canada

[Your strategic intelligence] provided useful insight into the machinations of [a foreign financial entity] and the role of [a terrorist group] therein and the threat it potentially poses to the Canadian financial system.

– Canadian Security Intelligence Service

Your paper effectively maps electronic funds transfers and the associated [foreign financial entity] to [the terrorist group] stronghold areas. This is an interesting starting point for an area that would benefit from further research.

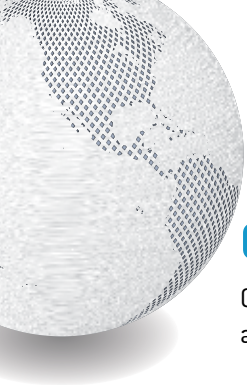
– Canadian Security Intelligence Service

POLICY COORDINATION AND COLLABORATION

FINTRAC's strategic work also encompasses policy coordination and collaboration. We work closely with the Department of Finance and our other regime partners, sharing our operational and strategic expertise on money laundering, terrorist financing and our knowledge of Canada's national security priorities, to identify potential enhancements to legislation and regulations with a view to strengthening Canada's overall regime.

In 2013–14, the Centre continued to play an active role in the follow-up to the five-year parliamentary review of the PCMLTFA conducted by the Standing Senate Committee on Banking, Trade and Commerce. We worked closely with the Department of Finance to support the development of legislative measures that were incorporated in the *Economic Action Plan 2014 Act No. 1*. This included participating in consultations with regime partners and reporting entities on the anticipated operational impact of these measures.

Over the coming year, the Centre will continue to collaborate with the Department of Finance on stand-alone regulatory proposals and those that would implement the recent legislative changes. We will also work with our regime partners and reporting entities to inform, implement and ensure compliance with new legislative and regulatory measures established to strengthen Canada's anti-money laundering and anti-terrorist financing regime.



OUR GLOBAL CONTRIBUTION

Given the transnational scope of money laundering and terrorist activity financing, FINTRAC participates actively alongside our allies and partners in global efforts to combat these threats.

Bilateral Engagement

Through bilateral agreements, we are able to disclose financial intelligence to nearly 90 financial intelligence units worldwide when one of the appropriate thresholds is met. At the same time, foreign financial intelligence units are able to share their information with FINTRAC, broadening our own analyses of international financial transactions. In 2013–14, FINTRAC signed new agreements with the financial intelligence units of Costa Rica, Moldova, Romania, Trinidad and Tobago, and Tunisia.

FINTRAC also provides technical assistance and shares expertise with foreign financial intelligence units, helping to enhance our knowledge and insight and strengthening our compliance and financial intelligence operations. Over the past year, we participated in a number of bilateral initiatives with our counterparts in Australia, Italy, the Netherlands, the United Kingdom and the United States. In 2014–15, we are looking to provide technical assistance to regional partners, namely Jamaica and Trinidad and Tobago.

Multilateral Engagement

The Centre works with the Department of Finance, other regime partners, reporting entities and international organizations to conduct research, develop common policies and standards and share best practices.

FINTRAC participates as a subject matter expert in Canada's delegation to the Financial Action Task Force and has a leadership role within this international body's working groups. For example, as Co-Chair of the Americas Regional Review Group, we coordinate the review of countries with significant deficiencies in their anti-money laundering and anti-terrorist financing regimes and the development of action plans to help them address these deficiencies. In our role as Co-Chair of the Risk, Trends and Methods Group, we provide guidance and assist in the planning, prioritization and development of the group's research and analysis.

In 2013–14, the Centre contributed to the successful conclusion of the Financial Action Task Force's 6th Follow-up Report on Canada's 3rd Round Mutual Evaluation, which endorsed Canada's anti-money laundering and anti-terrorist financing regime and recognized FINTRAC's sound supervision and effective analysis of financial intelligence. We are now participating in a number of regime-wide initiatives led by the Department of Finance in preparation for the 4th Round Mutual Evaluation in 2015.

FINTRAC has also been actively involved in a number of initiatives led by the Egmont Group of Financial Intelligence Units. For example, we played a key role in developing the group's newly adopted foundational documents, including the Charter, Principles and Operational Guidance. FINTRAC is also a contributing member of the Egmont Group's Training Working Group and Operational Working Group.

Global Leadership

In April 2014, FINTRAC hosted an anti-money laundering and anti-terrorist financing workshop, which included participants from Jamaica and Trinidad and Tobago, as well as Canadian practitioners from the Department of Finance, the RCMP, the Department of Justice, the Department of Foreign Affairs, Trade and Development and the Office of the Superintendent of Financial Institutions.

The three-day workshop provided an important forum for the exchange of ideas and information related to anti-money laundering and anti-terrorist financing legislative frameworks, systems, processes and procedures between jurisdictions, as well as to explore technical assistance or capacity building opportunities.



OUR CORPORATE STRENGTH

FINTRAC's responsibilities and operations continue to grow both in scope and complexity. Our ability to deliver on our mandate is directly tied to the adaptability of our organization, the skills and dedication of our employees, and the tools and resources we are able to provide them to perform their work. As an organization committed to excellence, FINTRAC places a strong focus on the effective management of our human, technological, security and financial resources.

HUMAN RESOURCES

Through tailored engagement activities and people management initiatives, FINTRAC is attracting, developing, retaining and maximizing the contributions of a dedicated and high-performing workforce.

Over the past few years, we have taken a deliberate and strategic approach to employee engagement through the progressive implementation of our People Management Framework and our multi-phased response to the 2011 Public Service Employee Survey. Our follow-up Action Plan was crafted with significant input from employees to advance employee development, bilingualism and the prevention of harassment and discrimination. The plan concluded this year with all objectives met.

The federal government's broader Blueprint 2020 initiative provided us with an additional opportunity in 2013–14 to work with our employees to determine ways in which we could improve our organization. Discussions focused on potential innovation at FINTRAC as well as on ways to enhance communications and leadership across the federal public service.

Over the past year, we also focused on strengthening the knowledge and skills of our employees at all levels of the organization through our FINTRAC 101 learning series, which included a number of prominent guest speakers and a tailored 'How Ottawa Works' session.

FINTRAC's new Policy on the Prevention and Resolution of Conflict and Harassment, launched in 2013–14, strengthens our collective responsibility for establishing and maintaining a respectful workplace and clearly sets out the processes and resources available to address potential conflict and harassment.

The Centre remains committed to fostering bilingualism. With 68% of our employees currently in bilingual positions, we launched an Official Languages Action Plan in the fall of 2013 to help maintain our momentum and further enhance bilingualism at FINTRAC. Employees were encouraged to strengthen their second language skills by participating in our Second Language Training Program and in informal peer coaching sessions.

Promoting employment equity and multiculturalism also remained a key priority for FINTRAC over the past year. Our Employment Equity and Multiculturalism Action Plan was launched early in the year to raise awareness and promote the inclusion of these important considerations in our organizational activities and decisions.

More broadly, indicators of our operational and program results are provided in the annual FINTRAC demographics report, outlining key workforce characteristics and metrics that inform our People Management Framework and decision-making across the Centre.

FINTRAC Demographics (March 31, 2014)

Number of Employees¹: 360

DESIGNATED GROUP REPRESENTATION	FINTRAC EMPLOYEES	WORKFORCE AVAILABILITY ²	FEDERAL PUBLIC SERVICE ³
Women	56.4%	48.1%	55.0%
Visible minorities	17.5%	16.4%	14.0%
Persons with disabilities	3.9%	4.2%	5.8%
Aboriginal peoples	1.4%	1.7%	4.6%
OFFICIAL LANGUAGES REPRESENTATION	FINTRAC EMPLOYEES	CANADIAN POPULATION ⁴	FEDERAL PUBLIC SERVICE ³
First official language – English	61.1%	74.8%	71.1%
First official language – French	38.9%	23.6%	28.9%

1 Includes indeterminate and term employees (including those on leave or on secondment/interchange); does not include students

2 FINTRAC's workforce availability is based on the occupational groups used at FINTRAC on March 31, 2014, and the Canadian Citizen Workforce Population based on 2006 Census statistics

3 Source: Office of the Chief Human Resources Officer, Treasury Board Secretariat, March 31, 2013: "Federal Public Service" includes the core public administration and separate agencies

4 Source: Office of the Commissioner of Official Languages, based on 2006 Census data

INFORMATION MANAGEMENT AND INFORMATION TECHNOLOGY

FINTRAC depends on a sophisticated information technology infrastructure to receive, store and secure nearly 20 million financial transaction reports every year. At the same time, this infrastructure allows intelligence analysts to sift through the information, analyze it and develop actionable financial intelligence for our law enforcement and national security regime partners.

In addition to strengthening systems that support our compliance program, we focused our efforts on two large-scale Shared Services Canada initiatives in 2013–14: the migration of our data centre and our email services to government-wide solutions. Our transition to the Government of Canada email service as part of the Email Transformation Initiative should be completed in 2014–15. The migration of our data centre, including the renewal of the platform, is expected to be completed in 2015–16.

As part of Canada's Action Plan on Open Government, FINTRAC also made available information from our Money Services Business Registry on the Government of Canada's Open Data website.

In 2013–14, FINTRAC focused on implementing the Government of Canada information management lifecycle to comply with the Treasury Board Secretariat Record Keeping Initiative. We obtained Disposition Authorities from Library and Archives Canada for FINTRAC information and are now in the process of identifying all of our information records of business value and documenting disposition schedules and processes for each of them.

Over the past year, we continued to focus on the disposition of transaction reports that we have received since 2000. Under the PCMLTFA, the Centre must retain for 10 years all personal information contained in the financial transaction reports we receive. This information must be disposed of prior to the 15-year anniversary of its receipt, when it is not used in a disclosure of financial intelligence. In 2013–14, we introduced a system to automate the disposition of this information in data stores in accordance with established internal schedules, and started reviewing our internal procedures to dispose of any existing copies of this information in other FINTRAC repositories.

In 2013–14, we also worked closely with the Canada Revenue Agency to develop a technical solution that would allow reporting entities to use one system to send international electronic funds transfer reports to both agencies beginning in January 2015. Once in place, this solution will minimize the reporting burden on businesses following the introduction of new measures to combat international tax evasion and aggressive tax avoidance announced in the 2013 Economic Action Plan.

Many of FINTRAC's investments in technology are multi-year and multi-partner efforts. However, our priority going forward will be the modernization of our analytics system. A request for information has been completed to explore options to replace FINTRAC's analytics system and tools. Our work will continue in 2014–15 to select an option and initiate the renewal of our analytics system.

SECURITY

Security is central to FINTRAC's activities and operations. Over the past year, we continued to enhance our security posture in line with our Departmental Security Plan, our Corporate Risk Profile and our broader organizational priorities. We introduced information technology security enhancements and focused on updating core policy documents and procedures to ensure that critical security requirements continue to be effectively integrated in all aspects of the Centre's operations. Our security program also developed a number of initiatives aimed at enhancing employee awareness in all areas of security, including the identification and protection of information holdings.

In 2013–14, in collaboration with Shared Services Canada and other key partners as part of the broader Data Centre Consolidation Initiative, FINTRAC implemented measures to further strengthen its Emergency Management and Business Continuity programs, and effectively address broader Government of Canada priorities.

RESOURCE MANAGEMENT

FINTRAC's physical and financial resources are managed on the basis of effective policies and planning, reliable financial and non-financial information, and sound analysis.

In 2013–14, FINTRAC underwent a Core Control Audit, administered by the Treasury Board Secretariat's Office of the Comptroller General. The objective of the audit was to ensure that our core controls over financial management result in compliance with key requirements contained in financial legislation, policies and directives.

In January 2014, FINTRAC accepted the recommendations flowing from the audit and established an action plan to address them as a priority. Our Management Action Plan will be fully implemented by March 2015.

2013–14 BUDGET HIGHLIGHTS

The resources available for spending in 2012–13 and 2013–14 were \$56,186,555 and \$53,288,233 respectively. Actual spending for 2012–13 was \$53,993,571 and \$51,704,183 for 2013–14.

FINTRAC's overall spending decreased compared to 2012–13 commensurate with the organization's decrease in authorities, including the impact of the implementation of savings measures from Budget 2012 and Budget 2013.

For 2014–15, the table below reflects approved budgets as per the 2014–15 Main Estimates.

FINTRAC's Budgets by Fiscal Year (in millions)

	2010–11	2011–12	2012–13	2013–14	2014–15
Salaries	28.2	36.7	33.4	32.5	32.6
Employee benefit plans	4.6	6.1	5.1	5.5	5.4
Operations and maintenance	22.6	19.2	17.7	15.2	11.2
Grants and contributions	0.8	–	–	–	–
Total approved budget*	56.2	61.9	56.2	53.3	49.2
Total actual	50.9	59.2	54.0	51.7	–

* Totals may not add due to rounding.

ANNEX A



A SNAPSHOT OF A CASE

FINTRAC provides valuable financial intelligence to law enforcement through its analysis of information provided by reporting entities, as demonstrated by the following sanitized case involving an investigation into a Canadian criminal organization. It should be noted that all names and dates are fictional and some facts have been altered or omitted.

This case is based on an investigation of the Smith Crime Group that spanned multiple years and involved the joint efforts of several law enforcement agencies. Throughout the duration of the investigation, FINTRAC was able to contribute multiple disclosures of financial information that provided details on the members of this criminal organization. The financial information expanded the network of subjects, identified bank accounts for production orders, and helped in obtaining a search warrant. It is because of the commitment of reporting entities to provide quality reports, such as suspicious transaction reports, large cash transaction reports and international electronic funds transfer reports that FINTRAC is able to provide this type of assistance to our law enforcement partners.

FINTRAC's contribution to the investigation began in 2009, when a law enforcement agency sent voluntary information to the Centre concerning an ongoing proceeds of crime and money laundering investigation that had begun following arrests made in 2006. Several people had been arrested for trafficking drugs worth millions of dollars, including Elliot Smith who was identified as the nephew of Harry Smith, who was known to police. FINTRAC's first disclosure on the investigation provided law enforcement with information on an associate of the Smiths who conducted large cash deposits and large cash importations from overseas locations that were, according to law enforcement, of drug and money laundering concern. The disclosure also provided information on bank accounts held by the associate.

In 2010, a second law enforcement agency provided voluntary information to FINTRAC concerning the Smiths and their associates. In this case, a routine fraud investigation led police to link the Smiths to other known drug traffickers. Police uncovered suspicious activities that resembled drug transactions. They also discovered a number of asset purchases made by the group and relatives of the Smiths. The activities led investigators to suspect that proceeds from drug sales were being laundered through real estate transactions, as well as through trips to international destinations. Based on this information, FINTRAC was able to provide a second disclosure on the Smith Crime Group. It provided information on the bank account where Elliot Smith and his associates deposited tens of thousands of dollars in cash – deposits that were deemed suspicious by law enforcement. Transaction reports also provided a previously unknown address of Elliot Smith to the investigators. Since the Centre made links between separate investigations, we were able to disclose the information to the two law enforcement agencies. The link FINTRAC made helped the law enforcement agencies coordinate and prioritize their investigations.

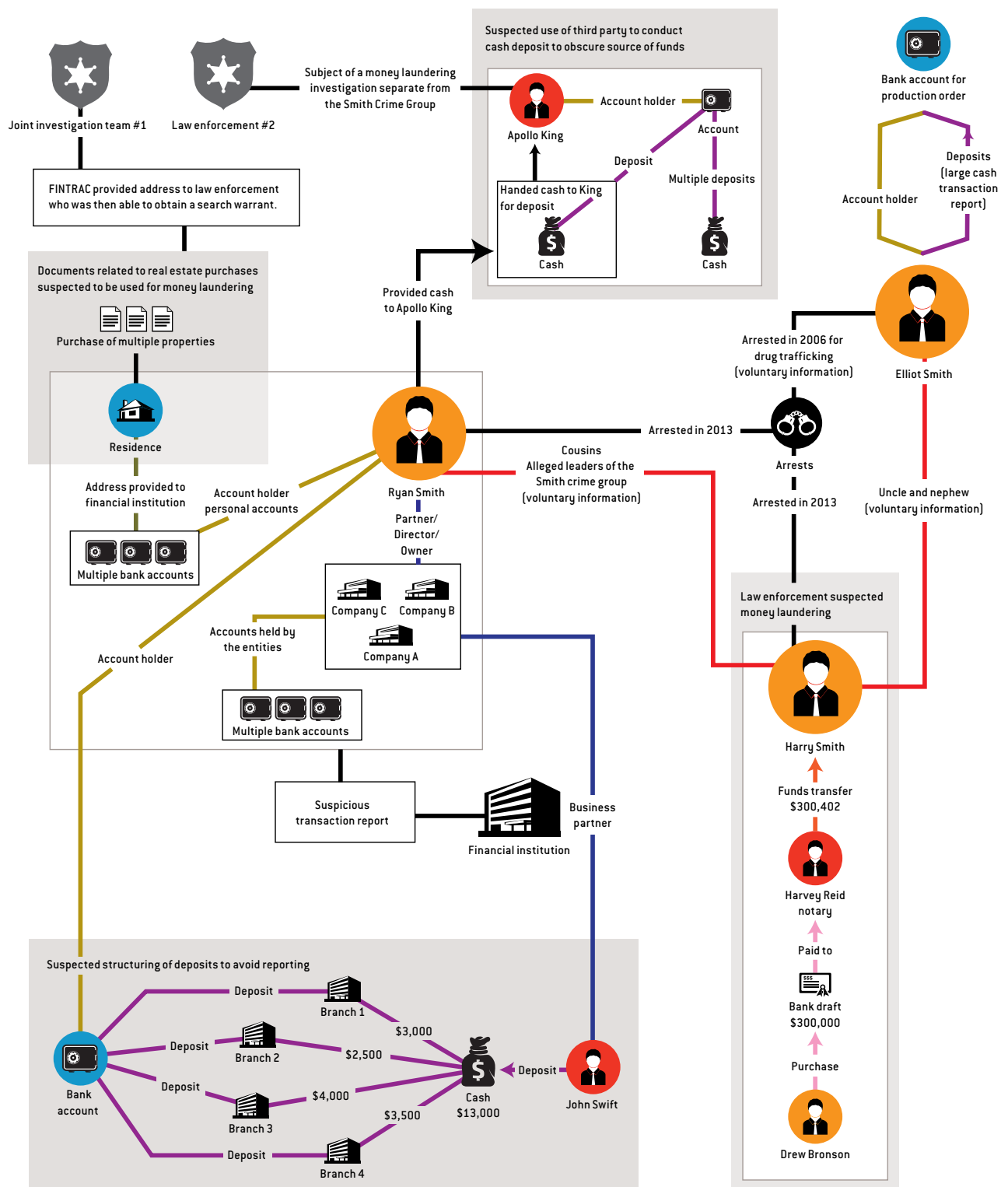
By 2011, voluntary information from law enforcement informed FINTRAC of the nation-wide drug trafficking links of the Smith Crime Group, and that a joint force was established for the investigation. To support this priority investigation, FINTRAC began to provide periodic disclosure updates so that investigators could integrate the subjects' financial information with all other sources of information. Over the next year, FINTRAC received additional voluntary information and produced three more disclosures on the Smith Crime Group. The voluntary information identified Harry and Ryan Smith as suspected heads of the criminal group. Using this information, and the knowledge accumulated from previous disclosures, FINTRAC was able to provide many pieces of information, such as bank accounts and mortgages, identifications, addresses, phone numbers and links to foreign countries that were previously unknown to the police. With this new information, police were able to obtain production orders for a number of the bank accounts.

At this point, law enforcement was particularly interested in reports disclosed by FINTRAC that police believe identified suspected money laundering schemes and the individuals and entities that were suspected to be involved. One such suspected scheme was an attempt to use a third party to make a cash deposit in order to obscure the origin of funds. Ryan Smith was observed by a reporting entity to have handed cash to another client of theirs, Apollo King, just before King made the deposit to his own account. The reporting entity then reviewed the accounts of both individuals and found a number of concerns, including frequent cash deposits of similar amounts in King's account, and therefore reported their suspicions. The police later identified King as a subject in another money laundering investigation.

FINTRAC also disclosed that an associate of Ryan Smith, John Swift, was reported to have made cash deposits at various branches of the same bank, which led police to suspect that he was structuring his deposits to avoid large cash transaction reporting requirements. While the police knew of ties between the two, FINTRAC's disclosure confirmed their relationship as business partners. The relationship was reported to FINTRAC in a suspicious transaction report resulting from a reporting entity's customer due diligence efforts. The reporting entity found information regarding Ryan Smith's criminal links when it reviewed his profile. This led to a review of transactions in Ryan Smith's personal and business accounts and the reporting of suspicious transactions and relevant account profile information to FINTRAC. Also, an address provided on Ryan Smith's account allowed law enforcement to obtain a search warrant for that location. During the search, law enforcement found documents pertaining to the purchase of real estate properties and suspected the purchases were part of the Smith Crime Group's money laundering operation.

In a separate disclosure, another reporting entity identified an attempt to obscure the flow of funds whereby an individual named Drew Bronson provided a bank draft of over \$300,000 to an individual named Harvey Reid, who then transferred a similar amount of money to Harry Smith. According to law enforcement, the report demonstrated that Harry Smith might have sold property or attempted to conceal and launder funds through professional services provided by the two individuals and their respective banks.

In mid-2013, the joint investigation team arrested Harry Smith, Ryan Smith and a number of associates of the Smiths and laid additional charges against Elliot Smith. The joint force seized drugs, cash, weapons as well as properties. The value of the seizures totalled in the tens of millions of dollars. The joint force acknowledged the support of various agencies, including FINTRAC's contribution to the investigation. The investigation continues as both police information and FINTRAC analysis have linked the Smiths to suspects in other organized crime investigations.



LEGEND

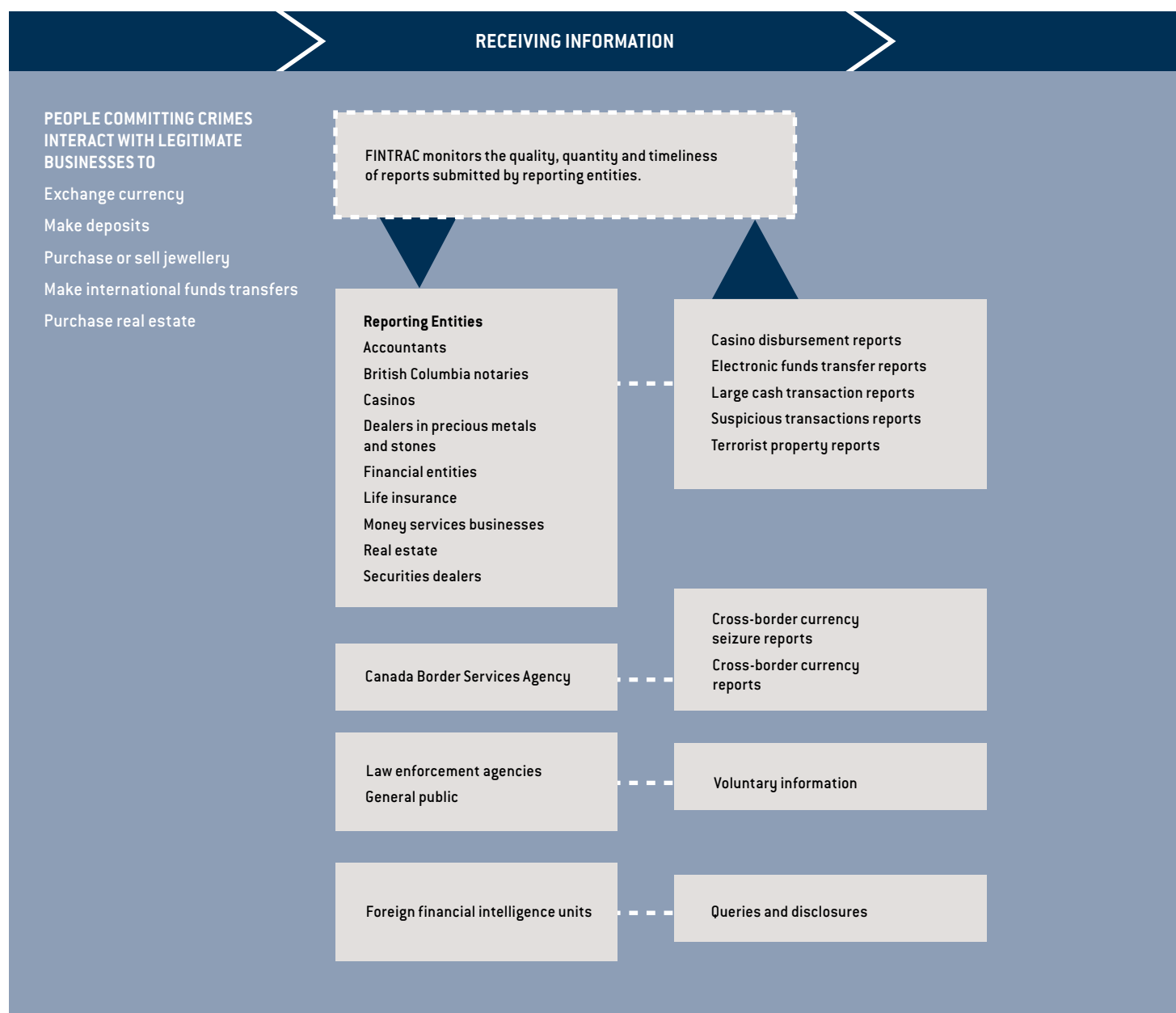
- Voluntary information subjects
- New subjects identified in disclosures
- Suspected money laundering related activities
- FINTRAC provided information which led to production order or search warrant
- Suspicious transaction reporting

LINKS

- Social relationship
- Business relationship
- Account related
- Deposit
- Purchase
- Electronic funds transfer
- General

ANNEX B

THE FLOW OF INFORMATION



CONDUCTING ANALYSIS

FINTRAC produces actionable financial intelligence by:

- establishing identification;
- grouping related transactions; and
- querying databases.

FINTRAC's database

External databases
Publicly available information

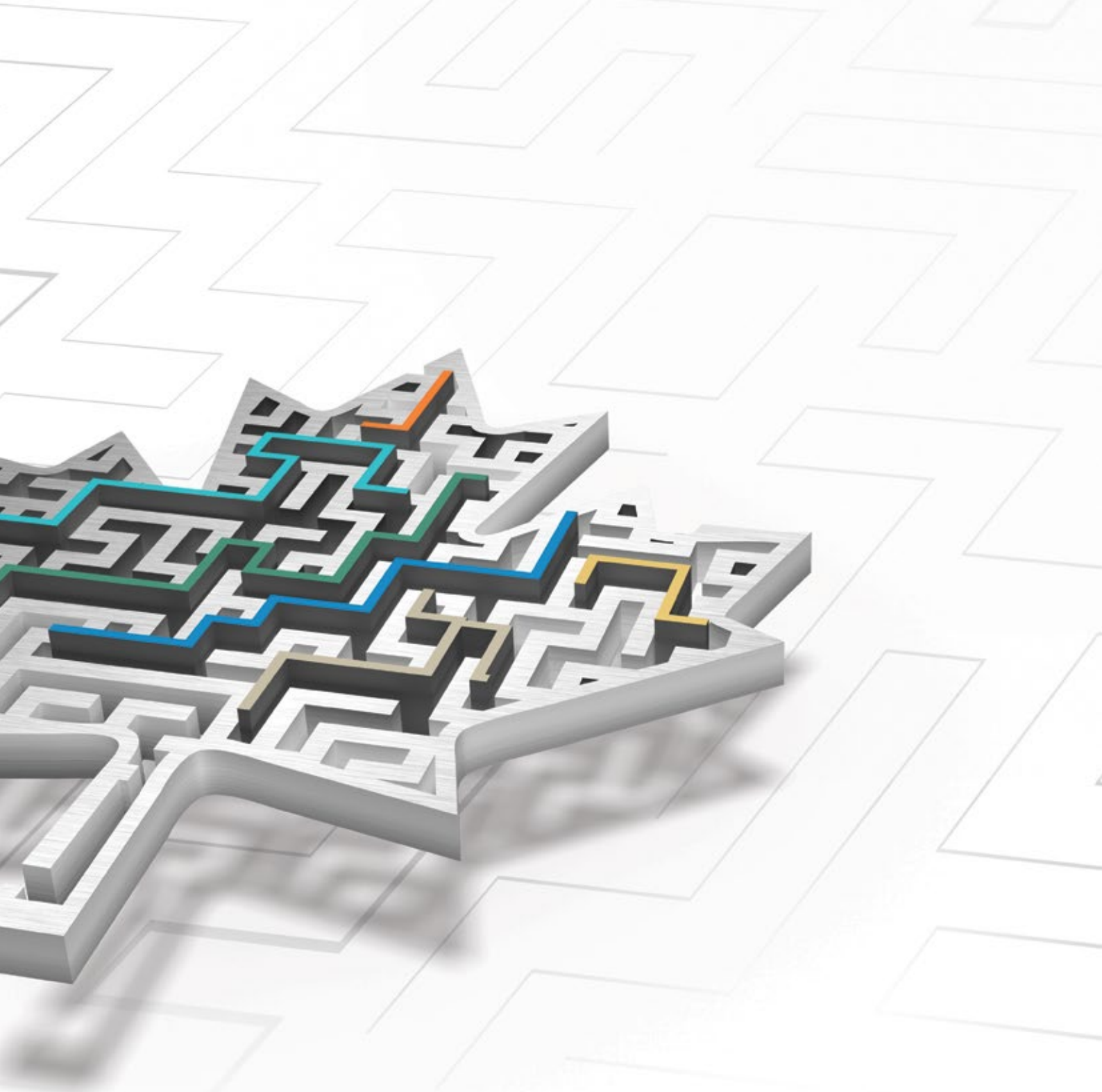
DISCLOSING INTELLIGENCE

When legislated thresholds are met, FINTRAC discloses designated information pertaining to suspected cases of money laundering, terrorist activity financing and threats to the security of Canada.

Municipal and provincial police forces
Royal Canadian Mounted Police
Canada Revenue Agency
Canada Border Services Agency
Canadian Security Intelligence Service
Communications Security
Establishment Canada
Foreign financial intelligence units

OUTCOMES

Investigative leads
Search warrants
Production orders
Charges
Arrests
Seizures
Forfeitures
Sentences
Listing of terrorist entities
Sanctions
Increased disruption of money laundering and terrorist financing activities
Increased understanding of financial dimensions of threats, organized crime and terrorism



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