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FINTRAC

2005 **ANNUAL REPORT**



Financial Transactions and
Reports Analysis Centre of Canada

Canada

FINTRAC – The First Five Years

2000: *Proceeds of Crime (Money Laundering) Act*, receives Royal Assent and FINTRAC is officially created. FINTRAC locates offices, hires employees and equips itself.

2001: FINTRAC begins receiving Suspicious Transaction Reports in November.

Parliament enacts the *Anti-Terrorism Act*, expanding FINTRAC's mandate to include combating terrorist activity financing. The Act is renamed the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)*. FINTRAC amends its structures and operations to take up the new challenge.

2002: FINTRAC produces its first case disclosure. FINTRAC becomes a member of the Egmont Group, an international forum for financial intelligence units to improve cooperation in areas of information exchange, training and the sharing of expertise.

2003: The last of the transaction reporting streams mandated by legislation and regulations come on-line. FINTRAC receives an average of 5,700 financial transaction reports daily, 99 per cent by electronic means. Capacity for analysis of information is firmly established, and increasing numbers of case disclosures are made to law enforcement and security agencies. The total number of reports received by FINTRAC increases by 7.4 million, four times higher than that of the previous year.

2004: FINTRAC produces 197 case disclosures, involving \$700 million in reported financial transactions. A risk-based compliance program is put in place and examinations begin.

2005: Our total number of MOU signed for the exchange of information with financial intelligence units in other countries reaches 20. Our database now holds reports of some 23 million financial transactions. We produce 142 case disclosures, in which the total value of the transactions involved is some \$2 billion. We expand the scope and depth of tactical and strategic financial intelligence.

FINTRAC prepares for the year-five Parliamentary review of the PCMLTFA.

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Cabinet du directeur

September 19, 2005

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

Dear Minister:

I am pleased to present you with the fourth Annual Report for the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), pursuant to Section 71(1) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. This report details our activities and our achievements in carrying out FINTRAC's mandate during the period from April 1, 2004 to March 31, 2005. It also outlines our future priorities.

FINTRAC assists the fight against organized crime and terrorism by producing timely, high-quality financial intelligence and by ensuring that entities covered by the Act are compliant with the law. We look forward to continuing to deliver these contributions in the coming years.

Yours sincerely,

Horst Intscher
Director

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FINTRAC'S FIRST FIVE YEARS
Striving for Excellence



WHAT WE DO



FINTRAC's main objective is to assist in the detection, prevention and deterrence of money laundering and terrorist activity financing in Canada and abroad.

Our work focuses on three key activities: the first is to receive financial transaction reports and information from other sources to produce financial intelligence on suspected cases of money laundering, terrorist activity financing or threats to the security of Canada. The second is to ensure compliance with FINTRAC's governing legislation—the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)*—by those financial institutions and businesses that must report to us. The third is to produce financial intelligence that sheds light on the patterns and trends that characterize the evolving methods used by money laundering and terrorist activity financing networks.

Today, in every corner of Canada, banks and other financial services are maintaining internal compliance regimes that include reporting, record keeping and client identification practices. Their compliance with those requirements creates a formidable deterrent to those who would use legitimate financial channels to launder money or to finance terrorism.

FINTRAC receives almost one million financial transaction reports each month, sent to us by our reporting entities. This input of data, along with other sources of information, contributes to FINTRAC's unique database, a rich resource that assists our analysts to uncover patterns that suggest the concealment of criminal money.

When, after analyzing these financial reports, we find reasonable grounds to suspect that the information would be relevant to an investigation or prosecution of money laundering, terrorist activity financing, or threats to the security of Canada, we are required to make a disclosure to the appropriate law enforcement agency or to the Canadian Security Intelligence Service (CSIS). In 2004-05, the total dollar value of the transactions included in FINTRAC's case disclosures amounted to just over \$2 billion.

As a result of our five years of experience and the increasing richness of our data holdings, FINTRAC has been able to discern money laundering trends and patterns. This intelligence on the larger picture of how and where organized crime is moving illicit money and terrorists are obtaining funding provides our analysts with vital information to refine our searches and to produce more valuable intelligence.

Although FINTRAC is mandated to receive detailed information on certain financial transactions, our Act places clear limits on what information can be disclosed, as well as to whom, and under what circumstances. In order to safeguard the privacy of Canadians, we are required to protect personal information from any unauthorized disclosure. FINTRAC, therefore, upholds the most stringent of security policies and practices.

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MESSAGE FROM

THE DIRECTOR

This annual report marks an important milestone for FINTRAC—our fifth anniversary. In 2000 our enabling legislation came into force and we began the task of creating FINTRAC.

In five short years we have built a financial intelligence unit that is the envy of many countries. Our financial intelligence product is greatly appreciated by a growing clientele of domestic and foreign law enforcement and security agencies.

This past year the Auditor General of Canada performed a value-for-money audit of the National Initiative to Combat Money Laundering. In addition to making recommendations on how to enhance performance, the Auditor General noted in her audit report that, “FINTRAC has succeeded in establishing itself as a key player” in the initiative and that “Canada has an FIU with important advantages relative to FIUs elsewhere in the world.”

Now, five years out, we have gained a wealth of experience. As this report demonstrates, our analyses, and the cases we disclose, have become more sophisticated. In this period, the total dollar value of the transactions included in our case disclosures has mushroomed and the sophistication of our case analysis has matured. This reflects not only the steadily increasing wealth of information available to FINTRAC in its data holdings, but also that we are able to detect and track more elaborate and deeply rooted money laundering and terrorist activity financing.

We have reached a high plateau and can look back with pride at how far we have climbed. The reality is, however, that in the next five years there will be more heights to scale and we are already preparing for the future.

For example, this year our legislation, the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* will be reviewed by Parliament and the Government plans to propose amendments that will make new demands on FINTRAC and our partners. The aim is to make us even more effective in combating money laundering and terrorist activity financing. Addressing these changes, as well as the growth in demand on our core operations, such as increased provision of voluntary information by law enforcement agencies, will likely require greater resources.

Equally important to FINTRAC is that we stay at the leading edge of technology. We want to improve the quality and quantity of the information we collect from reporting entities. In development is a new generation of systems that we will be rolling out over the next two years. This will support much more sophisticated and complex analysis and allow us to produce even more useful, high-quality financial intelligence.

Looking to the future, I believe there will be much progress made in the global fight against money laundering and terrorist activity financing. The gathering force of the international effort and the evolution of Canada’s anti-money laundering and counter terrorist financing initiative together will result in even greater protection for all our citizens.



Horst Intscher
Director

THE YEAR

IN REVIEW

Five short years after its creation, FINTRAC is regarded as a valuable component of Canada's effort to combat money laundering and terrorist activity financing and is recognized as a leader among the world's financial intelligence units (FIUs). Our progress in such a relatively short period has been fuelled by our commitment to strive for excellence.

We take great pride in knowing that our intelligence product is adding value to the investigations of domestic law enforcement and security communities, and to the efforts of international FIUs. Equally important, Canada's financial institutions and other businesses are themselves being safeguarded through the measures they implemented in partnership with FINTRAC.

In our continued resolve to improve our product, our case disclosures in 2004-05 featured increasingly sophisticated analysis, and the financial intelligence they contained was derived

from a growing quantity and improving quality of financial transaction reports. We worked hard to improve the quality and timeliness of our disclosures, deliberately setting out to work cooperatively with Canada's law enforcement agencies. The result was case disclosures of higher dollar value and broader scope than in previous years.

The financial intelligence FINTRAC produces is directly linked to the financial transaction reports we receive. Therefore, FINTRAC's relationships with reporting entities are and will always be a high priority. To this end, we have extended our monitoring and examination activities, and our compliance program is now fully operational. The solid compliance regimes now operating across Canada reflect a common commitment and effort with our reporting entities to make the law work to protect Canadians.

FINTRAC'S ACHIEVEMENTS IN 2004-05 REFLECTED ITS THREE KEY PRIORITIES:

Deliver Timely and High-quality Financial Intelligence: Increasingly effective, technology-driven financial intelligence analysis and case disclosures that are widely used and accepted by law enforcement and intelligence agencies.

Strengthen the Risk-based Compliance Program: A cooperative program that fosters compliance by reporting entities, resulting in higher quality and quantity of reporting and improved record keeping and client identification practices.

Disseminate Strategic Information: Strategic intelligence, advice and analysis to enhance awareness and understanding of money laundering and terrorist financing and inform the development of effective Canadian and multilateral counter-strategies.

Globally, FINTRAC is making a notable contribution. A key goal of the past several years has been to extend our reach for intelligence and financial transaction information. We have concluded thirteen new agreements for the exchange of information with other financial intelligence units, bringing the total number of such agreements to twenty. We have maintained a strong presence in the Egmont Group of financial intelligence units, making important contributions to technology, funding and administration and training initiatives, as well as providing support for new and prospective members. In the Financial Action Task Force, as in other international forums, FINTRAC has played an important role in Canada's participation.

In the past year, the Office of the Auditor General undertook a value-for-money audit of the National Initiative to Combat Money Laundering and made helpful recommendations to improve the functioning of the initiative overall and of FINTRAC. The results were generally positive. Areas for improvement that were noted, such as expanding the scope of information in disclosures to law enforcement and national security agencies, are being acted upon. This work, as well as work in other areas, is helping us prepare for the year-five Parliamentary review of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. This is expected to begin in the fall of 2005.

In addition, an independent evaluation of the National Initiative to Combat Money Laundering made recommendations for

improvements, and these will also be useful in preparing for the year-five review. Overall, we were heartened that these reviews concluded that FINTRAC is making an important contribution to Canada's capacity to detect and deter money laundering and terrorist activity financing.

During 2004-05, we continued to reinforce security measures. In all our operations, safeguarding the information entrusted to us is a paramount consideration. State-of-the-art security identification systems, as well as the vigilance of our employees, protect both our data and our premises.

Our commitment to produce the highest possible quality intelligence means that we must keep pace with the constantly evolving worlds of organized crime and terrorism. That requires a highly skilled and dedicated team of employees, working in an environment that values and recognizes their contribution. In 2004-05, we continued to make significant investments in learning opportunities and in strengthening organizational effectiveness.

And our people need the right tools to perform their jobs. Recognizing that we need to keep pace, we began planning and developing a new generation of data management, compliance and analytical tools. Over the next two years we will be rolling out new information systems to upgrade our technology, to strengthen our analytical capacity, to provide better and timelier feedback to reporting entities and to produce financial intelligence of even greater relevance.



OUR RESULTS FOR 2004-05:

STRIVING FOR EXCELLENCE

FACILITATING CRIMINAL INVESTIGATIONS WITH OUR CASE DISCLOSURES

FINTRAC's case disclosures in this reporting year were unprecedented in the total value they represented and in the complexity of the money laundering networks revealed. This is the result of our large data holdings coupled with our unique capacity to uncover and link diverse and seemingly unrelated financial transactions occurring across a spectrum of sectors and locations. That makes our case disclosures of financial intelligence an invaluable addition to the investigative toolboxes used by law enforcement agencies and by CSIS in carrying out investigations and prosecutions.

In 2004-05, we produced a total of 142 case disclosures. Of these, 115 were new cases, and 27 were follow-ups to case disclosures already made to law enforcement and security agencies.

FINTRAC's case disclosures for 2004-05

142 case disclosures

110 were for suspected money laundering

24 were for suspected terrorist activity financing and/or threats to the security of Canada

8 case disclosures involved both suspected money laundering and terrorist financing activity and/or threats to the security of Canada

Although we produced fewer case disclosures than last year, the total dollar value of the transactions disclosed increased significantly over last year, as more complex and larger cases came to light. The dollar value of the transactions included in our case disclosures was just over \$2 billion this year—close to triple the value disclosed last year. And, twenty-two per cent of the cases each involved more than \$10 million in financial transactions. This figure compares with seven per cent of case disclosures in the previous year.

Interestingly, as the dollar value of the cases grew, so did the number of individuals or businesses implicated in each case and the number of different reporting entities involved. As well, many of our disclosures involved transactions covering a period of more than one year.

Average Numbers of Individuals, Businesses, Dollars and Transactions per Disclosure

	2003-2004	2004-2005
Individuals	5	7
Businesses	4	5
Dollars	3.5 million	14.4 million
Transactions	62	136

The total value of the transactions included in disclosures of suspected terrorist activity financing and other threats to the security of Canada was approximately \$180 million. Some of these cases also gave rise to suspicions of money laundering and were also disclosed by us as money laundering cases.

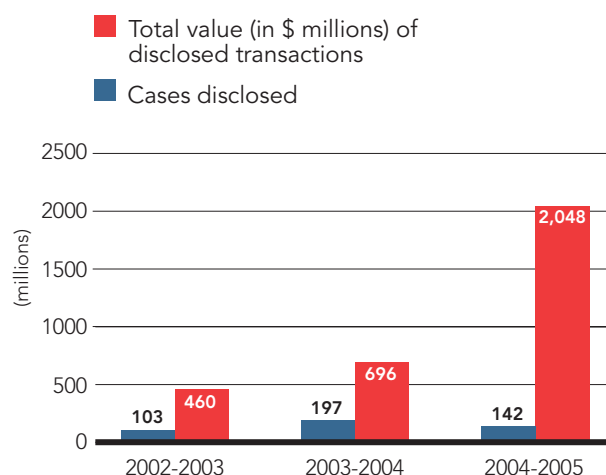
With its centralized capacity to collect and analyze millions of financial transaction reports, FINTRAC can detect patterns of suspicious activity that no single reporting entity, or sector of reporting entities, could hope to uncover on its own. As the chart demonstrates, the percentage of our case disclosures involving transactions from six or more different reporting entities increased to 39 per cent in 2005 from 18 per cent in 2004.

The average number of transactions per disclosure increased dramatically, from 62 last year to 136 this year. There were, as well, in the past year, substantial increases in the proportion of disclosures supported by electronic fund transfer reports, cross-border currency reports and seizure reports, and especially by large cash transaction reports. The involvement of suspicious transaction reports remained significant.

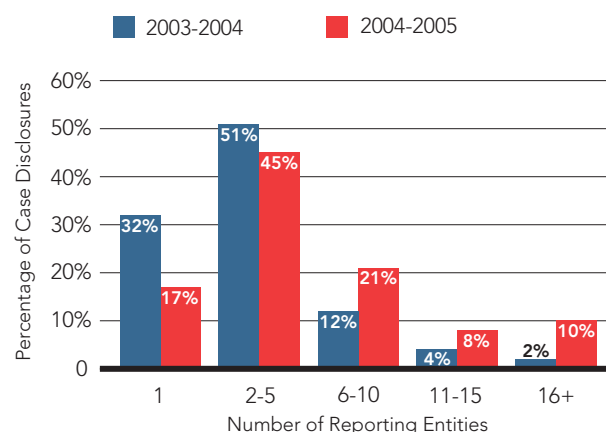
A number of factors contributed to our achievements this year. The unique database we have built over the past four years is an indispensable resource, and it is constantly being enriched with the financial transaction reports we receive from across Canada. In addition, the experience and increasingly specialized skills of our analysts ensure maximum use of our information resources.

Of equal importance was the increased volume of voluntary information we received from various sources, including law enforcement agencies and CSIS. Voluntary information can often be the key piece of the puzzle needed to help us detect suspected money laundering and terrorist financing activity.

Disclosures and the Value of Financial Transactions

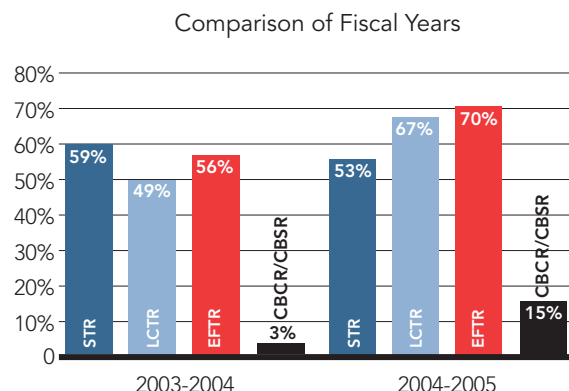


Number of Reporting Entities Represented in Case Disclosures



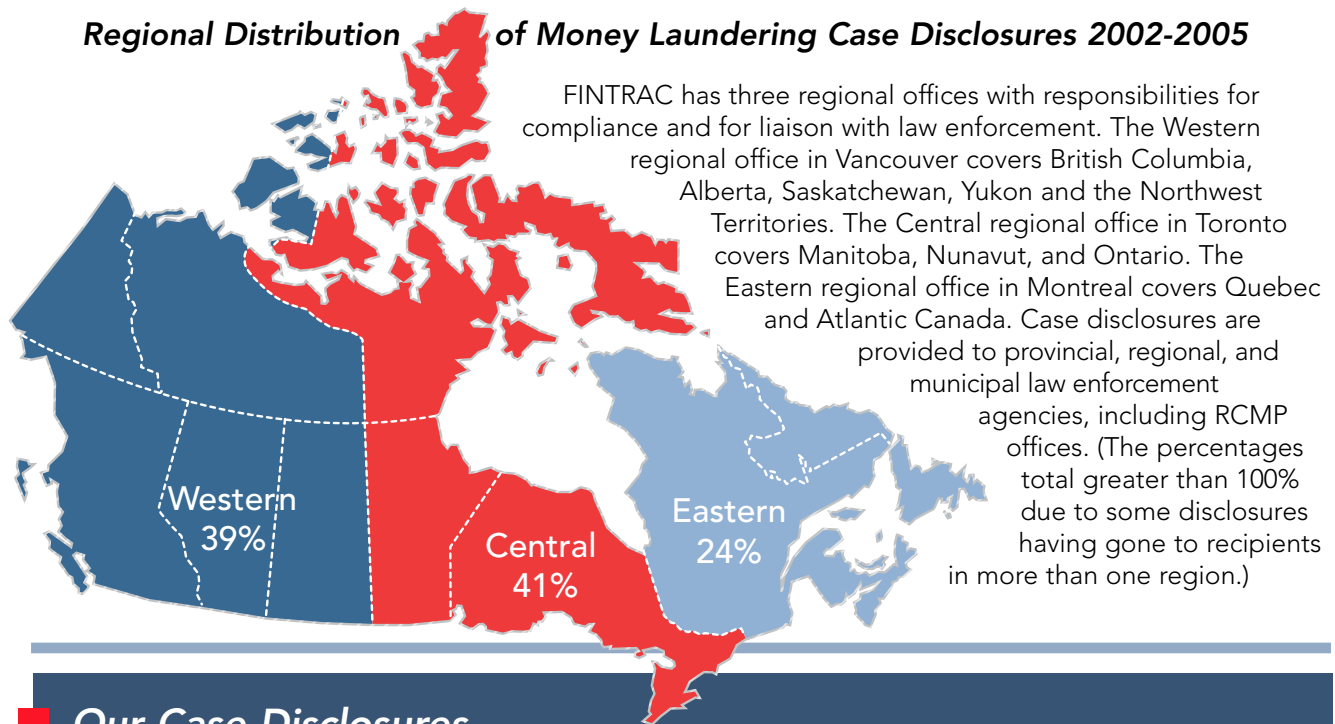
The sum of percentages in this chart is greater than 100% because of rounding.

Percentage of Case Disclosures Supported by Each Report Type



The percentages in this chart total greater than 100% because disclosures can be supported by more than one type of report.

Regional Distribution of Money Laundering Case Disclosures 2002-2005



Our Case Disclosures

FINTRAC's case disclosures consist of **designated information**, which identifies individuals or entities and their transactions. It includes any or all of the following:

- Name of person(s) involved in the transaction(s)
- Address of person(s) involved in the transaction(s)
- Date of birth
- Citizenship
- Passport, record of landing or permanent resident card number
- Name and address of company (ies) involved in the transaction(s)
- Name, address and type of business where the transaction(s) occurred
- Date and time of the transaction(s)
- Type and value of the transaction including the amount and type of currency or monetary instruments involved
- Transaction, transit and account number
- Name of importer or exporter, in the case of importation or exportation of currency or monetary instruments

Once there are reasonable grounds to suspect money laundering and/or terrorist activity financing, and/or threats to the security of Canada, FINTRAC must disclose designated information to the appropriate police force or CSIS.

FINTRAC must also disclose the designated information to:

- The Canada Revenue Agency (CRA), when the information is also determined to be relevant to an offence of evading or attempting to evade federal taxes
- The Canada Border Services Agency (CBSA), when the information is also determined to be relevant to an offence of evading or attempting to evade federal duties
- Citizenship and Immigration Canada (CIC) and CBSA, when the information is also determined to be relevant to certain provisions of the *Immigration and Refugee Protection Act*
- FINTRAC may also disclose designated information to a foreign financial intelligence unit with which it has an information sharing agreement when there are reasonable grounds to suspect money laundering or terrorist activity financing

If police or CSIS wish to obtain the Centre's full case analysis for the purpose of investigating a money laundering or terrorist activity financing offence, or other threat to national security, they must seek a court order. To date, FINTRAC has received 6 court orders to produce the full case analysis.

COMBATING MONEY LAUNDERING AND TERRORIST ACTIVITY FINANCING THROUGH COMPLIANCE WITH THE LAW

Across the country, banks and other financial services are reporting to FINTRAC, asking clients for identification and keeping records, creating a strong deterrence to money laundering. The effective compliance regimes that have been implemented by reporting entities across Canada reduce society's vulnerability to money laundering and terrorist activity financing, and also strengthen Canada's capacity to detect the proceeds of crime.

Adherence to good record keeping and to client identification practices ensures that the trail of financial transactions can be followed, and that

law enforcement agencies can effectively pursue cases of suspected money laundering and terrorist activity financing.

This year, to facilitate our compliance verification efforts, we entered into agreements with a number of federal and provincial regulatory agencies that already have responsibility for, and interest in, ensuring compliance with legislative requirements. The exchange of information between FINTRAC and industry regulators helps minimize duplication in the conduct of verifications, maximize the efficiency of existing regulatory reviews, and lessen the regulatory burden on reporting entities. In this regard, following our June 2004 Memorandum of Understanding with the Office of the Superintendent of Financial Institutions (OSFI), we received the results of OSFI's assessments of federally regulated financial institutions pursuant to our legislation.

What Are Reporting Entities?

Reporting entities are those persons and organizations covered under the PCMLTFA who are required to meet a number of obligations, principally:

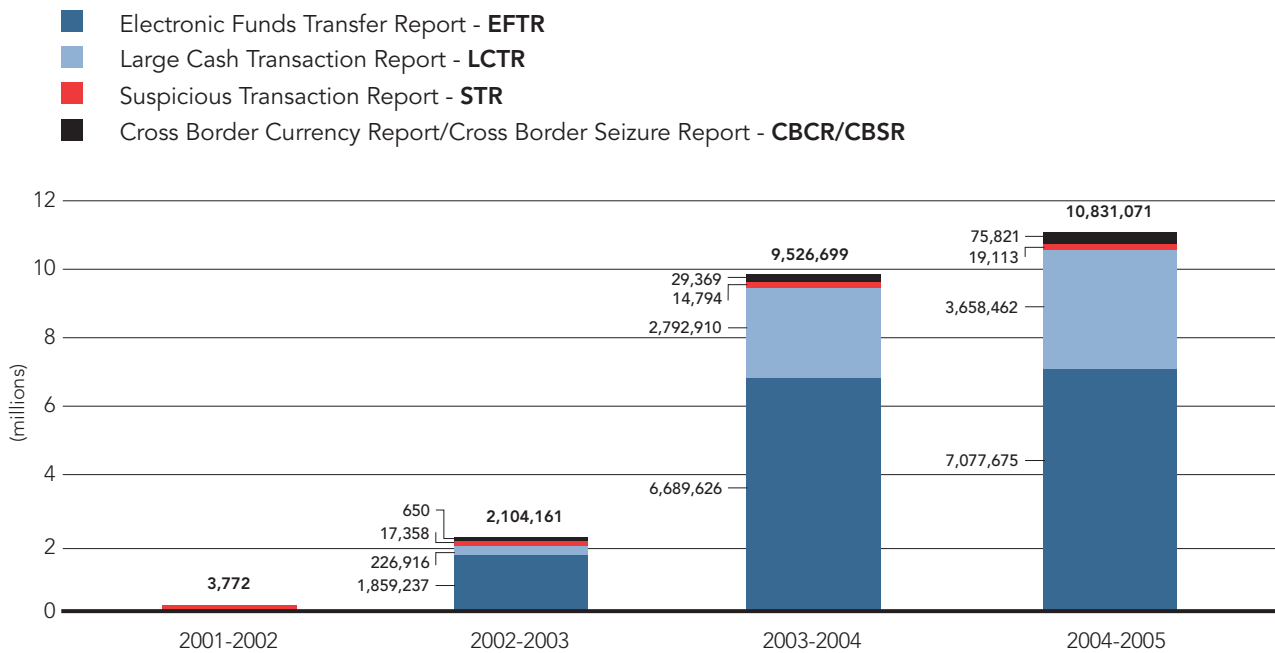
- Implement a compliance regime
- Keep records of financial transactions
- Identify clients and determine the third parties involved in relevant transactions
- Report certain financial transactions to FINTRAC

Memoranda of Understanding (MOU) Signed with Regulators

In 2004-05, FINTRAC signed five MOU with regulators:

- The Office of the Superintendent of Financial Institutions of Canada (OSFI)
- The Alberta Gaming and Liquor Commission (AGLC)
- The Alcohol and Gaming Commission of Ontario (AGCO)
- The British Columbia Gaming Policy Enforcement Branch (GPEB); and
- The Saskatchewan Liquor and Gaming Authority (SLGA)

Reports Received by Fiscal Year and Type



Looking at the number of transaction reports collected by FINTRAC, we see that, proportionally, international Electronic Funds Transfer Reports of \$10,000 or more represent the largest stream of reported transactions. In 2004-05, FINTRAC received more than 7 million transaction reports of this type. At the conclusion of 2004-05, FINTRAC held some 23 million financial transaction reports of all types in its database.

The above graph illustrates the increase in financial transaction reports that FINTRAC has received since its inception. The legislative requirement to report financial transactions to FINTRAC was phased in over a period of three years.

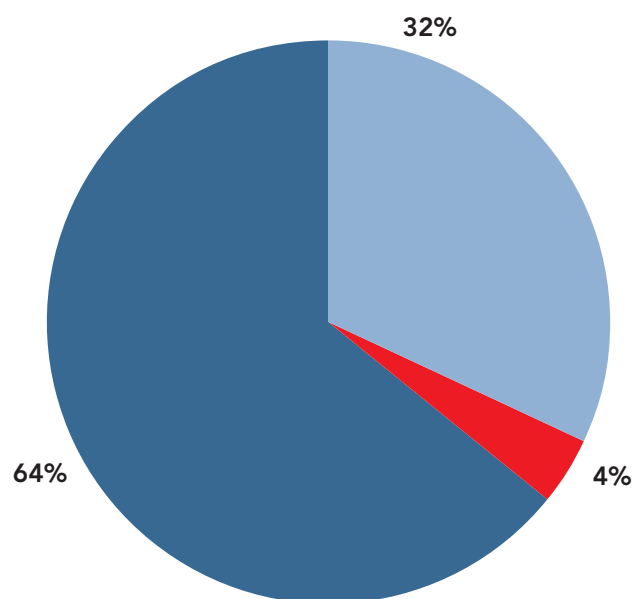
- Suspicious Transaction Reports or STRs began in November 2001
- SWIFT Electronic Funds Transfer Reports or EFTRs began in June 2002
- Large Cash Transaction Reports or LCTRs began in January 2003
- Cross Border Currency Reports (CBCRs) and Cross Border Seizure Reports (CBSRs) began in January 2003
- Other Electronic Funds Transfer Reports began in March 2003

REPORTING

The overall effectiveness of the working relationships we have established with reporting entities is amply demonstrated by the steady growth in the quality and quantity of financial transaction information reported to FINTRAC.

Suspicious Transaction Reports by Sector 2004-2005

- Financial Entities (Banks, Credit Unions, Caisses Populaires, Trust and Loan Companies)
- Foreign Exchange Dealers and Money Services Businesses
- Others (Casinos, Real Estate, Securities Dealers and others)



REPORTING ENTITY ASSISTANCE

Efforts to educate reporting entities and to assist them in meeting their obligations continue to form a key component of our compliance program. Prominent among the outreach initiatives carried out in 2004-05 were consultations with national and provincial associations in every sector. These consultations addressed issues such as the reporting system changes expected in 2005-06 and the planned program of compliance questionnaires and examinations. As well, we participated in more than 700 presentations, meetings and seminars with reporting entities and associations, and reached over 12,700 persons.

POLICY INTERPRETATION

Certainty of policy interpretation is key to ensuring good compliance. In 2004-05, FINTRAC continued to assure consistency in its policy interpretations nationally through monitoring efforts as well as by launching a new product, the FINTRAC Interpretation Notice (FIN) on our website. FINs address any broad-based issues dealing with policy clarification that affect a significant number of reporting entities.

RISK ASSESSMENT

FINTRAC's strategy is aimed at identifying sectors or entities with a high risk of non-compliance and then tailoring our initiatives to address their difficulties. In 2004-05, we produced compliance risk assessments covering each sector that increased our effectiveness in determining when reporting sectors and entities would benefit from additional outreach or follow-up actions.

QUALITY AND QUANTITY ASSURANCE

Continuous monitoring by our officers led to a marked improvement in the quality of reports submitted by reporting entities, particularly suspicious transaction reports. As a result of quality assurance follow-ups carried out in 43 cases, reporting entities were required either to resubmit their data or to correct reporting practices.

EXAMINATIONS

On-site examinations formed another key thrust of our compliance program. The major focus in 2004-05 was on money services businesses (MSBs) and foreign exchange (FX) dealers. Following the previous year's intensive information and awareness campaign, we carried out 190 examinations.

Elements of our Compliance Program

FINTRAC allocates its resources and initiatives where it has assessed that the greatest risk of non-compliance exists. Our compliance program contains six key functions:

- Reporting entity assistance
- Policy interpretation
- Risk assessment and targeting
- Quality and quantity assurance
- Examinations
- Disclosure of non-compliance to law enforcement

As a result of both our own examinations, and those of OSFI, we identified and addressed significant deficiencies in need of correction. The key deficiencies identified were inadequate compliance regimes, failure to identify properly either those who conduct financial transactions or the third parties involved, and deficiencies in reporting to FINTRAC. As a follow-up to these findings, entities receive formal notification of their deficiencies and, when appropriate, recommendations for improved practices. They are also asked to advise FINTRAC and/or OSFI of their plans to resolve the situation and their remedial actions are monitored until completed. This approach has been successful in assisting the compliance efforts of many entities.

DISCLOSURE OF NON-COMPLIANCE TO LAW ENFORCEMENT

FINTRAC's verification activities demonstrated that the vast majority of reporting entities want to and do comply with their legislative obligations. Only some two per cent of the entities examined had serious deficiencies in their reporting. By the end of 2004-05, it was necessary to refer two cases of non-compliance to law enforcement for investigation and prosecution. While it is too soon to see the results of the cases it has disclosed for investigation, FINTRAC received full cooperation and support from law enforcement on cases of non-compliance.

Who must report

- Financial entities of all types (banks, credit unions etc.)
- Life insurance companies, brokers or agents
- Securities dealers, portfolio managers, provincially authorized investment counsellors
- Foreign exchange dealers
- Money services businesses (including alternative remittance systems, such as Hawala, etc.)
- Crown Agents accepting deposit liabilities and/or selling money orders
- Accountants/ accounting firms, real estate brokers/ sales representatives, in certain client related activities
- Casinos (except some temporary charity casinos); and
- Individuals transporting large sums across borders

What is reported

- Suspicious transactions related either to money laundering or to terrorist activity financing
- The existence of terrorist property in their possession or control or information about a transaction or proposed transaction in respect of such property
- International electronic funds transfers involving \$10,000 or more
- Large cash transactions of \$10,000 or more; and
- Cross-border movements of \$10,000 or more in currency or monetary instruments

SUPPORTING EFFECTIVE ANTI-MONEY LAUNDERING STRATEGIES

Over the past year, FINTRAC looked for trends and patterns in its disclosure information to provide insights to aid in operational and policy decision-making and to support our analysts in refining their analytical methods.

In 2004-05, an analysis of the thousands of transaction reports associated with our yearly disclosures, as well as a macro analysis of reports received, gave us valuable insights into money laundering and terrorist activity financing in Canada and helped us refine our analytical methods. As well, such analysis is valuable to our compliance program for risk-assessment.

Our analysis also unveiled patterns characteristic of different types of money laundering operations in Canada. Some insights confirmed the findings gained over long experience by anti-money laundering experts, others shed light on criminal methods and practices. In all, the results allow us to begin building a knowledge base that can assist in supporting measures taken by law enforcement, government and financial institutions against money laundering and terrorist activity financing.

This past year we analyzed our case disclosures to identify, for example, where our suspicious transactions reports were coming from by reporting entity, the in and out flow of electronic funds transfers, and the regional distribution of our money laundering case disclosures. We also responded to specific requests from law enforcement agencies for strategic intelligence on suspected activity in their jurisdictions.

Review of 2004-05 Money Laundering Case Disclosures Some Key Findings

Observations from Suspected Drug-related Money Laundering Cases:

- multiple, repeat deposits of large amounts of cash, cheques or bank drafts
- widespread indications of "smurfing", a concealment method where funds are broken up into smaller amounts, often below the \$10,000 reporting threshold, and deposited by individuals or groups at different times and/or locations so as not to attract suspicion
- physical movement of funds across the Canada-US border, accompanied by repeat/multiple exchanges of US to Canadian currency
- use of casinos, where the laundering is carried out through multiple or repeat purchases of casino chips, often in large amounts, which are later cashed in without any significant gaming activity having taken place

Observations from Suspected Fraud-related Money Laundering Cases:

- strong international component, very often involving the use of off-shore businesses
- heavy reliance on use of international electronic funds transfers (EFTs) and, to a lesser degree, large cash transactions
- multiple business entities, displaying unusual business practices, used to conceal the identity of individuals perpetrating the frauds
- transactions displaying uneconomical movement within both personal and business accounts

ELECTRONIC FUNDS TRANSFERS (EFTs)

In today's world, the movement of funds across international borders plays a major role in money laundering and terrorist activity financing. As one of only a handful of FIUs in the world that collects international electronic funds transfer reports (EFTRs), FINTRAC can provide law enforcement and security agencies with valuable strategic information on the role that these types of transactions are playing in money laundering and terrorist financing. The collection and analysis of electronic funds transfers allows us to identify possible points of origin or transfer of suspected proceeds of illicit activity.

Given the global nature of money laundering and terrorist activity financing, and the enormous amount of reported international transfers, as indicated by the table, it is not surprising that this information figured prominently in our analysis, particularly of large and complex cases. Our analysis shows that well over half of the transactions contained in our disclosures on suspected terrorist activity financing were electronic funds transfers.

*Top 10 Countries for Incoming and Outgoing EFT Traffic 2004-05**

Country	Incoming EFTs			Outgoing EFTs		
	Number of EFT Reports	Rank in number of EFTs	Rank in Dollars Transferred	Number of EFTs	Rank in number of EFTs	Rank in Dollars Transferred
United States	891,400	1	1	2,418,639	1	1
United Kingdom	161,278	2	2	110,735	2	2
Germany	45,394	5	4	59,307	5	3
France	35,920	6	6	44,946	6	8
Hong Kong	64,321	3	-	75,057	3	-
Netherlands	25,543	9	5	16,890	-	6
Japan	35,819	7	10	22,770	10	4
Belgium	11,399	-	7	16,781	-	5
Singapore	8,952	-	3	10,617	-	-
China	15,904	-	-	71,910	4	-
Korea, Republic of	57,047	4	-	18,456	-	-
Switzerland	32,979	8	9	20,340	-	10
Taiwan	24,742	10	-	38,045	7	-
Barbados	12,906	-	-	3,900	-	7
Italy	13,088	-	-	37,359	8	-
Hungary	2,225	-	8	2,029	-	-
Australia	17,776	-	-	24,353	9	-

* The order of this listing is arranged by the sum of rankings across all categories. Only international EFTs of CAD\$10,000 or more are included.

SUSTAINING EXCELLENCE:

KEY OPERATIONAL SUPPORTS

Looking back on 2004-05, it is clear that our achievements relied heavily on the crucial support provided by information technology, international and domestic relations, communications, management of human resources and the protection of privacy.

INVESTING IN TECHNOLOGY

FINTRAC is absolutely committed to obtaining and maintaining leading edge technology. We continue to devote considerable resources to improving our database, refining our analytical tools and upgrading our systems.

Computer security and information privacy are fundamental precepts at FINTRAC and upholding the highest standard in this regard demands that we continually monitor and secure our systems.

FINTRAC's database has grown markedly in the past year and now contains some 23 million reports on financial transactions, and we are approaching the receipt of 1 million reports each month. Given the large volume of data, effective information technology tools are essential to support our compliance and financial intelligence analysis functions.

As part of our commitment to finding the best technological tools, FINTRAC began work on a new, comprehensive suite of state-of-the-art applications.

STRENGTHENING OUR KEY RELATIONSHIPS

FINTRAC's effectiveness as a high-quality financial intelligence provider depends on strong relationships with Canadian law enforcement and security communities and with our international partners.

CONTRIBUTING TO THE DOMESTIC ANTI-MONEY LAUNDERING EFFORT

In investigations and prosecutions, FINTRAC's intelligence products can provide crucial support. In 2004-05, our cross-Canada outreach to law enforcement continued to stress the value of our case disclosures to their work. We emphasized, as well, how the voluntary information law enforcement provides can help us to focus our analysis on their investigative needs.

Under the auspices of the National Coordinating Committee on Organized Crime, FINTRAC led a Law Enforcement Working Group where we initiated work on a best practices document for the provision of voluntary information. The Working Group also developed a common approach for police to provide feedback on our case disclosures, and to ensure the proper tracking of disclosures. The implementation of a disclosure tracking mechanism will allow us to assess the number of investigations in which our disclosures of financial intelligence play a part.

We made progress with law enforcement and intelligence agencies on obtaining access to their key databases as permitted by our Act. These databases can contribute much to the effectiveness of our analysis, thereby adding to the value of our case disclosures.

We maintained strong operational and policy linkages with federal partners in the National Initiative to Combat Money Laundering. For example, we addressed concerns raised by the audit of the Office of the Auditor General by working with the Canada Border Services Agency to eliminate—through technological solutions—the backlog of cross-border currency reports it

inputs into FINTRAC's database. In response to the audit's concerns about the number of tax evasion-related disclosures sent to the Canada Revenue Agency, our analysts engaged in joint-training exercises with the Agency to identify tax evasion indicators and typologies.

Our continuing outreach activities with law enforcement included many workshops and training activities. These activities allowed us to configure our case disclosures in a way that is more readily accessible and useful. Similarly, training and outreach activities with CSIS served to improve information sharing, as evidenced by their feedback on the high value of our disclosures to their investigations.

We worked closely with the Department of Finance on the development of a consultation white paper entitled "Enhancing Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime", which was released in June for public consultation. The paper contains a range of proposals for legislative and regulatory enhancements to keep Canada at the forefront of the global fight against money laundering and terrorist financing. These proposals are designed to meet some key domestic and international considerations, including the revised standards set out by the international Financial Action Task Force, recommendations made by the Auditor General in her 2004 Audit Report, stakeholder concerns and the upcoming Parliamentary Review of our Act. A key example is the proposal to expand the scope of designated information FINTRAC can provide in its case disclosures, thereby addressing a recommendation of the Auditor General. Although the scope for reallocating internal resources toward our highest priorities is being fully considered, it is likely that the implementation of the recommendations in the white paper will require additional resources.

SUPPORTING THE GLOBAL FIGHT AGAINST MONEY LAUNDERING AND TERRORIST FINANCING

Canada takes its international commitments to fight money laundering and terrorist financing very seriously, recognizing that nations must cooperate against these threats. To that end, FINTRAC expanded its network of relationships with other countries and international organizations in 2004-05.

EXCHANGING INFORMATION WITH FOREIGN FINANCIAL INTELLIGENCE UNITS

The information exchange between financial intelligence units (FIUs) about suspected money laundering and terrorist financing activities is vital. One of the year's major achievements was the signing of 13 memoranda of understanding to permit information sharing with foreign FIUs. That brought the total number of such agreements to 20. In addition to increasing our ability to detect criminal money, these agreements enhance our contribution to global efforts by allowing us, when appropriate, to provide information about suspected money laundering and terrorist financing to foreign financial intelligence units.

FINTRAC also developed and implemented a process to obtain feedback from its partner financial intelligence units on our products and processes. Generally, FINTRAC received positive feedback and we are currently considering how best to respond to our partners' comments and to further strengthen these relationships.

During the year, we received delegations from a number of foreign FIUs, including visitors from Belgium, the People's Republic of China, Guernsey, Indonesia, Israel, Japan, South Korea, and the United States. We discussed many

aspects of our operations with our partners including our information technology, analytical functions and compliance operations, as well as the collection and use of electronic funds transfer reports. We also shared our information technology expertise with employees from the FIU of Colombia, as they worked to improve their systems.

FINTRAC also benefited from the information technology expertise of one of our longstanding partners, AUSTRAC, the Australian FIU. AUSTRAC has allowed us to study their software to support development of FINTRAC's next generation of information technology applications. Once completed, these changes will strengthen reporting and the subsequent analysis of the information received.

FORGING STRONGER INTERNATIONAL TIES

Our effort to forge stronger multilateral ties was, to a large extent, focused on the Egmont Group of Financial Intelligence Units, which numbered 94 members at the end of this reporting year. Our ongoing work at Egmont, including our role on the steering committee as the representative of the Americas region, was further enhanced by the participation of FINTRAC's Director acting as Chair of both the Information Technology Working Group and the Funding and Administration Sub-Committee. The IT Working Group was created in June 2004 and is undertaking a variety of initiatives aimed at facilitating information exchange and assisting FIUs to develop and enhance their technological capabilities.

Creating a Global Network of Financial Intelligence Units

The purpose of money laundering is to disguise the origin of ill-gotten gains by moving them from criminal acts to legitimate financial institutions and instruments.

With improvements in communications and ease of travel, the modern world is witnessing an increase, both in volume and complexity, in the global movement of money. The ability to transmit money instantly around the world through electronic funds transfers is a boon both for organized crime and for terrorists looking to expand their operations and to hide their assets.

In the 1980s, a number of nations that had been attempting to stem the rising tide of criminal activity realized that individual countries working in isolation were not enough. Their search to coordinate international efforts against money laundering led to the founding, in 1989, of the Financial Action Task Force (FATF).

Flowing from recommendations made by the FATF, countries began creating financial intelligence units (FIUs). These units collect and analyze financial transaction information that can be used to detect, apprehend and prosecute individuals involved in money laundering. Around the world there are now more than 100 FIUs, creating a formidable capacity for detection and deterrence. As well, most FIUs have become responsible for collecting and analyzing information about terrorist financing activity, which, like money laundering, involves the transferring of funds for illicit purposes.

FINTRAC is an active member of the Egmont Group, an international association of FIUs that provides a forum for cooperation and communication, research and other initiatives. We also pursue strong bilateral relationships with individual FIUs in other countries through information sharing agreements.

FINTRAC also continued to participate in Canada's delegation to the Financial Action Task Force (FATF) and in FATF Working Groups on Terrorist Financing, Typologies and Evaluations. This year, FINTRAC staff were trained to become assessors for the third round of FATF Mutual Evaluations of member countries, and we participated in regional forums such as the Caribbean Financial Action Task Force.

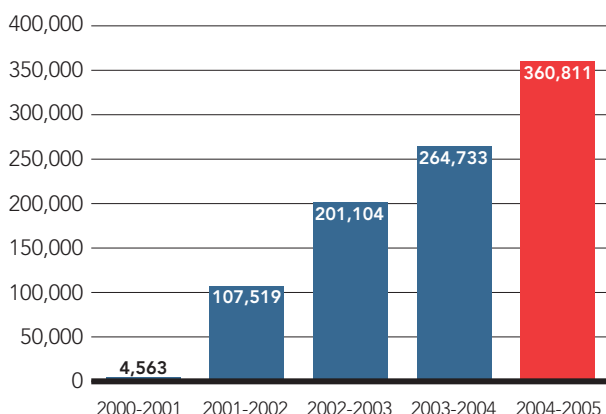
MEETING OUR COMMUNICATIONS MANDATE

To fulfill its responsibility to raise public awareness of money laundering and terrorist activity financing, and to communicate with reporting entities about their responsibilities, FINTRAC uses a number of tools.

WEBSITE

FINTRAC launched a website in February of 2001. Since that time, we have seen a steady growth in the number of visits recorded each year.

Website Visits



COMPLIANCE VIDEO

During the year, FINTRAC produced a nine-minute video to inform staff of reporting entities of their legal obligations and to help explain FINTRAC's role in detecting and deterring money laundering and terrorist activity financing.

CALL CENTRE

FINTRAC directs the operations of a call centre and a toll-free telephone line to serve the public and reporting entities. The service is available for 12 hours each day, from Monday to Friday. During the year, employees answered 2,314 inquiries from reporting entities and individuals.

PRINTED MATERIAL

FINTRAC also distributes pamphlets and information sheets to those who have questions about FINTRAC and about—in the case of reporting entities—their reporting responsibilities. Over 117,000 of these pamphlets and information sheets were shipped by mail last year.

MAINTAINING ORGANIZATIONAL EXCELLENCE

FINTRAC is and must remain a dynamic, forward-looking organization that emphasizes planning, results and accountability. In 2004-05, we continued to undertake a number of management initiatives to strengthen organizational effectiveness.

RIGOROUS COMPTROLLERSHIP

We maintained our commitment to a comprehensive approach to sound comptrollership by updating our policies and procedures in several key areas. This included a revamping of our financial and procurement delegation instruments, along with associated training for all our managers, and the implementation of an effective internal audit function.

BUSINESS CONTINUITY PROGRAM

To further support FINTRAC's ability to resume business after a disruption of operations, we reinforced our Business Continuity Program. The program provides us with a comprehensive approach to responding to potential crises or other types of business interruptions using a risk assessment model.

PEOPLE AND PERFORMANCE

FINTRAC's workforce is central to our success. We pursued a broad range of human resource initiatives designed to provide employees with a rewarding work environment. We maintained our investments in learning and development opportunities. For example, compliance officers took part in learning events designed to develop their expertise in policy interpretation, risk assessment and quality assurance; financial intelligence analysts took part in training that enhanced their knowledge of tracking terrorists online, casino operations, and of tax havens. As well, analysts were able to interact with experts in the academic community and with our partners in law enforcement.

Profile of FINTRAC's Workforce

- 183 employees
- Average age of 40
- 50% female
- Visible minorities comprise 13.5%
- 56% have a private sector background
- 44% have a public sector background

INTEGRATED PERFORMANCE MANAGEMENT FRAMEWORK

The provision of integrated financial and non-financial performance information is essential both in meeting external reporting requirements and in supporting management decision-making on the effectiveness of program initiatives. During the past year, we took a number of steps to implement an integrated performance management framework, including the development of a results chain for the Centre illustrating the links and interdependencies between our resources, activities, outputs and outcomes; and implementing performance scorecards for each of FINTRAC's sectors and the agency overall.

PROTECTING PERSONAL INFORMATION

Maintaining a robust and effective security program for the protection of personal information is fundamental to every aspect of FINTRAC's operations. As we entered our fifth year of operation, we undertook an audit of our policies and practices regarding the handling of personal information.

To that end, we engaged an outside expert to verify that our privacy protocols were being adhered to and that these measures were

compliant with our governing legislation, our privacy policy and the *Privacy Act*, and overall, to determine if personal information was being protected. We were pleased to find that the results presented by the auditor were positive. In particular, he noted that: "FINTRAC has implemented the necessary measures...to achieve the protection of the personal information it receives and handles," and that "FINTRAC, is, to a high degree, currently and effectively successful in the matter." FINTRAC remains committed to ensuring the protection of all personal information entrusted to it.

Safeguarding Personal Information at FINTRAC

The obligation to provide protection for personal information is enshrined in the *Canadian Charter of Rights and Freedoms*. The principles of the Charter necessarily inform both the terms of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)*, and the degree of vigilance that FINTRAC must bring to administering its mandate.

In keeping with the Charter and the Act, FINTRAC maintains an unequivocal commitment to upholding the rights and freedoms of Canadians. We demand the highest standards of privacy for the information we collect and these measures are meticulously applied to all our operations and activities.

A robust, integrated security program is in place both in Ottawa and at regional offices to guard against unauthorized access to FINTRAC's facilities and electronic systems. Policy and procedures limit access to personal information to those employees whose designated functions require it. There are rigorous access controls, including advanced authentication and biometric software and access to all facilities and information is carefully monitored and recorded.

FINTRAC's computer security measures include state-of-the-art firewalls and intrusion detection monitoring. All of FINTRAC's analysis functions are carried out on systems that are not accessible through the Internet.

All staff are made aware of their responsibilities and the severe penalties for improper disclosure of information, which can include up to five years in jail, a fine of up to \$500,000, or both. FINTRAC's governing legislation further protects the privacy of Canadians by placing time limits on our retention of financial transaction reports and other information. Most of the reports and information we receive must be destroyed five years after receipt. The only exception to that rule is for information or reports that contribute to a case disclosure, where the time period is extended to eight years.



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PRIORITIES FOR 2005-06:

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PREPARING FOR THE FUTURE

In the year ahead, as always, our focus will be on delivering high-quality financial intelligence to our clients. With an ever-expanding database and steadily improving financial analysis ability, FINTRAC's case disclosures will provide even more valuable intelligence both to our domestic clients and to foreign FIUs with which we have memoranda of understanding.

At the same time as Canada continues to increase the range and value of its contribution in the fight against terrorism and organized crime, we are acutely aware of the need to prepare ourselves for new challenges and opportunities.

For example, a white paper released in June 2005 makes a number of proposals to improve Canada's response to money laundering and terrorist activity financing. Following public consultations on the paper, and in response to the upcoming Parliamentary review of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, the Government is likely to propose a range of amendments to enhance Canada's anti-money laundering and anti-terrorist financing regime. Some of these proposals could have significant resource implications for the Centre. At FINTRAC, we are already hard at work preparing for the Parliamentary Review and potential legislative and regulatory changes and their implementation.

The three major priorities that we have set ourselves for the coming year reflect what we believe to be the key elements for ensuring continued effectiveness in fulfilling our mandate.

FINTRAC'S THREE KEY PRIORITIES FOR 2005-06

1. Deliver timely and high-quality financial intelligence to law enforcement, national security agencies and foreign financial intelligence units.
2. Ensure compliance with our legislation, the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*.
3. Disseminate strategic information on money laundering and terrorist activity financing to partners, stakeholders, and the general public.

1. DELIVER TIMELY AND HIGH QUALITY-FINANCIAL INTELLIGENCE TO LAW ENFORCEMENT, NATIONAL SECURITY AGENCIES AND FOREIGN FINANCIAL INTELLIGENCE UNITS.

ANTICIPATED RESULT: Increasingly effective analysis of financial intelligence, together with case disclosures that are widely accepted and used in investigations both within Canada and internationally.

This year and next, we will further improve the quality of our case disclosures. This will be achieved by technological enhancements, by augmented information sources, and by the increased knowledge and expertise of our analysts. We are working at top speed to bring on-line a new generation of information systems that will permit improved data mining and data matching capabilities, and will support analysis of increased breadth and depth.

Our relationships with Canadian law enforcement and national security agencies continue to be of key importance. We will take every opportunity to work with them in order to raise and to maintain awareness about our mandate and the value of our financial intelligence product as well as the information they volunteer to us.

FINTRAC will put tracking mechanisms in place to demonstrate the extent to which our disclosures contribute to investigations and prosecutions undertaken by disclosure recipients. We will develop criteria to guide our analysts in determining when a case should be recommended to senior management for disclosure to law enforcement. We will continue to pursue joint-training exercises with the Canada Revenue Agency that focus on establishing typologies and indicators of tax evasion.

In order to augment our information sources, we will continue to work with other federal partners and law enforcement agencies to identify and negotiate access to databases that are maintained for national security and law enforcement purposes.

Internationally, the Centre will continue to strengthen its ties with foreign FIUs. We will broaden our network by negotiating additional agreements for information exchange.

2. ENSURE COMPLIANCE WITH OUR LEGISLATION, THE PROCEEDS OF CRIME (MONEY LAUNDERING) AND TERRORIST FINANCING ACT.

ANTICIPATED RESULT: Promote and facilitate compliance with the law by reporting entities, and detect and deter non-compliance. This will be accomplished through awareness programs, the monitoring of data quality, examinations, and by taking appropriate remedial action when non-compliance is detected.

Our outreach efforts with reporting entities have already been successful in building an understanding of their obligations. Our communications will now focus more on promoting awareness among high-risk reporting entities. We are developing interpretation notices, which will provide full and consistent explanations to queries about regulatory issues.

Because the quality of data received from reporting entities is directly linked to the quality of FINTRAC's analysis, the compliance program will enhance its capacity to monitor data and to detect possible problems with data quality. Reporting entities will be able to receive increased feedback on their reporting activities. Increasing the use of self-assessment questionnaires will expand our ability to assess compliance.

Using a variety of techniques, we will conduct examinations in all reporting entity sectors. These techniques include: compliance questionnaires, desk audits, on-site examinations, and examinations through partnerships with federal and provincial regulators. Should reporting entities be found to be willfully non-compliant they will be referred to the appropriate law enforcement agency for investigation.

FINTRAC will continue to develop and implement information management tools to enhance technological support for the compliance function. The tools will support our key functions and will ensure improved risk management and greater administrative efficiency.

3. DISSEMINATE STRATEGIC INFORMATION ON MONEY LAUNDERING AND TERRORIST ACTIVITY FINANCING TO PARTNERS, STAKEHOLDERS, AND THE GENERAL PUBLIC.

ANTICIPATED RESULT: Provide strategic intelligence, advice and analysis that enhance awareness and understanding of money laundering and terrorist activity financing, and that inform the development of effective Canadian and multilateral counter-strategies.

In the coming year, we will conduct strategic analysis to contribute to an informed perspective on the nature of money laundering and terrorist activity financing in Canada. Such information is important for operational and policy decision-making and to our analysts. Our rich database of financial transactions and other information can yield valuable insights into the ever-changing patterns and trends related to money laundering and terrorist activity financing and we are, therefore, dedicating resources to the analysis of both external and internal data.

FINTRAC, although a relatively young financial intelligence unit, is viewed by its international counterparts as a leader in many aspects of its operations and frequently receives requests to provide international technical assistance. We will continue to provide this assistance in 2005-06, subject to our capacity, and to a strategic assessment of where our contribution can bring maximum benefits.

Within the Egmont Group, FINTRAC will continue to participate actively in the various Working Groups – Information Technology, Training, Operations, Strategic Analysis and Outreach. In addition, we will continue to support the implementation of the Funding and Administration initiative, which will help to ensure that Egmont remains a vital organization and strong contributor to global anti-money laundering/anti-terrorist activity financing efforts.

Part of FINTRAC's legislated mandate is to enhance public awareness and understanding of matters related to money laundering and terrorist activity financing. A public that is knowledgeable, alert and aware of money laundering and terrorist activity financing is, in itself, a deterrent, and this is particularly the case with respect to reporting entities. In 2005-06, FINTRAC will continue to identify and communicate with stakeholder audiences to disseminate information.

APPENDICES



FINTRAC's Financial Statements

APPENDIX II

Examples of Suspected Money Laundering and Terrorist Activity Financing

APPENDIX III

FINTRAC's Business Process

APPENDIX IV

Glossary of Terms and Acronyms

FINTRAC

APPENDIX I

FINANCIAL STATEMENTS OF THE FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA (FINTRAC)

Unaudited
For the Year Ended March 31, 2005



FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA

Management Responsibility for the Financial Statements

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2005 and all information contained in this report, rests with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) management.

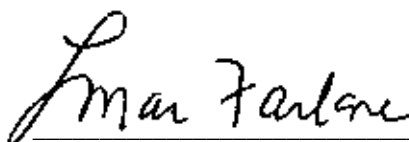
These statements have been prepared in accordance with Treasury Board Accounting Standards based upon generally accepted accounting principles, using management's best estimates and judgments where appropriate. Readers of these statements are cautioned that the financial statements are not necessarily complete; certain assets, liabilities and expenses are only recorded at a government-wide level at this time. These statements should be read within the context of the significant accounting policies set out in the accompanying Notes.

Management has developed and maintains books, records, internal controls and management practices, designed to provide reasonable assurance that the Government's assets are safeguarded and controlled, resources are managed economically and efficiently in the attainment of corporate objectives, and that transactions are in accordance with the *Financial Administration Act* and regulations as well as FINTRAC's policies and statutory requirements.

The transactions and financial statements of FINTRAC have not been audited.



Horst Intscher
Director
FINTRAC
Ottawa, Canada



Lynn MacFarlane
Deputy Director
Corporate Management
and Senior Financial Officer
FINTRAC
Ottawa, Canada



FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA

STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at March 31, 2005

(In dollars)	2005	2004
ASSETS		
Financial Assets		
Receivable (note 5)	51,909	217,205
Advances (note 6)	395,996	64,488
	447,905	281,693
Non-financial Assets		
Prepays	89,558	-
Capital Assets (note 7)	12,476,498	17,079,302
	12,566,056	17,079,302
TOTAL ASSETS	13,013,961	17,360,995
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payables and accrued liabilities (note 8)	4,378,590	4,118,490
Allowance for vacation pay	749,593	731,951
	5,128,183	4,850,441
NET ASSETS		
Net assets, beginning of year	12,510,554	21,140,956
Net results	(37,275,233)	(40,019,000)
Services provided without charge	1,338,600	1,120,657
Net cash provided by government	31,311,857	30,267,941
	7,885,778	12,510,554
TOTAL LIABILITIES AND NET ASSETS	13,013,961	17,360,995

Contingent liabilities (note 9)

Contractual obligations (notes 11)

The accompanying notes are an integral part of these financial statements.

Approved by:



Horst Intscher
Director
FINTRAC

FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA

STATEMENT OF OPERATIONS (UNAUDITED)

For the year ended March 31, 2005

(In dollars)	2005	2004
OPERATING EXPENSES		
Personnel	19,804,367	18,476,577
Amortization	7,830,047	8,978,728
Rental of buildings	2,590,430	2,504,368
Professional and special services	2,461,213	5,257,812
Repairs and maintenance	2,256,152	1,743,131
Telecommunication services	746,664	809,303
Travel and relocation	633,896	1,208,866
Utilities, materials and supplies	316,531	443,816
Machinery and equipment	256,127	223,969
Information	210,226	245,667
Other expenditures	169,580	126,763
NET COST OF OPERATIONS	37,275,233	40,019,000

The accompanying notes are an integral part of these financial statements.

FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA

STATEMENT OF CASH FLOW (UNAUDITED)

For the year ended March 31, 2005

(In dollars)	2005	2004
OPERATING ACTIVITIES		
Net cost of operations	37,275,233	40,019,000
Non-cash items included in cost of operations		
Amortization of capital assets	(7,830,047)	(8,978,728)
Services provided without charge	(1,338,600)	(1,120,657)
Adjustment to prior year financial statements	-	11,980
Statement of financial position adjustments		
Decrease (increase) in liabilities	(277,742)	(1,132,052)
Increase (decrease) in receivables, advances and prepaids	255,772	(954,819)
	28,084,616	27,844,724
INVESTING ACTIVITIES		
Acquisitions of capital assets (note 7)	3,227,241	2,423,217
NET CASH PROVIDED BY GOVERNMENT	31,311,857	30,267,941

The accompanying notes are an integral part of these financial statements.

FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31, 2005

1. AUTHORITY AND OBJECTIVES

The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) was established through the *Proceeds of Crime (Money Laundering) Act* in July 2000 as part of the National Initiative to Combat Money Laundering. This legislation established FINTRAC as a government agency and separate employer, named in Schedule 1.1 of the *Financial Administration Act*. Originally, the key objectives for FINTRAC were the detection and deterrence of laundering of proceeds of crime. However, with the enactment of the *Anti-Terrorism Act* in December 2001, FINTRAC was given additional responsibilities and government funding to detect the financing of terrorist activities. FINTRAC fulfills its responsibilities by collecting, analyzing, assessing and, where appropriate, disclosing information relevant to the investigation and prosecution of money laundering offences and the financing of terrorist activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation

These financial statements have been prepared on an accrual basis of accounting in accordance with Treasury Board Accounting Standards. These Standards are based on generally accepted accounting principles in Canada. The primary source of the accounting principles is from the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants supplemented by the recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants for situations not covered by the Public Sector Accounting Board. Readers of these statements are cautioned that the introduction of accrual accounting at the department level is evolutionary. Not all assets, liabilities and

expenses applicable to a department are recorded at the departmental level at this time. As such, the financial statements are not necessarily complete. The accompanying notes provide additional detail and should be read with care. All such assets, liabilities and expenses are recorded at a government-wide level in the financial statements of the Government of Canada.

b) Parliamentary Appropriations

FINTRAC is financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to FINTRAC do not parallel financial reporting according to generally accepted accounting principles since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the statement of operations and the statement of financial position are not necessarily the same as those provided through appropriations from Parliament. Note 12 to these financial statements provides information regarding the source and disposition of these authorities. Note 13 provides a high-level reconciliation between the two basis of reporting.

c) Reporting entity

The reporting entity is FINTRAC and does not comprise any sub-entities.

d) Consolidated Revenue Fund (CRF)

All departments and agencies operate within the CRF, which is administered by the Receiver General for Canada. All cash receipts are deposited to the CRF and all cash disbursements made by departments are paid from the CRF. Net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments.

e) Expenses

Expenses are recorded when the underlying transaction or expense occurred subject to the following:

- Employee termination benefits are expensed by FINTRAC when paid. Estimated accruals are not recorded by FINTRAC, rather they are recognized in the consolidated financial statements of the Government of Canada.
- Vacation pay and overtime are expensed in the year that the entitlement occurs.
- Contributions to superannuation plans are recognized in the period that the contributions are made. Actuarial surpluses or deficiencies are not recorded in FINTRAC's books but are recognized in the consolidated financial statements of the Government of Canada.
- Environmental liabilities are not recognized in the FINTRAC books of accounts but are recognized in the consolidated financial statements of the Government of Canada.
- Services provided without charge by other government departments and agencies are recorded as operating expenses by FINTRAC. Services without charge represent contributions covering employer's share of employees' insurance premiums paid by Treasury Board Secretariat. A corresponding amount is credited directly to Net Assets.
- Legal fees paid to Justice Canada are not to be charged against FINTRAC's appropriation from Parliament, as the related salaries for these legal services have already been charged against Justice Canada's Parliamentary appropriation. However, as these expenses reflect actual legal fees incurred and paid by FINTRAC to Justice Canada, they are reflected as operating expenses in these financial statements.

f) Receivables

Receivables are stated at amounts expected to be ultimately realized. A provision is made for receivables where recovery is considered uncertain.

g) Capital assets

All assets treated as capital assets under the Public Sector Accounting Board recommendations, and having an initial cost of \$5,000 or more, are recorded at their acquisition cost. The capitalization of software and leasehold improvements has been done on a prospective basis from April 1, 2001. Amortization of capital assets is done on a straight-line basis over the estimated useful life of the capital asset as follows:

Asset Class	Amortization Period
Machinery and equipment	5 years
Informatics hardware	3 years
Informatics software	3 years
Other equipment, including furniture	10 years
Leasehold improvements	Lesser of remaining lease term and 10 years

h) Foreign currency transactions

Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions.

3. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation used in the current year.

An adjustment of \$11,980 to prior figures is included in the financial position and the cash flow statements to reflect an adjustment that should have been recorded in 2003-04.

4. MEASUREMENT UNCERTAINTY

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses reported in the

financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant item where estimates are used is amortization of capital assets.

5. RECEIVABLES

(In dollars)	2005	2004
Other government departments	23,203	208,097
External parties (net of allowance)	28,706	9,108
	51,909	217,205

6. ADVANCES

(In dollars)	2005	2004
Standing advances to employees	5,750	6,450
GST receivable	390,246	58,038
	395,996	64,488

7. CAPITAL ASSETS

(In dollars)				2005	2004
	BALANCE BEGINNING OF YEAR	NET ADDITIONS	ACCUMULATED AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
Machinery and equipment	852,059	-	563,882	288,177	458,589
Informatics hardware	16,640,893	655,588	15,540,472	1,756,009	4,920,179
Informatics software	9,716,510	559,135	8,143,805	2,131,840	4,485,806
Other equipment	3,226,912	36,074	1,271,216	1,991,770	2,328,518
Leasehold Improvements	5,628,714	55,404	1,296,456	4,387,662	4,886,210
Work in progress	-	1,921,040	-	1,921,040	
	36,065,088	3,227,241	26,815,831	12,476,498	17,079,302

Amortization expense for the year ended March 31, 2005 is \$7,830,047 (\$8,978,728 in 2004)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(In dollars)	2005	2004
External accounts payable and accrued liabilities	2,889,597	3,625,470
Other government departments	256,865	99,537
Accrued salaries and wages	1,232,128	393,483
	4,378,590	4,118,490

9. CONTINGENT LIABILITIES

In the normal course of its operations, FINTRAC becomes involved in various legal actions. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded on the government's consolidated financial statements. These estimated liabilities are not recognized in FINTRAC's financial statements until the amount of the liability is firmly established.

10. RELATED PARTY TRANSACTIONS

FINTRAC is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations. FINTRAC enters into transactions with these entities in the normal course of business and on normal trade terms applicable to all individuals and enterprises except that certain services, as defined previously, are provided without charge.

11. CONTRACTUAL OBLIGATIONS

FINTRAC has entered into lease agreements for office space in 4 locations across Canada. The minimum aggregate annual payments for future fiscal years are as follows:

(in dollars)	2005	2004
2005-2006	2,514,950	2,569,503
2006-2007	2,514,950	2,592,998
2007-2008	2,313,489	2,632,325
2008-2009	1,061,463	2,631,807
2009-2010	-	-
	8,404,852	10,426,633

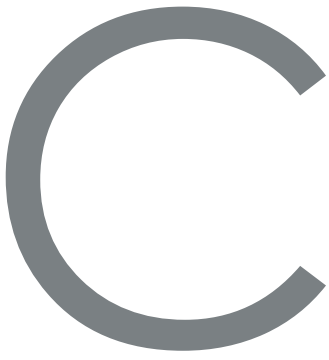
12. PARLIAMENTARY APPROPRIATIONS

(In dollars)	2005	2004
Operating expenditures - Vote 30	29,032,000	28,976,000
Supplementary Vote 30a	69,237	-
Supplementary Vote 30b	-	1,575,383
Transfer from TB - Vote 10	-	165,882
Transfer from TB - Vote 15	813,000	8,000
	29,914,237	30,725,265
Lapsed	(1,873,741)	(1,433,639)
	28,040,496	29,291,626
Contributions to employee benefits plan	2,979,131	2,500,357
USE OF APPROPRIATIONS	31,019,627	31,791,983

13. RECONCILIATION OF NET RESULTS TO APPROPRIATIONS USED

(In dollars)	2005	2004
Net results	37,275,233	40,019,000
Adjustments for items not affecting appropriations:		
Amortization	(7,830,047)	(8,978,728)
Services provided without charge	(1,338,600)	(1,120,657)
Legal fees paid to Justice	(485,243)	(482,189)
Change in allowances	(24,600)	(101,548)
Refund of previous year expenditures	106,085	20,908
	(9,572,405)	(10,662,214)
Adjustments for items not affecting appropriations:		
Capital acquisitions	3,227,241	2,423,217
Change in prepaid expenses	89,558	-
Adjustment to prior year financial statement	-	11,980
	3,316,799	2,435,197
TOTAL APPROPRIATIONS USED	31,019,627	31,791,983

APPENDIX II



EXAMPLES OF SUSPECTED MONEY LAUNDERING AND TERRORIST ACTIVITY FINANCING

The following examples illustrate the complex and often well-hidden connections involved in criminal and terrorist money flows.

SUSPECTED MONEY LAUNDERING

SUSPECTED LAUNDERING OF DRUG MONEY

FINTRAC detected the following suspicious activity from our analysis of money movements between many individuals, several reporting entities and a variety of financial transactions.

A number of persons were depositing substantial amounts of cash in Canadian and foreign currency into their individual bank accounts.

Some of these individuals were also physically transporting foreign currency into Canada, which was then used to purchase casino chips that were later redeemed for casino cheques. They were also redeeming casino cheques from casino chips purchased by other individuals—evidence of a money laundering technique called “smurfing”.

Three of the individuals repeatedly deposited amounts of foreign currency into the accounts of a retail company that had affiliates across Canada and in two foreign countries. The affiliates then issued drafts in small amounts to various other individuals and/or wired funds to recipients in several countries.

Taken together, the above activity suggested the movement of drug money. This suspicion was heightened when it was noted that some of the businesses were receiving cash deposits from individuals who were suspected by police of being drug dealers. Further, some of the affiliate businesses were purchasing bank drafts and/or wiring funds to these individuals and/or what appeared to be suppliers in foreign jurisdictions. Another related company collected cash deposits from three of the five individuals and then transferred larger dollar amounts to another company, which, in turn, provided bank drafts to a law firm for the purchase of houses suspected of being used as marijuana grow operations.

SUSPECTED TELEMARKETING FRAUD

Another case involved a telemarketing company that had a number of different call centres located throughout Canada. The company would cold-call residents of a foreign country and offer access to credit in exchange for a fee.

FINTRAC's analysis noted that the monies collected as fees were then moved within Canada, and to at least one other country, through what are called shell companies. Shell companies have no physical presence in the jurisdiction where they are incorporated and can be used as a conduit for moving and obscuring the origins of money.

Three of these shell companies, which shared the same postal address, appeared to be the "funnel point" in the money laundering scheme. On receiving money from the telemarketing company in the form of electronic funds transfers, the shell companies then forwarded the money to an offshore bank account.

SUSPECTED ARMS TRADING AND NARCOTICS TRAFFICKING

An individual established a web of corporations in over 40 countries through which funds moved that were suspected of being derived from criminal activities including narcotics trafficking and illegal arms dealing. Many of the companies operated out of the same location in a large Canadian city and many shared common directorships.

Over a two-year period, tens of millions were transferred between companies, some of which were located in prime offshore money laundering locations. The individual also received wire transfers to a personal account from corporations registered in other jurisdictions. As well, large cash deposits were made to the accounts of the individual's Canadian companies.

SUSPECTED INVESTMENT FRAUD

Another example involved the operation of what appeared to be a fraudulent investment scheme. The case involved many companies—a few of which were trading companies—and associated individuals that were suspected of soliciting funds with the promise of high returns on investments that did not exist.

One of the companies based in Canada was receiving large amounts of money in the form of wire transfers from what appeared to be unrelated individual 'investors' in three other countries. This company was then moving money in North America, Central America and the Caribbean using trust accounts and other means including the use of accountants and lawyers.

FINTRAC's analysis revealed related financial transactions totalling tens of millions of dollars. The associated trading companies moved some of this money using wire transfers. Suspicion of illicit activity was heightened when it was found that these trading companies had been ordered to cease trading in securities by provincial securities commissions due to concerns over fraudulent investment activities.

SUSPECTED TERRORIST ACTIVITY FINANCING

SUSPECTED FUNDRAISING ACTIVITIES

FINTRAC received reports on suspicious transactions that ultimately connected a number of individuals, their businesses, and a non-profit community organization. According to open source intelligence, the individuals and entities were supporters of a known radical terrorist organization. Some of the individuals also supported a known terrorist.

Analysis revealed that, over the course of two years, these individuals and their businesses were involved in transactions valued at many millions of dollars.

Further analysis revealed that through their corporate and personal accounts, these individuals were wiring money out of Canada to locations of concern in the Middle East and Eastern Europe. They were also making large cash deposits to the non-profit community organization's bank account that were followed by large wire transfers to entities and locations of concern.

SUSPICIOUS WIRE TRANSFERS LINKED TO POSSIBLE TERRORIST ACTIVITY FINANCING

It was reported that an individual from the Middle East, who had associations with a known terrorist, owned a large company in Canada. The associate of this business person was known to be financing terrorist organizations.

Analysis revealed that, in addition to the companies owned and controlled in the Middle East, the business person in question did, in fact, have business ties with several companies in Canada.

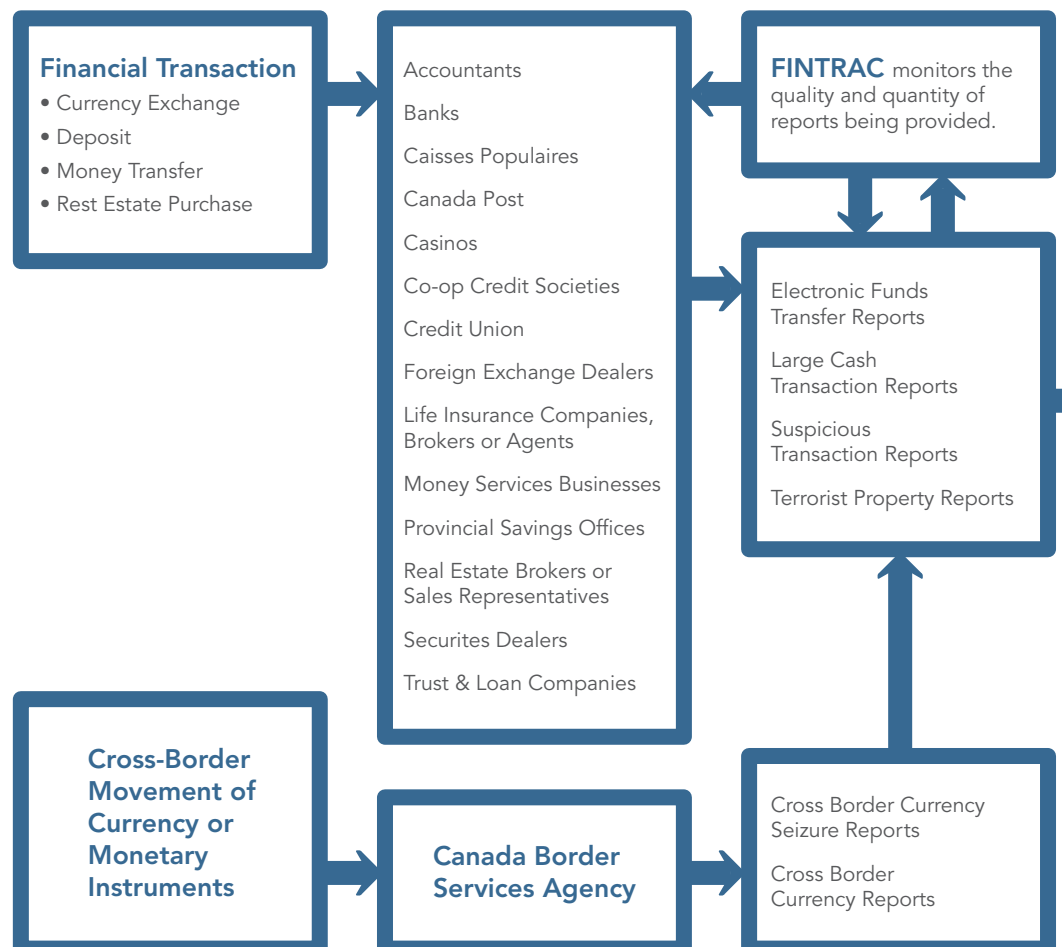
Our analysis also revealed that numerous large wire transfers between companies in Canada and the Middle East were associated with this business person. These wire transfers were far in excess of the amounts required for normal business operations and were sent to a country sympathetic to the terrorist organization that was supported by his associate.

FINTRAC

APPENDIX III

RECEIVING INFORMATION

Information about financial transactions and other information is received from many different reporting entities.



BUSINESS PROCESS



GLOSSARY OF TERMS AND ACRONYMS

CROSS BORDER CURRENCY REPORT (CBCR)

A report that must be filed by a person entering or leaving Canada advising that the person is carrying large sums of currency or monetary instruments (\$10,000 or more), or by a person mailing or sending such large sums into or out of Canada.

CROSS-BORDER SEIZURE REPORT

A report filed with FINTRAC by a CBSA officer who seizes cash or monetary instruments for which reporting obligations were not met.

EGMONT GROUP OF FINANCIAL INTELLIGENCE UNITS (FIU)

An international group of FIUs, founded in 1995, which collectively work together in an informal organization to improve support for their respective national anti-money laundering and anti-terrorist financing programs.

ELECTRONIC FUNDS TRANSFER REPORT (EFTR)

A report that a reporting entity must file with FINTRAC in respect of a transmission of instructions for the transfer of a sum of \$10,000 or more out of or into Canada, through any electronic, magnetic or optical device, telephone instrument or computer.

FINANCIAL ACTION TASK FORCE (FATF)

An inter-governmental body, established by the G-7 Summit in 1989, whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering. At a special plenary meeting held in October 2001, FATF's mandate was expanded to include the combating of terrorist financing.

FINANCIAL INTELLIGENCE UNIT (FIU)

A national governmental agency, established to combat money laundering and terrorist financing. FIUs fulfill this function by collecting financial transaction and other information for the purpose of analysing and disclosing intelligence of financial information concerning suspected proceeds of crime or potential financing of terrorist activity.

LARGE CASH TRANSACTION REPORT (LCTR)

A report that a reporting entity must file with FINTRAC when it 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 that it knows were made within 24 consecutive hours of each other by or on behalf of the same individual or entity.

PROCEEDS OF CRIME (MONEY LAUNDERING) AND TERRORIST FINANCING ACT (PCMLTFA)

This statute establishes FINTRAC to collect, analyze, assess and disclose financial information with respect to money laundering and terrorist activity financing. Originally enacted as the Proceeds of Crime (Money Laundering) Act in June 2000, it was amended in December 2001, to add combating terrorist financing to FINTRAC's mandate.

SUSPICIOUS TRANSACTION REPORT (STR)

A report that a reporting entity must file with FINTRAC in respect of a financial transaction that occurs in the course of its activities and for which there are reasonable grounds to suspect that the transaction is related to the commission of a money laundering or terrorist activity financing offence.

SWIFT

The Society for Worldwide Interbank Financial Telecommunication, a cooperative owned by the international banking community that operates a global data processing system for the transmission of financial messages.

TERRORIST PROPERTY REPORT (TPR)

A report that a reporting entity must file with FINTRAC when it has in its possession or control property that it knows is owned or controlled by or on behalf of a terrorist group. This includes information about any transaction or proposed transaction relating to that property. This report is triggered by a requirement in the Criminal Code that requires the reporting of such information to the RCMP and CSIS.