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## **Standing Committee on Finance**

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**EVIDENCE**

**Tuesday, March 24, 2015**

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**Chair**

**Mr. James Rajotte**



## Standing Committee on Finance

Tuesday, March 24, 2015

•(0845)

[English]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** I call this meeting to order.

This is meeting 73 of the Standing Committee on Finance. As per our orders of the day, pursuant to Standing Order 108(2), this is the start of our study on terrorist financing in Canada and abroad.

I want to welcome the four officials who are with us today from the Department of Finance and from the Financial Transactions and Reports Analysis Centre of Canada, or FINTRAC.

First of all, from the Department of Finance we have Assistant Deputy Minister Rob Stewart—welcome back—and the senior chief of financial crimes, international.

[Translation]

That is Ms. Josée Nadeau; welcome.

[English]

From FINTRAC we have the director.

[Translation]

That is Mr. Gérald Cossette; welcome to the committee.

[English]

We also have the manager of the terrorist financing intelligence group.

[Translation]

This is Mr. Luc Beaudry, whom I also welcome to the committee.

[English]

I understand that you each have a presentation.

We will begin with Mr. Stewart, please.

**Mr. Rob Stewart (Assistant Deputy Minister, Financial Sector Policy Branch, Department of Finance):** Thank you very much, Mr. Chair.

Thank you, chairman and committee members, for the opportunity to appear before this committee at its inaugural meeting to study terrorist financing.

[Translation]

My intention today is to give you an overview of Canada's efforts to combat terrorist financing. These efforts fall within a wider

framework known as the anti-money laundering and anti-terrorist financing regime, which I will refer to as the “regime.”

[English]

I will provide you with an overview of the current threats Canada faces from terrorist financing and how this affects Canada's safety and security as well as its economy. I will next provide a summary of how Canada is engaging internationally in the fight against the financing of terrorism. Finally, drawing on the recent report from the financial action task force on the financing of the terrorist organization the Islamic State in Iraq and the Levant, or ISIL, I will outline what the international community currently understands about the financing of this organization and what we are still seeking to learn.

After Mr. Cossette and I have finished our opening remarks, we would be pleased to answer any questions you may have.

With respect to the domestic AML and ATF—anti-money laundering and anti-terrorist financing—regime, I would like to provide an overview. It is a comprehensive, horizontal initiative led by the Department of Finance that comprises 11 federal departments and agencies. The goal is to detect, deter, and facilitate the investigation and prosecuting of money laundering and terrorist financing offences, which contributes to the overall objective of protecting the integrity of Canada's financial system and the security of Canadians.

Of the 11 partners, seven receive incremental funding totalling roughly \$70 million annually to support their activities. These partners are the Department of Finance, FINTRAC, the Department of Justice, the Public Prosecution Service of Canada, the Royal Canadian Mounted Police, the Canada Border Services Agency, the Canadian Security Intelligence Service, and the Canada Revenue Agency. The remaining partners contribute to the regime but do not receive dedicated funding. They include the Office of the Superintendent of Financial Institutions, Public Safety Canada, and Foreign Affairs, Trade and Development Canada.

In addition to combatting money laundering and terrorist financing, the regime complements the work of law enforcement and intelligence agencies related to serious and organized crime and national security threats. It is a key component of Canada's broad counterterrorism strategy.

The regime operates on the basis of three interdependent pillars: policy coordination, prevention, and disruption. Each regime partner plays an important role.

The first pillar is the regime's framework and coordination led by the department. The Proceeds of Crime (Money Laundering) and Terrorist Financing Act, or PCMLTFA, is the primary piece of legislation that establishes this framework. The act requires financial institutions and intermediaries to identify their clients, keep records, and have an internal compliance program in place. The act also creates a mandatory reporting system for suspicious financial transactions, large cross-border currency transfers, and certain proscribed transactions. The legislation also established FINTRAC, and authorizes it to collect and analyze financial transaction reports and to disclose pertinent information to law enforcement and intelligence agencies.

The second pillar is the prevention of terrorist-linked funds or the proceeds of crime from entering the financial system. The onus for this deterrent approach falls to the financial institutions and intermediaries who are the gatekeepers to the financial system, and to the regulators, FINTRAC and the Office of the Superintendent of Financial Institutions, or OSFI, who ensure the compliance of these regulated businesses.

The detection and disruption of money laundering and terrorist financing represents the final pillar. In this pillar, regime partners such as CSIS, CBSA, and the RCMP, supported by FINTRAC intelligence, undertake investigations that follow the money in cases of money laundering, terrorist financing, and other financial crimes. The Canada Revenue Agency plays an important role in detecting charities that are at risk and ensuring that they are not being abused to finance terrorism.

The regime also has a robust terrorist listing process to freeze terrorist assets, pursuant to the Criminal Code and UN regulations, which is led by Public Safety Canada and Foreign Affairs respectively. In total, Canada has listed 90 terrorist entities under these two listing regimes.

Finally, the Public Prosecution Service of Canada ensures that crimes that threaten national or international security, including terrorist financing, are prosecuted to the full extent of the law.

● (0850)

[Translation]

The regime is a made-in-Canada approach to dealing with the threats of money laundering and terrorist financing, which respects the constitutional division of powers, the Charter of Rights and Freedoms, and the privacy rights of Canadians. The regime is also consistent with international standards that are developed by the Financial Action Task Force, the international anti-money laundering and counter-terrorist financing standards-setting body.

Canada's regime is regularly reviewed and enhanced to address emerging risks. The Proceeds of Crime (Money Laundering) and Terrorist Financing Act is reviewed by Parliament every five years. The regime is also subject to a number of formal reviews and audits, including a five-year performance evaluation and a biennial privacy audit of FINTRAC from the Office of the Privacy Commissioner.

[English]

Most recently the Standing Senate Committee on Banking, Trade and Commerce issued a report of its five-year review in March 2013. The department supports the committee's goal of improving the

effectiveness of the regime and many of its key recommendations, which can be broadly categorized in three themes—implementing the regime structure to increase performance, enhanced information sharing, and ensuring an appropriate scope for the regime. The government has moved forward to implement many of the recommendations.

The government announced in economic action plan 2014 that it will introduce amendments to strengthen the regime, and these amendments were introduced in budget bill C-31, which received royal assent in June 2014.

These legislative and regulatory changes will strengthen customer due diligence standards; close regime gaps; improve compliance, monitoring, and enforcement; strengthen information sharing; and give the Minister of Finance the power to issue countermeasures against jurisdictions and foreign entities that lack sufficient or have ineffective money laundering and terrorist financing controls.

The amendments also enhance the ability of FINTRAC to disclose intelligence to federal partners on threats to the security of Canada. The department is currently developing a regulatory package to support these changes.

Administratively, the regime is revisiting its performance measurement strategy, and FINTRAC has increased its feedback to reporting entities through publishing its policy interpretations online.

Also, as announced in economic action plan 2014, the government, led by Foreign Affairs, will make changes to improve the effectiveness of Canada's targeted financial sanctions regime. These changes aim to streamline the ability of the private sector to implement financial sanctions, thereby increasing their effectiveness and reducing the burden on the private sector.

I would now like to turn to assessing terrorist financing threats. To make the most effective use of resources available, Canada, like many other countries, utilizes a risk-based approach to assessing and combating terrorist financing threats. By adopting a risk-based approach, law enforcement, intelligence agencies, and financial institutions ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate to the risks identified.

Building on existing assessment practices, the regime is in the process of completing a comprehensive whole-of-government identification and assessment of the threats and Canada's vulnerability to money laundering and terrorist financing risks. The results of this exercise, when complete, will also deliver on Canada's 2013 G-8 action plan commitment to conduct a risk assessment and align with FATF, Financial Action Task Force, recommendations.

Work done to date indicates the terrorist financing threat in Canada is not as pronounced as it is in other regions of the world, where weaker anti-terrorist financing regimes can be found and where terrorist groups have established a foothold, both in terms of operations and also in financing their activities. Although the terrorist threat to Canada posed by radicalized extremists supporting entities like ISIL is real, the terrorist financing threat appears to be lower.

Canada has taken actions against many of these identified terrorist groups through the terrorist listing process. That said, Canada is not immune to abuse by those seeking to support terrorist financing, and I expect that my colleagues from the Canada Revenue Agency, the RCMP, and CSIS will address that in their presentations to the committee.

Now, I'd like to turn to how Canada is engaging on this matter internationally. Terrorist financing is a threat that does not respect borders, and Canada's efforts to fight it are undertaken in conjunction with international partners. Canada's international counterterrorism financing initiatives are accomplished through the FATF, the G-7, the G-20, and most recently, the Counter-ISIL Finance Group.

Canada, led by the department, is a founding member of the FATF and an active participant. The FATF develops international anti-money laundering and counterterrorism financing standards, and monitors their effective implementation in the 36 members and the more than 180 countries of the global FATF network. The FATF leads international efforts related to policy development and risk analysis, and identifies and reports on emerging money laundering and terrorist financing trends and methods. This important work helps the international community stay ahead of criminals, including terrorists and their financiers, to ensure that countries have the appropriate tools in place to address them globally.

The FATF also undertakes comprehensive peer reviews that assess compliance and effectiveness of member countries' anti-money laundering and counterterrorism financing regimes against its 40 recommendations. These recommendations require all countries to have effective systems for preventing and addressing money laundering, terrorist financing, and the financing of proliferation of weapons of mass destruction.

● (0855)

The recommendations set out the measures that countries should have in place within their criminal justice and regulatory systems, the preventative measures to be taken by financial institutions, measures to ensure corporate transparency, the establishment of competent authorities with appropriate powers and mechanisms for cooperation, and the arrangements to cooperate with other countries.

I note that Canada will be subject to an FATF mutual evaluation that will begin this fall. This assessment will review the extent to

which Canada has the laws, regulations, institutions, and powers and procedures in place, and how it effectively implements them to combat money laundering and the financing of terrorists.

Canada is also participating in international efforts to counter terrorist financing through global capacity building. Specifically, the counterterrorism capacity-building program, run out of Foreign Affairs, has undertaken several counterterrorism financing capacity-building projects in countries of strategic interest, in the Americas, the Middle East, and South Asia.

As a last element to my remarks, I'd like to speak to the ongoing effort to combat the financing of ISIL. In addition to the core business of the FATF, Canada is actively engaged in the new work of the FATF on counter-ISIL financing, which is being undertaken in response to a call made this February by G-20 finance ministers. Last month, the FATF published a report drafted by experts in a number of countries, including Canada, summarizing the most significant revenue sources of ISIL, and highlighting a number of new and existing measures to disrupt its financing.

Specifically, the paper finds that ISIL is able to draw significant funds through its control of large swaths of territory in Iraq and Syria. Known ISIL activities include the direct sale or taxing of economic assets, such as cash, oil, agricultural goods, cultural property, and other natural resources and commodities, and the looting of banks within the territory that ISIL captures.

[*Translation*]

Other sources of funds from abroad include kidnapping for ransom, the sale of archeological goods, external private donors, including through the non-profit or charity sectors and foreign terrorist fighters.

This report also notes that the group's active presence on the Internet and social media has allowed it to generate and convert international support into tangible funds. The group is known to exploit new technologies and modern communication networks, including crowdfunding techniques, to solicit financial contributions.

[English]

As the FATF paper notes, the infrastructure and organizational needs at ISIL make ongoing funding a necessity. Coalition air strikes have been effective in limiting the ability of ISIL to efficiently exploit oil and gas resources within their spheres of control. To supplement these military activities, international efforts are currently under way to help prevent ISIL from using or benefiting from the financial and commercial sectors under its control.

However, there are still issues of ISIL funding that are not well understood. To address this knowledge gap, the FATF will continue its important work by convening counterterrorism financing experts this September to study emerging trends and methods related to terrorist financing.

The FATF will also immediately review all of its members, including Canada, on their ability to restrict terrorism-related financial flows in accordance with its 40 recommendations. The focus of this exercise will be on the proper criminalization of the terrorist financing offence and the freezing of terrorist assets, including measures required by the United Nations Security Council resolutions.

This is particularly important given that some countries have yet to adequately implement the FATF standards on terrorist financing, which creates vulnerabilities within the entire financial system. In the fight to counter terrorist financing, we are only as strong as our weakest link.

In addition to the work of the FATF, Canada is also actively engaged in the U.S.-led anti-ISIL coalition, and its recently established working group to counter ISIL financing, which held its inaugural meeting last week. This working group is currently developing an action plan to help coordinate coalition activities. Canada's participation in this counter-financing working group is part of overall government efforts to counter ISIL.

• (0900)

[Translation]

Allow me to briefly conclude. Canada is committed and very engaged, both domestically and internationally, in the fight against terrorist financing. The risk is present and evolving.

[English]

We have a strong regime and are in the process of strengthening it through new regulatory amendments. We will continue to take stock of the risks and react accordingly.

Thank you.

**The Chair:** Thank you very much, Mr. Stewart.

[Translation]

Mr. Cossette now has the floor.

[English]

**Mr. Gérald Cossette (Director, Financial Transactions and Reports Analysis Centre of Canada):** Thank you, Mr. Chair, for inviting us to speak with you today regarding your broader study on terrorism financing.

I can assure you that we will be as forthcoming as we can with our answers today; however, I know you understand that we cannot provide classified information in this public venue. We're also limited by legislation in what we can say about the information FINTRAC holds.

I would like to take a few minutes this morning to describe FINTRAC's mandate and the role we play in helping to protect Canadians and the integrity of the Canadian financial system. I will focus in particular on the contribution FINTRAC makes, in close cooperation with our police and national security partners, to detecting and combatting terrorism financing.

FINTRAC was created in 2000 by the Proceeds of Crime (Money Laundering) and Terrorist Financing Act to deter, prevent, and detect money laundering and terrorism financing. Under this legislation FINTRAC, police, intelligence and national security agencies, prosecutors, and approximately 31,000 businesses across the country all have a role to play in creating a hostile environment for those who seek to abuse our financial system or who would threaten the safety of Canadians.

The legislation establishes obligations for financial services entities, money services, businesses, casinos, and other businesses subject to the act to establish a compliance program, identify clients, monitor business relationships, keep certain records, and report specific types of financial transactions to FINTRAC, including suspicious transactions and international electronic funds transfers of \$10,000 or more. FINTRAC also receives terrorist property reports that are sent to the RCMP and CSIS.

I would like to take a moment to acknowledge the response of Canadian businesses to our request for accelerated reporting of suspicious transactions immediately following the attacks in Ottawa and in Saint-Jean-sur-Richelieu last October. Our goal was to provide whatever assistance we could within our mandate to our police and national security partners in preventing another attack in Canada or abroad. I am pleased to say that the reporting of suspicious transactions increased by 22% in October 2014, and the information we received from businesses across the country was useful to our intelligence efforts. Canada's anti-money laundering and anti-terrorism financing regime, with businesses leading the way, functioned well in the face of these attacks.

[Translation]

Mr. Chair, the terrorist threat is real. A number of individuals are now making their way through our criminal justice system for terrorist acts they were planning to commit here in Canada. I know members are aware of the ongoing case against two individuals who were allegedly plotting to explode pressure-cooker bombs outside the British Columbia Legislative Assembly.

As well, just a couple of weeks ago, the Canada Border Services Agency arrested an individual for allegedly planning to blow up the United States Consulate and other buildings in Toronto's financial district. And finally, last September, an Ottawa resident who had trained in Afghanistan entered a guilty plea to terrorism charges in an Ottawa court and received a 24-year sentence for his crimes.

Following the attacks in Canada last fall, the director of the Canadian Security Intelligence Service, CSIS, confirmed that his organization had identified more than 130 Canadians who have gone abroad in support of extremist activities. We cannot lose sight of the fact that these very same individuals are being trained, equipped, further radicalized, and may return to Canada at any point in the future. In fact, CSIS has stated that at least 80 individuals have already done so.

The threat posed by foreign fighters and other violent extremists was profoundly felt earlier this year in France, where the terrorists who attacked the magazine *Charlie Hebdo* allegedly had deep ties to foreign terror groups.

● (0905)

Just as terrorism is international, so too is its funding. We know terrorism funding is obtained from illegitimate sources as well as from legitimate ones. We also know that some of the funds raised to finance these violent crimes originate in Canada or transit through our country. One only has to think of the case of Momin Khawaja, who was found guilty in 2008 of, among other charges, providing funds to facilitate terrorist activities.

[English]

With the 20 million or so financial transaction reports that we receive from businesses every year, FINTRAC is able to provide actionable financial intelligence that assists police and national security agencies in protecting Canada and Canadians. This intelligence allows us to establish links between individuals and groups in Canada and abroad that support terrorist activities, thereby allowing us to detect the financing of these activities.

Last year, we provided 1,143 disclosures of financial intelligence to our regime partners to assist them in their investigations of money laundering, terrorism financing, and threats to the security of Canada. Of these disclosures, 234 were related to terrorism financing and threats to the security of Canada. This is more than one disclosure related to terrorism financing every business day.

In April 2014, the RCMP's integrated national security enforcement teams in Ontario and Quebec recognized our contribution to a terrorism financing investigation on the International Relief Fund for the Afflicted and Needy-Canada, or IRFAN-Canada, an organization allegedly linked to the terrorist entity Hamas. The RCMP has also acknowledged FINTRAC's contribution to Project Smooth, which led to the arrest of two individuals for conspiring to carry out a terrorist attack against a VIA passenger train travelling from New York to Toronto.

Financial intelligence has become a key component of our police and national security partners' terrorism investigations. FINTRAC has provided a number of disclosures as part of the government's broader effort to combat terrorism and those who have supported terrorists at home and abroad.

Given the complex and transnational nature of terrorism, FINTRAC maintains very strong and productive working relationships with our police and national security partners. In order for our financial intelligence to be actionable, it must be closely aligned with our partners' priorities. We also work closely with other financial intelligence units around the world to share intelligence and expertise, broadening our reach and analyses of international financial transactions. As soon as we learned of the Sydney hostage-taking in Australia and the *Charlie Hebdo* attacks in France, we undertook proactive research on targets at the tactical level and offered assistance. Our allies did the same for us after the attacks in Canada last year.

[Translation]

As part of our mandate, FINTRAC also produces classified strategic financial intelligence reports on suspected terrorism financing activities and trends. For example, we have undertaken a strategic/geo-spacial analysis on Syria-related high-risk flows by analyzing international electronic funds transfer reports.

As a result of both our tactical and strategic financial intelligence work, FINTRAC has assumed a leadership role in the international efforts taking place at the Financial Action Task Force, within the Egmont Group of international financial intelligence units, and in other organizations to help combat terrorism financing worldwide.

● (0910)

[English]

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

Thank you, Mr. Chair.

**The Chair:** Thank you, Mr. Cossette, for your presentation.

Colleagues, we'll begin members' questions with Mr. Cullen. We'll do six-minute rounds, please.

**Mr. Nathan Cullen (Skeena—Bulkley Valley, NDP):** Thank you, Mr. Chair. Thank you to our witnesses.

Let me start by way of a statement. The notion that money would source itself out of Canada to support attacks here or abroad is a concern shared by all of us at the table and certainly all members of Parliament and the broader Canadian public. Thank you for your work.

Let's ask some questions and seek effectiveness of that work to understand where the holes are and where we need to do better. First, I have one question for you, Mr. Stewart. I was listening to your presentation and reading along. You made some comments about constitutionality checks, but I couldn't find them in your opening statement. Can you just review what you said? I think you may have made the comments in French during your presentation.

**Mr. Rob Stewart:** I think you would be referring to the fact that FINTRAC is subject to review by the Privacy Commissioner.

**Mr. Nathan Cullen:** Yes, that could be. Again, I may have missed it in the written statement that was given to the committee. Perhaps you could point it out to me and then I could move on to some other questions.

**Mr. Rob Stewart:** More generally, the issue here is that we have to respect the constitutional division of powers in the charter and the privacy rights of Canadians, so this is the way in which the regime is constructed. There isn't an active review of that.

**Mr. Nathan Cullen:** There is, or there isn't?

**Mr. Rob Stewart:** There is not. It would be incorporated in the context of the broader five-year reviews.

**Mr. Nathan Cullen:** Why is there not an active review? I'm just trying to understand and I don't claim any expertise in the work that you do. Why not do an active review of that balance? Those are extraordinary powers, to be able to look into somebody's financial information and track such things. Why not an active review? Why only every five years?

**Mr. Rob Stewart:** I'm not quite sure what you mean by an active review. The regime itself is subject to a number of reviews, in particular by Parliament every five years, so I would think that would be an appropriate basis on which to examine that question. There is in some sense here the need to understand that FINTRAC, to the extent that we here today are representing the regime and the role of FINTRAC, is restricted from obtaining personal information.

Would you like to add to that?

**Mr. Gérald Cossette:** If I may, Mr. Chair, the first thing is that FINTRAC receives information that is provided by the different financial sectors in Canada. We do not have the means technically or legally to access the bank accounts of Canadians. All the information that is provided to us comes from the businesses based on a certain number of criteria, either objective criteria, transactions that are higher than \$10,000 for electronic fund transfers, because you know disbursements of higher than \$10,000.... So the first thing is that we do not have direct access to the financial information.

**Mr. Nathan Cullen:** Has FINTRAC ever sought direct access to that information—

**Mr. Gérald Cossette:** No.

**Mr. Nathan Cullen:** —to compel lawyers dealing with cases to deliver that information?

**Mr. Gérald Cossette:** No. In fact the legislation has been designed specifically to ensure that FINTRAC is the only organization that can access that data holding. So neither the police forces nor CSIS have access to our database. That's the first thing.

The second issue is that we can disclose exclusively for money laundering and terrorism financing national security purposes. If there is a chance that the information we provide could be used in an investigation and prosecution, then we would disclose. Otherwise, we do not disclose that information.

**Mr. Nathan Cullen:** You mentioned such incidents, both the attacks in France and Australia. Was such information disclosed to either of those authorities from FINTRAC?

**Mr. Gérald Cossette:** If we had something in our holdings and if what we could see related to those operations, yes, but I will not comment on specific operations.

● (0915)

**Mr. Nathan Cullen:** That's more of a broad comment, I suppose.

In the orientation of this meeting it's difficult, because of the sensitivity of the information, that we have these meetings in public, that we can't find out what you're disclosing and what you're not. In getting at the effectiveness of how we're doing, was any information revealed on the attacks here in Ottawa to either of your agencies through FINTRAC or the MLATs? Was money used and then tracked through your regimes connected to the October 22 attack?

**Mr. Gérald Cossette:** I will not comment specifically on the attacks. What I can say, though, is that we did disclose information and the information we disclosed is either a series of transactions or it is information that the financial institution may report to us because it was suspicious. For example, it may be Mr. so-and-so transferred x amount of money.

**Mr. Nathan Cullen:** It's going to be difficult for us, and I suppose very difficult for you. Both of you in your statements named a number of particularly high-profile attacks that have happened both here and abroad, and there is some, I suppose, almost insinuation that there was a connection to terrorist financing, yet we don't know. We don't know if the attacks here in October had terrorist financing that enabled them or didn't. Was money being transferred between entities both here and abroad that enabled those attacks on *Charlie Hebdo*, or the attacks in Australia that had Canadian sources or implications for Canada? You understand my question. It's difficult to understand the effectiveness if we can't get any information as to whether something happened or not.

**The Chair:** Could we have a brief response, please?

**Mr. Gérald Cossette:** The issue is that FINTRAC is not an investigative body. Therefore, while we do receive information, we work with that information and then we disclose it to either CSIS, the RCMP, or local police forces. The fusion of what the financial transactions involve and what the enforcement agencies know about a specific individual is what would reveal something. The transactions themselves do not necessarily reveal terrorism financing. Terrorism financing may have legitimate sources—someone's salary, for instance—or it may have illegitimate sources, that is, money that may be raised through illicit activities. The transactions and the individuals may show something, but the transactions themselves do not necessarily demonstrate that the money was used for nefarious purposes.

**The Chair:** Thank you.

Mr. Saxton, go ahead, please.

**Mr. Andrew Saxton (North Vancouver, CPC):** Thank you, Mr. Chair.

Thanks to our witnesses for being here today.

My first questions will be for the Department of Finance.

Mr. Stewart, can you share with us where Canada ranks vis-à-vis our partners in the G-7 with regard to terrorist financing?

**Mr. Rob Stewart:** I'd like to be able to answer that in a quantitative sense but I can't do that.

Canada is on par with other countries in the G-7 in terms of the quality of our regime. I'm using here as the yardstick the review by the Financial Action Task Force, which was conducted in 2011 and then supplemented by further review in 2014. We fully adhere to the FATF standards. In that sense our regime is a solid and effective regime.

**Mr. Andrew Saxton:** Do you know, vis-à-vis the quantity of transactions involved, where we rank?

**Mr. Rob Stewart:** No. If I may answer that question, and partly the question that was previously posed, the Department of Finance is responsible for the regime's framework, law, and regulation. We're not privy to operational information. Indeed, the regime, because it stretches across a broad group of partners, segments that information and probably quite appropriately. FINTRAC obtains information from the financial institutions and passes it on to the enforcement agencies. I would suggest that questions regarding the actual operational information would be better posed to the RCMP, CSIS, and CRA. Our department does not track the amount of flows.

That being said, we have done a review and are in the process of producing a broad assessment of threats and vulnerabilities. In that context and using all of the partners in the regime as well as some external partners, we think the risk of terrorist financing in overall terms is relatively low compared to that in other countries.

**Mr. Andrew Saxton:** Perhaps you could expand on the role the finance department plays in combatting terrorist financing.

• (0920)

**Mr. Rob Stewart:** We are the leader of the regime as constructed with its 11 partners. We have membership on the Financial Action Task Force and represent Canada on that. The Minister of Finance is responsible for the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and its regulations. On an ongoing basis we coordinate meetings and representation of the regime externally.

**Mr. Andrew Saxton:** Thank you.

My next questions will be for FINTRAC.

Mr. Cossette, could you explain whether there is a preferred method for transferring funds? Is it, for example, by electronic means? What is the most common way for these funds to be transferred?

**Mr. Gérald Cossette:** Transferring funds can be done in various ways including electronic funds transfers. It can be done through cash smuggling. It may be through the exchange of goods. It may be through an informal mechanism whereby you give the money to a relative here in Canada who knows somebody abroad and then the money is never transferred but there's a promise that the money will be transferred. Basically, terrorists as well as money launderers use all of the methods available to them. Quantifying one method over another would be very difficult to do.

**Mr. Andrew Saxton:** Have we seen an increase in the use of virtual currencies like bitcoin, for example?

**Mr. Gérald Cossette:** We have not necessarily. I would say we have not, according to our own data holdings.

I don't know, Luc, if you have a more precise answer.

**Mr. Luc Beaudry (Manager, Terrorist Financing Intelligence Group, Financial Transactions and Reports Analysis Centre of Canada):** No.

**Mr. Andrew Saxton:** You have not seen that.

Could you tell us where the money being transferred to terrorists goes?

**Mr. Gérald Cossette:** Well, the money may go to different groups through different routes. Basically, some people would carry the money with them in order to finance their own operations abroad. It's very difficult in fact to pinpoint which group receives what amounts of money. Maybe CSIS would be in a better position to comment on that, but once the money leaves Canada we have an idea as to where it lands, if it's a financial institution. But where it goes after that financial institution is impossible for us to establish.

**Mr. Andrew Saxton:** Okay. Do you collaborate with your peers in other countries?

**Mr. Gérald Cossette:** We do. We are a member of the Egmont Group, which is an organization of 147 countries and includes FINTRAC. We do have, in fact, a memorandum of understanding with 90 of these countries.

So yes, we do exchange information with them on an ongoing basis.

**Mr. Andrew Saxton:** Do you share best practices?

**Mr. Gérald Cossette:** We do share best practices as well. In fact, we teach one another. In the context of the Egmont plenary in June, FINTRAC will be hosting a seminar on terrorism financing on behalf of the Egmont Group.

**Mr. Andrew Saxton:** Finally, you mention on your website that most of the financing is of smaller amounts. Can you give us an idea of what size amounts we're talking about?

**Mr. Gérald Cossette:** Well, that's one of the challenges we face. The automatic reports that are higher than \$10,000—if you need a different criterion—are reported to us. We know that terrorism financing is done at a much lower level. Since we do not have access to reports under \$10,000, again, it's impossible to quantify how much is being transferred. What we see is basically what is reported at the level of \$10,000 and more, but we do know that individuals themselves finance \$300, \$400, \$1,000, or \$2,000.

**Mr. Andrew Saxton:** Has there been any thought to adjusting that \$10,000 benchmark?

**Mr. Gérald Cossette:** In fact, we're working with our finance partner on the possibility of reducing the electronic fund transfer to \$0. So far it hasn't been possible for all kinds of reasons, one of them being technical, because we did not have the technical means to analyze such a huge data holding. I mean, we receive about 20 million reports on an annual basis. That may go up to 60 million, 70 million, or 80 million reports, so we need the capacity to do that and we're in the process of acquiring that capacity right now.

**The Chair:** Thank you, Mr. Saxton.

Mr. Brison, go ahead please.

**Hon. Scott Brison (Kings—Hants, Lib.):** Thank you very much.

Mr. Cossette, you said that in October 2014 suspicious transactions increased by 22%. Was that due to a higher level of activity in terms of terrorist financing, or was it due to an increased level of activity by enforcement agencies?

**Mr. Gérald Cossette:** I would say, Mr. Chair, it was caused by two things. The first was that, as soon as the unfortunate shootout happened in Ottawa, we sent an email to all the reporting entities asking them—given the fact that the names of perpetrators were public—to go to their holdings and report what may relate to these individuals, as long as it pertains to transactions that seem to show a potential suspicion of money laundering or terrorism financing. So all the entities were asked to do something. They reported to us, hence the significant increase at that moment. Moreover, over recent months we have launched a kind of educational tour, if you will, with all the reporting entities, explaining to them what is a good suspicious transaction report, why they need to file a transaction report, and the kind of indicators they may use to determine whether there is suspicion of terrorism financing.

These two things have led to a significant increase in reporting specifically on suspicious transaction reports, which are very revealing.

• (0925)

**Hon. Scott Brison:** An increase in the level of reporting does not necessarily mean an increase in the level of transactions.

**Mr. Gérald Cossette:** That is absolutely right. In fact the increase in reporting, we think, may be because of an increase in activities, but also it might be because we're much better aligned in our work with the enforcement agencies. We're much more responsive to their needs than we used to be in the past.

**Hon. Scott Brison:** Particularly given the global reach of Canadian financial institutions and the increase of offshore tax havens, is there any overlap between your activities or activities designed to identify terrorist financing, and activities that would be designed to identify those who use offshore tax havens to evade paying taxes in Canada? Would there be some overlap within those activities?

**Mr. Gérald Cossette:** There are two things we do right now when it comes to the relationship we have with CRA. The first one is that if we see a report that may look suspicious, we have the capacity to disclose it to CRA if it meets two thresholds. The first one is money laundering and the second one, tax evasion. It has to meet these two thresholds, since our legislation is about ML.

That is the first mechanism and we use it. We have disclosed to CRA in the past.

**Hon. Scott Brison:** Do they have a reciprocal obligation to report to you?

**Mr. Gérald Cossette:** They don't have a reciprocal obligation.

What is happening now, as of January 1, 2015, is that CRA does receive the international fund transfer directly from the reporting entities.

**Hon. Scott Brison:** What is the public policy reason that CRA does not have the same reciprocal responsibility to report potential

terrorist financing to you, in the way that you have to report potential tax evasion to it?

**Mr. Gérald Cossette:** CRA would have to report to the law enforcement agencies and national security agencies with which we work, so there is a continuum in terms of partnership. But it's difficult for CRA, unless they do specific analysis of international fund transfers, to see terrorism financing. CRA focuses mainly on the use of non-profit organizations when it comes to illicit financing.

**Hon. Scott Brison:** Do you expect the provisions in Bill C-51 to have an impact on the tracking of terrorist financing in your work?

**Mr. Gérald Cossette:** No, not at all.

In fact, FINTRAC has all the tools it needs to receive the information and to disclose the information it has to disclose. Bill C-51 has no bearing on our organization. We keep the authorities we have exactly.

**Hon. Scott Brison:** You've said that you'll be as forthcoming as possible but that you can't provide certain classified information.

Would you be able to provide to a minister, for instance, more detailed information on algorithms used to track financing?

**Mr. Gérald Cossette:** We do not disclose to the Minister of Finance the operations of FINTRAC. We do not disclose names. We do not disclose amounts of money.

We do disclose strategic papers in terms of trends, those kinds of issues, but we do not disclose—and that's specifically why the legislation exists—names, transactions, addresses, and anything of that sort. The legislation is very specific as to which recipients are entitled to the information, and ministers are not part of those recipients.

• (0930)

**The Chair:** Thank you, Mr. Brison.

We'll go to Mr. Adler, please.

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

Officials, thank you all for being here this morning. I want to begin my questioning with a couple of quotes.

First of all, we all know that radical jihadists have declared war on Canada. We're all in agreement on that. ISIS has said that they are coming to the west to drink our blood.

I do want to quote an ISIS spokesman, Abu Mohammad al-Adnani, who said:

If you can kill a disbelieving American or European—especially the spiteful and filthy French—or an Australian, or a Canadian, or any other disbeliever from the disbelievers waging war, including the citizens of the countries that entered into a coalition against the Islamic State, then rely upon Allah, and kill him in any manner or way however it may be.

This is the terrorist threat that we face, not only here in Canada but around the world.

I would like to ask a question, and I'll start with you, Mr. Cossette. Thinking inside the box, we think of people and organizations raising money in the traditional sense of the way that people go about raising money, by soliciting it in various ways. But there are other ways of financing terrorism abroad. What about, for example, the "legitimate business" that purports to be in the export business and may be sending goods for sale abroad that would finance terrorist activities abroad. The business appears to be legitimate here in Canada.

How is enforcement on that front handled?

**Mr. Gérald Cossette:** Since we see only transaction reports, we see of course who is transacting money but it is impossible just by looking at transactions to identify whether a transaction is illegitimate or legitimate. That's always a bit of the challenge we face when we're being asked if we track the financing of terrorist groups. Individuals do not identify themselves with specific organizations when they do their transactions, so again, it is the fusion of the transactions and the information provided by the law enforcement agencies that may in fact, from an evidence standpoint, show something.

At the outset, just looking at transactions does not necessarily demonstrate that there are illicit activities or the financing of terrorist activities. There are the transactions and the names. If in fact the law enforcement agencies are asking us if we have something on Gérald Cossette, for instance, we'll look in the database and then see the kinds of transactions that may show a suspicion of money laundering. The enforcement agencies can be more specific about that. They may give us information about the specific case they're working on and then we would look at the data holdings to see if the information we have may be of interest to them, given what they're looking at.

**Mr. Mark Adler:** So enhanced communication, then, between investigatory powers and between agencies, is better. It's good.

**Mr. Gérald Cossette:** Absolutely. In fact FINTRAC, for instance, is a full member of the Canadian Association of Chiefs of Police, so we sit at the table when they identify their priorities and their operations.

**Mr. Mark Adler:** Going back to what you said before, Bill C-51, although it may not enhance your powers specifically, would enhance the overall objective of targeting terrorist activity and terrorist financing here in Canada.

**Mr. Gérald Cossette:** Mr. Chair, that's an issue that is outside the purview of my mandate, but I will just repeat that we in fact have at FINTRAC all the powers we need in order to receive and disclose the information that is relevant.

**Mr. Mark Adler:** I realize you can only speak on behalf of FINTRAC, but you did agree that enhanced communication and investigatory powers are better and would lead to a better end result, which Bill C-51 would provide.

**Mr. Gérald Cossette:** The closer we work with our partners, the better it is for the regime.

**Mr. Mark Adler:** Okay. That was good. Thank you.

In our environment, you see these signs all over the place: "If you see something, say something." We're relying on the vigilance of

citizens to report if they see something suspicious. For example, if a person has a suspicion of any kind of terrorist financing, who do they report that to? Can you walk me through the process of the investigation and potential end result? How could a citizen initiate a process?

• (0935)

**The Chair:** Just give about a 30-second response, sir, please.

**Mr. Luc Beaudry:** Essentially, Monsieur Chair, one of the first steps that a person should take is to contact local law enforcement, to contact the police. If you see something and say something, it's to the police first.

They can also report to FINTRAC voluntarily. They can go to the FINTRAC website and send us their observations. From there, FINTRAC would look at and assess the information. If we see reasonable grounds to suspect that their information and our financial transactions would be useful in a terrorist-financing investigation, we would disclose the information to law enforcement and CSIS as appropriate. From there on, I think it would be up to CSIS and law enforcement to conduct the investigation because we do not do that.

**Mr. Mark Adler:** It's important for citizens to come forward and report to FINTRAC directly.

**Mr. Luc Beaudry:** They can go to our website.

**The Chair:** Thank you.

Colleagues, I understand that there are some members who wish to attend the statement in the House regarding a possible extension of the mission in Iraq and possibly in Syria. I'm looking for the will of the committee. That is at 10 a.m. I don't know if the entire committee or part of the committee wishes to attend. I'm looking for guidance on this.

Mr. Cullen.

**Mr. Nathan Cullen:** Yes, similarly, I just checked in with a few folks as to the opinion of the committee. We have important witnesses in front of us, yet we have an important set of speeches happening in the House just after 10 o'clock. I feel a bit torn myself in terms of hearing this but there's also an obligation to be in the House for something that's obviously important to the country.

I don't know if there's any way to split this one. The speeches will likely start probably just after routine proceedings at about 10:05. If the committee wants to go until a quarter to or 10 minutes to, Chair, and then make our way over, would that make some sense? We've done it in the past when we've kept some committee members here. I'm not sure there's a.... I'm feeling more inclined to go to the House, but again, we have witnesses who are crucial to this study.

**The Chair:** Okay. Is there further discussion?

Mr. Saxton.

**Mr. Andrew Saxton:** Thanks, Chair.

I agree. I think it's an important matter in the House and anybody who wants to go to the House should be able to. Perhaps we could ask if there's anybody here who's willing to stay and ask questions. If we can get enough people to stay, then we could perhaps continue. Otherwise, we would just all go, I think. I'll leave it to the chair to decide.

**The Chair:** No, the chair doesn't decide anything on his own, as you know.

**Voices:** Oh, oh!

**The Chair:** The option is that those who want to go, go, and those who want to stay and question the witnesses, stay and do so. We need three members to stay in order to question witnesses.

**An hon. member:** We have at least one.

**The Chair:** Okay. I will stay, obviously, so that's two. Does anyone else want to stay?

Okay, Mr. Van Kesteren, the three of us will stay at least to get in the—

**Mr. Andrew Saxton:** Mr. Chair, could we then have agreement that no votes or motions will take place?

**The Chair:** Okay. Do we have unanimous agreement that there will be no motions, no votes, whatsoever?

Mr. Cullen.

**Mr. Nathan Cullen:** Chair, because all three leaders will speak and I think Ms. May will as well, I'm just thinking about the time. I'm not even sure if the speeches are allocated. I think the Prime Minister and the official opposition leader can speak as long as they want. My question for the committee is, are we meant to come back?

**The Chair:** No. Once members leave here, we'll finish at the regular time.

Mr. Saxton.

**Mr. Andrew Saxton:** On further thought, I'm thinking that we should probably all go to the House, but I leave it to my colleagues. Obviously if they want to stay, they can stay, but....

● (0940)

**The Chair:** Well, the committee has to indicate to the chair what it wants to do. Obviously if a majority wants to end the committee, that's what we will do.

Mr. Van Kesteren.

**Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC):** Yes, possibly the parliamentary secretary is right. We can always get the officials back. It's not like we've brought them in from Vancouver as we have in the past. There doesn't seem to be much consensus, so I would go with what our parliamentary secretary is saying. Let's just wrap it up. That's my suggestion.

**The Chair:** Okay. Is that agreed?

**Some hon. members:** Agreed.

**The Chair:** Thank you.

We'll go to Monsieur Dionne Labelle, *s'il vous plaît*.

[*Translation*]

**Mr. Pierre Dionne Labelle (Rivière-du-Nord, NDP):** Thank you, Mr. Chair.

Good morning, gentlemen.

My question is for the FINTRAC representative.

You talked about the new measure which imposes on financial, banking and other institutions the obligation to declare transfers abroad of \$10,000 or more. You also mentioned that some 20 million reports of that type of transfer are made every year. Did I understand that figure correctly?

**Mr. Gérald Cossette:** We receive 20 million reports in total. This not only includes international funds transfers, but all sorts of other reports.

**Mr. Pierre Dionne Labelle:** You of course have an analysis grid to classify these electronic transfers. Of that number, what is the amount transferred to financial organizations in Iraq, Syria or Libya, where assets have been frozen and Canadian banks cannot make transfers? Can you give us the amount of funds that were transferred to one of these three countries?

**Mr. Gérald Cossette:** I cannot confirm an amount. However, we could check that.

I can tell you, however, that over the past few years, the number of transfers to Syria has almost fallen to zero. The amounts destined to Syria were minimal, by the way. Since we have 225 million reports in our database, we do not examine all of the data. This information is based on a sampling. The data seem to suggest that the transfers are no longer going to Syria, but to certain Turkish and Iraqi villages or towns located in proximity to Syria. The fact remains however that the number of transfers has always been very small.

**Mr. Pierre Dionne Labelle:** Have you noticed an increase in transfers to Turkey?

**Mr. Gérald Cossette:** Yes, but they are, among others, transfers to humanitarian organizations, since humanitarian aid is indeed provided to Turkey.

**Mr. Pierre Dionne Labelle:** Fine. I understand.

You receive approximately 42,000 or 43,000 reports from border services. When people leave the country with \$10,000 or more, do you classify those reports according to the destination of those travellers? Do you have an analysis grid for destinations?

**Mr. Gérald Cossette:** Not necessarily. This may have been done at the strategic level, but for our part, we follow individual transfers, that is to say transactions between individuals or entities, if companies are involved.

Consequently, the analysis grid is designed based on a certain number of factors and it is adjusted in accordance with the requests we receive. For instance, as I was saying earlier, if the RCMP asked us for information on Gérald Cossette, we would send them only the information that is relevant to its investigation or legal proceedings. In other words, we do not necessarily use all of the available information. It has to raise suspicion of money laundering or terrorism financing.

**Mr. Pierre Dionne Labelle:** Out of these 43,000 people, do you think some were headed for countries that are fighting jihad?

**Mr. Gérald Cossette:** That is possible, but the transaction itself does not show that.

**Mr. Pierre Dionne Labelle:** What elements of the report do you receive from border services?

**Mr. Gérald Cossette:** These are reports concerning the individual and the amount. The final destination is not known. Even if a person leaves Canada to go to the United States, it is possible that he or she may then go to many other places in the world. It is impossible—at least for us—to know the traveller's final destination.

• (0945)

**Mr. Pierre Dionne Labelle:** My question is for the representative of the Department of Finance.

You said that Canada may freeze assets belonging to groups, persons or entities that support jihad.

What is the value of the assets that have been frozen so far?

**Ms. Josée Nadeau (Senior Chief, Financial Crimes – International, Department of Finance):** Good morning. I am going to answer the question.

We do not have that information. In fact, the information is reported to the RCMP or to CSIS, but it is not made public.

**Mr. Pierre Dionne Labelle:** If I understand correctly, this information exists, but you do not have it. You transferred it to border services.

**Ms. Josée Nadeau:** The Department of Finance does not enforce these two acts; that is the responsibility of the Department of Foreign Affairs and the Department of Public Security. Under these two laws, persons who are aware of funds in banks that may belong to registered terrorist groups must report this to the RCMP or to CSIS. We do not have that information at the Department of Finance.

**Mr. Pierre Dionne Labelle:** Fine.

**The Chair:** Thank you, Mr. Dionne Labelle.

[*English*]

Ms. Bateman, go ahead please.

**Ms. Joyce Bateman (Winnipeg South Centre, CPC):** Thank you very much, Mr. Chair.

Thank you to all of our witnesses. I apologize for the potential disruption that's soon to come.

Madam Nadeau was just talking about the importance of reporting to other organizations. You mentioned it, Mr. Stewart.

[*Translation*]

Mr. Cossette also mentioned this, and Mr. Beaudry as well I believe.

[*English*]

I want to start with Mr. Stewart and find out exactly how you share this information. We always think of governments developing silos that may not be useful in terms of information sharing. Supposing there's something to share, what is the process? How do you share? With whom do you share? When do you share? I'm

assuming you're only going to tell me what you can tell me, but it just makes sense to me that this is information that you don't want to hold close. Certainly in FINTRAC as well, heaven forbid that it's a one-way street.

Mr. Stewart, would you start?

**Mr. Rob Stewart:** Right, thank you.

I regret to say that the issue of how the regime works operationally is really not in the domain of the department, so then we're not immersing ourselves in how agencies—enforcement agencies, investigation agencies—are actually operating.

**Ms. Joyce Bateman:** No, but supposing you had some information, who do you share it with?

**Mr. Rob Stewart:** Were we to obtain any information we would share it with the RCMP, obviously.

**Ms. Joyce Bateman:** Okay. I'm a chartered accountant by profession. It's possible that there are other accountants in this country who are privy to information. I know there's client protection, but we're talking about terrorism here.

**Mr. Rob Stewart:** Indeed.

**Ms. Joyce Bateman:** So what is your criteria if you find out...? Or are you removed from that?

**Mr. Rob Stewart:** We are, as I say, to a degree removed. Of course, my colleague and FINTRAC as an agency are in the business of sharing information. This is their job. The regime has established—and this gets to a question that was asked a little earlier as well—standards for customer due diligence and we try to provide guidance to reporting entities. There are over 30,000 reporting entities that are working with FINTRAC—or for FINTRAC, in a sense—and they are provided with guidance on customer due diligence and how to detect suspicious transactions. They are responsible for determining, to the best of their ability, whether or not there is in fact a risk or a suspicion, and then they report that to FINTRAC and FINTRAC then conducts its analysis and shares that as appropriate. There's a very strong conduit of information that flows from reporting entities to FINTRAC, and from FINTRAC to law enforcement.

**Ms. Joyce Bateman:** We can expand on that, Monsieur Cossette, in a minute, but you talked about sharing information with CRA earlier and how there are two criteria for you to do that, and one was demonstrable tax evasion. Wouldn't you want to talk to CRA first about the tax evasion piece, or are you sorting that out?

• (0950)

**Mr. Gérald Cossette:** We do receive different kinds of reports. One set of reports is the suspicious transaction reports. In the suspicious transaction reports, the bank or financial institution—it may be a bank, it may be a security dealer—would report, for instance, what they considered being suspicious, why they find the transaction suspicious. The kinds of operations they may see are discrepancies between salary and revenue or people transferring money to several bank accounts abroad in countries that are well-known for being safe havens, for instance. They may report that information to us. If the information seems to suggest money laundering—a disconnect between salary and revenues, for instance, so some of the revenues may be illicit, which may suggest money laundering, and also the money is being transferred to a safe haven—then we may decide to disclose to CRA.

**Ms. Joyce Bateman:** But you make the assessment in terms of the tax evasion potential?

**Mr. Gérald Cossette:** Potential, suspicion of, and then CRA will continue its own investigation based on their own criteria.

**Ms. Joyce Bateman:** Okay.

We have a number of law enforcement agencies. We have the Canada Border Services Agency. We have the RCMP. We have CSIS. Could you just briefly talk about how you work in partnership with these organizations?

**Mr. Gérald Cossette:** The legislation allows us to report to a series of enforcement agencies, as you said, the RCMP, CBSA, CRA, CSIS, and also local police forces if it's relevant to them, as long as there is a requirement to disclose the information. For instance, if it is about terrorist financing or national security, we

would disclose as well to CSIS. But we have to be careful because, given the information we hold and how some of this information may come to us, we have to make sure that everything we provide to the law enforcement agencies basically falls under the purview of our legislation, so that in fact if they take the information to court, the information can be used. We have to be mindful of that as we disclose.

**The Chair:** Thank you, Mrs. Bateman.

[*Translation*]

Mr. Côté now has the floor.

**Mr. Raymond Côté (Beauport—Limoilou, NDP):** Thank you very much.

I wanted to ask a question about a recommendation from the Senate committee, which did a study on this matter.

[*English*]

**The Chair:** Just hold on, Monsieur Côté.

I understood we were to be there for 10:05. Is that not correct?

**Mr. Rick Dykstra:** I thought we were shutting down at 9:50. I thought that's what we had agreed.

**The Chair:** I'm sorry, Monsieur Côté.

Witnesses, I'm sorry we have to shut down this panel early, but we appreciate your being with us here today and answering our questions.

Colleagues, I guess we'll head over to the House.

Thank you. The meeting is adjourned.

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