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FINTRAC

ANNUAL REPORT 2007



Financial Transactions and
Reports Analysis Centre of Canada

Canada

FINTRAC HIGHLIGHTS 2005–2007

2005

Striving for Excellence

142 case disclosures of financial intelligence involving approximately \$2 billion in financial transactions

- FINTRAC's Director chaired both the Information Technology (IT) Working Group and the Funding and Administration Sub-committee of the Egmont Group
- Reached a total of 20 memoranda of understanding (MOU) with foreign financial intelligence units (FIUs)
- Delivered two non-compliance disclosures to law enforcement
- Signed five MOU with national and provincial regulatory agencies

2006

Making the Connections

168 case disclosures of financial intelligence involving just over \$5 billion in financial transactions

- Reached a total of 30 MOU with foreign FIUs
- FINTRAC's Director chaired the Egmont Transition Sub-committee, assumed the Vice Chair of the Egmont Committee, the organization's steering group, and continued as Chair of the IT Working Group
- Reached a total of 15 MOU with national and provincial regulatory agencies
- First-stage implementation of a new generation of information technology solutions focused on improvements in data capture and quality
- Delivered three non-compliance disclosures to law enforcement

2007

Reaching New Heights

193 case disclosures involving close to \$10 billion in financial transactions

- Parliamentary review of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) completed after five years in force
- Bill C-25 was adopted, making important additions and changes to the law to extend and strengthen Canada's anti-money laundering and anti-terrorist financing (AML/ATF) regime
- Implementation of IT and information management (IM) new generation solutions with focus on enriched support for case analysis
- Signed 15 new MOU with foreign FIUs, bringing the total to 45
- Signed two new MOU with national and provincial regulatory agencies, bringing the total to 17
- The Egmont Group selected Toronto as the site for its permanent Secretariat
- The Financial Action Task Force initiated its evaluation of Canada's AML/ATF regime



Financial Transactions and
Reports Analysis Centre
of Canada

Centre d'analyse des opérations
et déclarations financières
du Canada

Ottawa, Canada K1P 1H7

Office of the Director

Cabinet du directeur

August 31, 2007

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

Dear Minister:

Pursuant to Section 71(1) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, I am pleased to present you with the sixth Annual Report for the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). This report details our activities and our achievements for the period from April 1, 2006 to March 31, 2007, and our priorities for 2007-08.

FINTRAC facilitates the detection and deterrence of money laundering and terrorist activity financing in Canada and abroad by analyzing suspect transactions and making case disclosures of financial intelligence to the appropriate law enforcement agency or to the Canadian Security Intelligence Service (CSIS), when there are reasonable grounds for suspicion.

We continue in our commitment to promote compliance with Canada's anti-money laundering and anti-terrorist activity financing legislation and to deliver high-quality financial intelligence.

Yours sincerely,

Horst Intscher
Director



FINTRAC ANNUAL REPORT 2007

REACHING NEW HEIGHTS

FINTRAC ANNUAL REPORT 2007

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MESSAGE FROM THE DIRECTOR

This year, as every year since FINTRAC was established, I am able to report that we have attempted and achieved more than in previous years. As well, new opportunities came with Bill C-25 in December 2006, and these have augmented and will further augment both FINTRAC's powers and responsibilities. In close collaboration with our many partners in Canada and around the globe, FINTRAC is now even better equipped than before to detect and deter money laundering and terrorist activity financing.

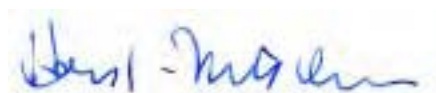
Once again, the aggregate dollar value attached to our 193 case disclosures—nearly \$10 billion in 2006-07—is almost twice that of the previous year. For the first time in our short history, three disclosures were each valued at more than \$1 billion. Such large dollar values attached to specific cases indicate very large international criminal financial operations. They also demonstrate that the networks behind such operations are increasingly vulnerable to FINTRAC's capacity to detect them.

That capacity has been further enriched by the legislative (Bill C-25) and regulatory amendments, which flowed from reviews of our governing legislation, the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA). These extend the range both of the businesses and professions required to report to us, and of the information that we may disclose to our partners. Bill C-25 also provides for the creation of a money services businesses registry, and the authority to levy administrative monetary penalties for failure to comply with the PCMLTFA. These legislative amendments are important in strengthening the AML/ATF regime and our effectiveness, which grows stronger every year.

Our effectiveness both domestically and globally must always be closely connected with our relationships with our partners. We are encouraged by the strength of the relationships we have built, and are continuing to build, whether with reporting entities, law enforcement and intelligence agencies, or internationally with our counterpart FIUs. This year, we completed an ambitious project with the Australian FIU, AUSTRAC, as a result of which we have made important information technology upgrades and found new solutions to improve our data capture and data analysis capabilities. This successful international collaborative effort provides a stellar, but by no means unusual, example of the way FIUs are able to combine their skills and experience in the common cause against criminal financial activity.

This has been a watershed year for FINTRAC, one which has seen us move into new territory, accept new responsibilities and incorporate a range of new management and analysis tools. Our staff was called upon to accomplish remarkable things in a rather short space of time. Because they are among the best, most dedicated and innovative people in the country, they handily accomplished it, and I know they will continue to accomplish further marvels.

It is our continuing goal to remain a strong partner among other strong partners in the battle to rid the world of money laundering and terrorist financing. We will always have to improve and update, and we shall.



Horst Intscher
Director

THE YEAR IN REVIEW

The past year has been significant not only because of FINTRAC's direct achievements, but also because of legislative and other developments. These are already enhancing our ability, in cooperation with our many partners, to detect, deter and prevent money laundering and terrorist activity financing with even greater effectiveness.

We have yet again seen dramatic growth in our output of financial intelligence. The 193 case disclosures this year represented a value of \$9.8 billion, which is almost double that of last year, which in turn was nearly double that of 2004-05. The increasing demand for this intelligence, both internationally and domestically, attests to its high quality.

Factors contributing to the steady rise in our output include our deliberate strategy of focusing on large cases, our highly skilled and experienced financial analysts, and our databases containing five years of financial transaction reports.

This year, we engaged in a major project to overhaul our data capture and analysis software, benefiting from the very generous collaboration of our Australian counterpart, AUSTRAC.

With the cooperation of our reporting entities, we have continued to strengthen our national compliance program. FINTRAC, together with national and provincial regulators, conducted a record number of compliance examinations across all reporting sectors. Fourteen thousand participants were involved in FINTRAC's outreach activities, which, among other activities, included presentations and seminars designed to enhance compliance awareness.

The Department of Finance, working closely with FINTRAC, reviewed and developed amendments to the PCMLTFA (Bill C-25, adopted December 2006) and its regulations. The amendments extend the PCMLTFA's coverage to new entities and professions, fortify its deterrence provisions, and expand the range of information that FINTRAC may disclose to law enforcement and intelligence agencies, thus strengthening the ability of these agencies to conduct investigations.

The changes brought by Bill C-25 also significantly help to ensure that Canada complies with the international standards recommended by the FATF which, this year, began a comprehensive evaluation of Canada's compliance with these standards. FINTRAC was closely involved in this evaluation.

In 2006, the Egmont Group decided to set up its permanent headquarters in Toronto—a decision that recognizes Canada's own strong commitment to the many cooperative ties and relationships that are so important in the global effort to fight money laundering and terrorist activity financing.

SUMMARY OF LEGISLATIVE AND REGULATORY AMENDMENTS

Bill C-25, which received Royal Assent on December 14, 2006, amends the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. When fully in force, the amended legislation and related regulations will enhance the PCMLTFA by expanding its coverage, strengthening its deterrence provisions, and broadening the range of information that FINTRAC may include in its financial intelligence disclosures to law enforcement and national security agencies, and to foreign FIUs.

Certain of these amended provisions came into force in February and June 2007. The remaining provisions are expected to come into force in 2008.

HIGHLIGHTS

The amendments to the PCMLTFA and its regulations will:

- enhance client identification, record keeping and reporting requirements
- establish a registry for money services businesses and create a new offence for not registering
- bring four additional business and professional sectors within the ambit of the legislation and regulations:
 - Dealers in precious metals and stones
 - Notaries in British Columbia
 - Real estate developers
 - Lawyers (subject to certain compliance requirements only)
- create a system of graduated administrative monetary penalties for non-compliance
- allow FINTRAC to disclose additional information to law enforcement agencies and other recipients (see page 13)
- authorize the disclosure of relevant information to the Communications Security Establishment
- authorize the disclosure of relevant information to the Charities Directorate of the Canada Revenue Agency
- authorize the disclosure to the Canada Border Services Agency of information relating to the suspected smuggling of controlled or prohibited goods
- enable FINTRAC to exchange compliance-related information with its foreign counterparts
- provide for a review every two years by the Office of the Privacy Commissioner of Canada of the measures taken by FINTRAC to protect the information it receives or collects.

FINTRAC AT A GLANCE

OUR MAIN OBJECTIVE

To facilitate the detection, prevention and deterrence of money laundering and the financing of terrorist activities and other threats to the security of Canada, by making case disclosures of financial intelligence to the appropriate law enforcement agency, CSIS or other agencies within the ambit of the PCMLTFA, while ensuring the protection of the personal information under our control.

OUR LEGISLATION

Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)

OUR PRINCIPAL ACTIVITIES

- Receive and analyze financial transaction reports submitted by reporting entities in accordance with the legislation and regulations, together with information from international and domestic partners and from public sources.
- Research and analyze data from a variety of information sources that shed light on trends and patterns in financial crime.
- Ensure compliance of reporting entities with the legislation and regulations.
- Enhance public awareness and understanding of money laundering and terrorist activity financing.
- Protect the privacy of personal information under our control.



OUR PRINCIPAL PRODUCTS

- Disclosures of financial intelligence pertaining to cases of suspected money laundering, terrorist activity financing and other threats to the security of Canada.
- Macro-analysis and research to support global and domestic strategies against money laundering and terrorist activity financing.
- Enhanced detection and deterrence of money laundering and terrorist activity financing in the financial sector.

OUR RELATIONSHIPS

DOMESTIC:

- Reporting entities, such as banks and other financial institutions and financial intermediaries
- Financial industry associations
- National and provincial financial regulators
- RCMP, provincial and municipal police forces
- Canadian Security Intelligence Service (CSIS)
- Canada Border Services Agency (CBSA)
- Canada Revenue Agency (CRA)
- Department of Finance
- Department of Justice
- Public Safety Canada (PS)
- Foreign Affairs and International Trade Canada (DFAIT)
- Communications Security Establishment (CSE)
- Other government departments such as Privy Council Office, Treasury Board of Canada Secretariat, etc.
- National Coordinating Committee on Organized Crime (NCCOC)
- Canadian Association of Chiefs of Police (CACP)

INTERNATIONAL:

- Foreign financial intelligence units (FIUs)
- The Egmont Group of Financial Intelligence Units
- Other international organizations such as the Financial Action Task Force (FATF), the World Bank (WB), the International Monetary Fund (IMF), the Caribbean Financial Action Task Force (CFATF) and the Asia/Pacific Group on Money Laundering (APG)

RESULTS FOR 2006-07

Delivering High-Quality Financial Intelligence

FINTRAC's 193 case disclosures this year included transactions with a total dollar value of \$9.8 billion, nearly double the value of last year's disclosures. This dramatic increase demonstrates a continuing growth in the scope and complexity of the financial intelligence we produce. Our constantly improving tools and skills, and our increasingly rich database have resulted in our disclosures figuring more and more frequently in investigations and prosecutions.

FINTRAC'S CASE DISCLOSURES FOR 2006-07

- 193 case disclosures
- 152 were for suspected money laundering (ML)
- 33 were for suspected terrorist activity financing (TF) and/or other threats to the security of Canada
- 8 involved both suspected money laundering and suspected terrorist activity financing and/or threats to the security of Canada

On average, each case disclosure involved a total of 458 transactions valued at \$51 million. This is a significant increase over the average of 261 transactions valued at close to \$30 million in 2005-06.

Of note this year is that 16 cases each involved transactions totalling over \$100 million. Of those 16 cases, two involved transactions valued at between \$500 million and \$1 billion and three had a value of more than \$1 billion. These are amounts of unprecedented proportions and show that our ability to detect suspected large-scale international money laundering activity has increased year over year.

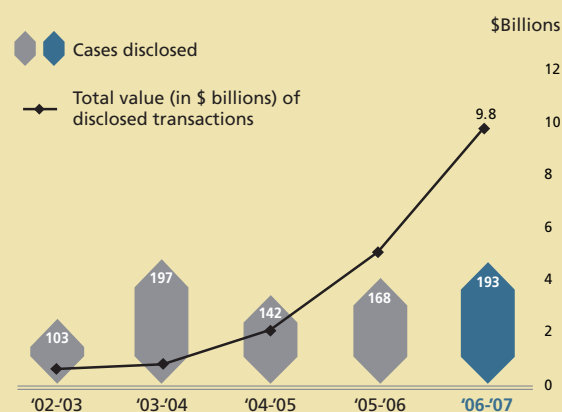
Money launderers and terrorist financiers spread their transactions over many locations—often

Disclosures by Type

Type	Number	Dollar Value (in billions)
Total	193	\$9.8
Money laundering (ML)	152	\$8.0
Terrorist financing (TF)/Threats	33	\$0.2
ML&TF/Threats	8	\$1.6

widely dispersed—to try to conceal their activities. This is reflected in the growing number of case disclosures involving multiple reporting entities. The percentage of case disclosures involving six or more reporting entities has risen steeply over the past four years. This year, 60 per cent of our disclosures were based on reports from six or more entities.

Disclosures and the Value of Financial Transactions

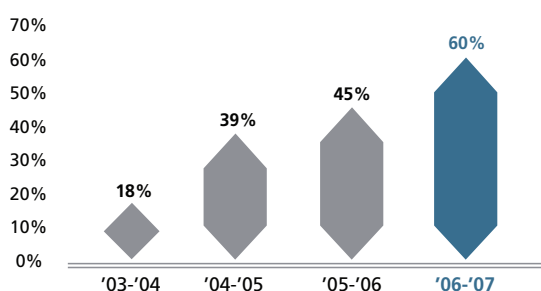


Number of Disclosures by Total Value

	2002-03	2003-04	2004-05	2005-06	2006-07
0 - \$1M	59	123	66	78	69
\$1M - \$10M	38	61	44	61	69
\$10M - \$50M	3	10	22	12	32
\$50M - \$100M	3	2	6	9	7
\$100M - \$500M	0	1	4	5	11
\$500M - \$1B	0	0	0	3	2
\$1B +	0	0	0	0	3
Total Number of Disclosures	103	197	142	168	193

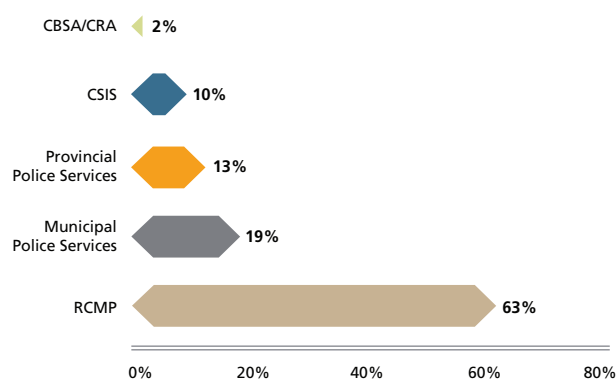
The growth in the size and scope of our case disclosures is the result of a combination of factors. As a deliberate strategy, FINTRAC focused on identifying suspected large-scale money laundering and terrorist activity financing networks, and on deepening its knowledge of money laundering and terrorist financing trends. Increased automation and standardization of analytical processes allowed more experienced and increasingly skilled analysts to sift through and match larger volumes of data with greater speed. As well, with each successive year, our financial information holdings contain more years of data from which to draw.

Percentage of Case Disclosures Involving Six or more Reporting Entities



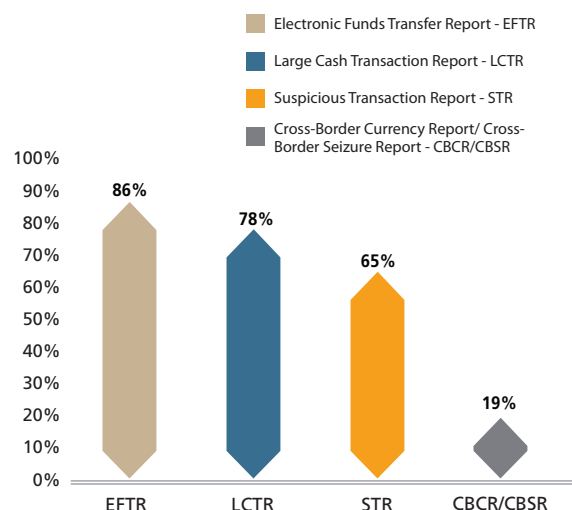
The quality of this information has also continued to improve, with Canadian financial institutions and other financial intermediaries providing us with ever more detailed and extensive reports on suspicious transactions. This strengthens our ability to link the different types of reports to reveal suspicious patterns of financial activity. The large cash transaction reports and suspicious transaction reports we receive from these entities figure prominently in our disclosures.

Distribution of Domestic Case Disclosures



The percentages in this graph do not add to 100 because FINTRAC disclosures are often destined to more than one recipient.

Percentage of Case Disclosures Supported by each Type of Report, 2006-07



The percentages in this graph do not add to 100 because FINTRAC disclosures often contain multiple types of reports.

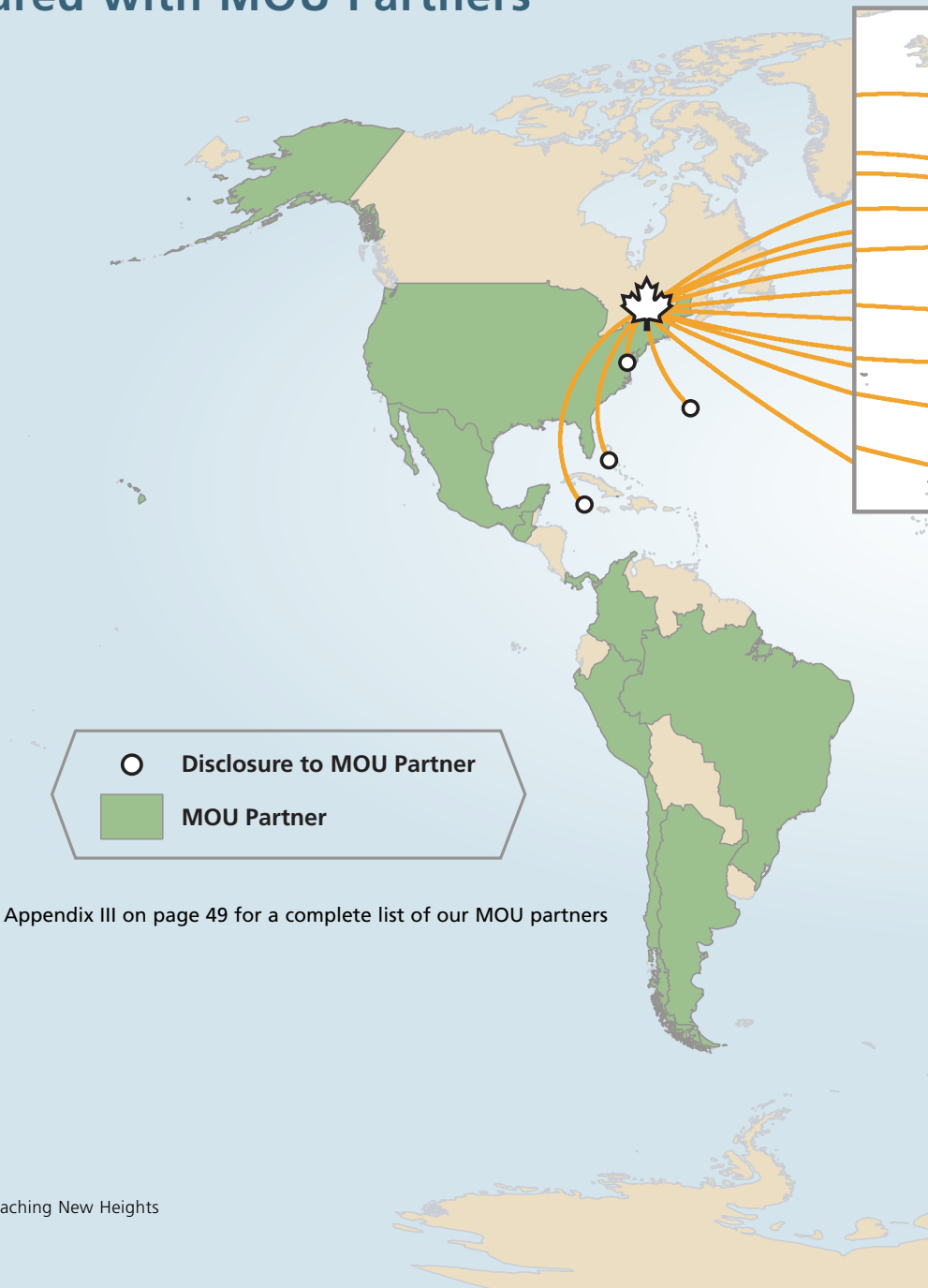
An Effective Financial Intelligence Product

The feedback that we receive from law enforcement and national security agencies provides a clear indication of the impact of our financial intelligence. It shows not only that our disclosures feed into investigations and prosecutions that are already underway, but also that, in an increasing number of instances, they identify completely new cases of suspected money laundering or terrorist financing. Of significance as well is the

fact that close to half of all our disclosures provided our partners with names of individuals previously unknown to them.

Often this is a two-way process. Police and intelligence services provide FINTRAC with information that can help our analysts focus their attention on particular suspect transactions and, as a result, they unearth details producing valuable leads for investigators.

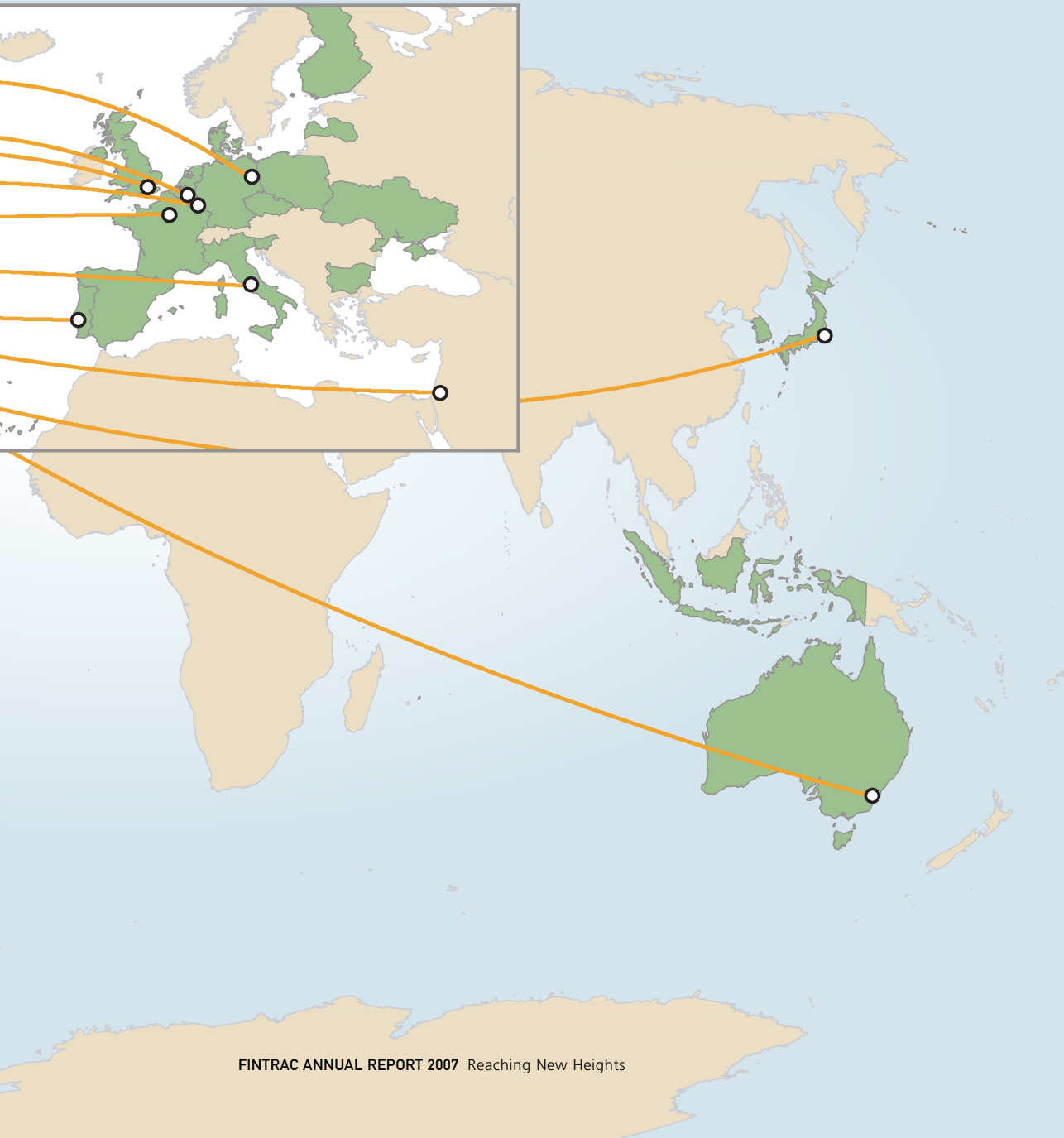
Disclosures Shared with MOU Partners



See Appendix III on page 49 for a complete list of our MOU partners

There is also a growing demand for our product from our international partners. In 2006-07 FINTRAC made 35 case disclosures to 14 foreign FIUs with which we have a memorandum of understanding. In instances where we disclosed information in response to a query from one of our international counterparts, we also sought their permission to disclose this information to relevant domestic partners. This underlines the global

nature of the problem and that all FIUs working together and sharing information makes for a strong international effort against money laundering and terrorist activity financing.



Building a Case for Disclosure

Every day we receive reports of suspicious transactions, and of large cash transactions and international electronic funds transfers of \$10,000 or more, as well as cross-border currency reports and currency seizure reports from the Canada Border Services Agency. We also receive information provided to us voluntarily by law enforcement agencies and CSIS. Our analysts analyze this data and other information to identify patterns of suspect financial activity and to uncover associations among people and businesses linked to the patterns of suspected money laundering and terrorist activity financing.

Based on this analysis, once we determine that there are reasonable grounds to suspect that the information would be relevant to the investigation or prosecution of a money laundering and/or terrorist activity financing offence and/or other threat to the security of Canada, FINTRAC must disclose "designated information" to the appropriate police force or to CSIS. We then develop a formal disclosure package, together with a chart illustrating the movement of the suspected funds and the chief individuals and/or businesses involved. Once FINTRAC

has determined it has reasonable grounds to suspect money laundering or terrorist activity financing, it 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, and/or
- 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, or when the information is also determined to be relevant to certain provisions of the *Immigration and Refugee Protection Act*.

We may also disclose designated information to a foreign financial intelligence unit with which there is a memorandum of understanding, when there are reasonable grounds to suspect that the information would be relevant to the investigation or prosecution of a money laundering or terrorist activity financing offence or a substantially similar offence.

What a FINTRAC Case Disclosure Contains

FINTRAC's case disclosures consist of "designated information" that identifies individuals or entities and their transactions. A disclosure includes any or all of the following:

- Name and address of the 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(s) including the amount and type of currency or monetary instruments involved;
- Transaction, transit and account number(s);
- Name of importer or exporter, in the case of importation or exportation of currency or monetary instruments;
- 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; and
- Publicly available information.

Law enforcement or CSIS may seek to obtain FINTRAC's full case analysis by means of a production order granted by a court. Under Bill C-25, the Canada Revenue Agency can now seek a production order as well, but only in relation to an investigation relevant to a disclosure.

Expanded Designated Information

Under Bill C-25 and related regulations, the designated information that FINTRAC can provide in a case disclosure is to be expanded to include the following:

- Attempted transactions;
- Any person or entity involved in importation or exportation transactions or any person or entity acting on their behalf;
- The name, address, electronic mail address and telephone number of each partner, director or officer of an entity involved in transactions or of an entity acting on their behalf;
- The fact that any persons or entities involved in transactions or a person or entity acting on their behalf have relevant criminal records or have had any relevant criminal charges laid against them;
- Relationships between any persons or entities suspected on reasonable grounds to be involved in transactions or persons or entities acting on their behalf and any other persons or entities;
- The fact that any persons or entities involved in transactions or persons or entities acting on their behalf have a financial interest in the entity on whose behalf the transaction was made;
- The person who FINTRAC suspects on reasonable grounds of directing the suspected money laundering or terrorist financing;
- The grounds on which a person or entity made a suspicious transaction report;
- The number and types of reports on which a disclosure is based;
- The number and categories of persons or entities that made the reports;
- The indicators relied upon by FINTRAC to justify a disclosure;
- The telephone number and electronic mail address of any persons or entities involved in transactions or any person or entity acting on their behalf;
- The telephone number of the place of business where the transaction occurred;
- The type of account involved in a financial transaction; and
- The name and address of all persons authorized to act in respect of the account (signing authority, power of attorney, etc.)

FINTRAC Sanitized Money Laundering Case

This case shows an intricate pattern of linkages between seven individuals and four businesses with suspected ties to organized crime. The majority of individuals and businesses were located in Canada (one business and one individual were located in a foreign country). In building this case, we received numerous suspicious transaction reports (STRs) from reporting entities that provided critical information which enabled us to link the financial activities of the businesses and individuals.

Network 1

FINTRAC received multiple STRs from a financial institution describing the transactional activity of two family members, **Subject 1** and **2**. The reporting entity stated that:

- both individuals were making cash deposits incommensurate with their income;
- both appeared nervous when conducting transactions; and
- shortly after making the cash deposits, bank drafts were made payable to **Company A** with questionable supporting rationale.

In addition to the STRs, FINTRAC received large cash transaction reports (LCTRs) reflecting numerous cash deposits made by **Subject 1** and **2** as well as numerous electronic funds transfers (EFTs) sent from **Company A** to **Company B**, located in a foreign jurisdiction. Our analysis also revealed that **Subject 3**, residing in the foreign jurisdiction, was a director of both **Company A** and **B**, and had a criminal record.

Network 2

Multiple STRs were received from a casino that helped us to uncover the second component of the network, which was largely clustered around the relationships and suspicious financial activities of **Subjects 4, 5 and 6**. The reporting entity noted that all three individuals frequently met and cashed out for large amounts of money with minimal game play.

According to voluntary information FINTRAC received from Canadian law enforcement, **Subject 4** was a suspected member of an organized crime group trafficking in narcotics. He was the director of **Company C**, which sent multiple EFTs to **Company B**.

Subject 5 was a holder of both a joint and a personal account from which bank drafts were made payable to **Company C**.

Subject 6 was the director of **Company D**. Multiple bank drafts from **Company D**'s account were made payable to **Subject 5**'s joint account. Bank drafts from another account held by **Subject 6** were also made payable to the same joint account.

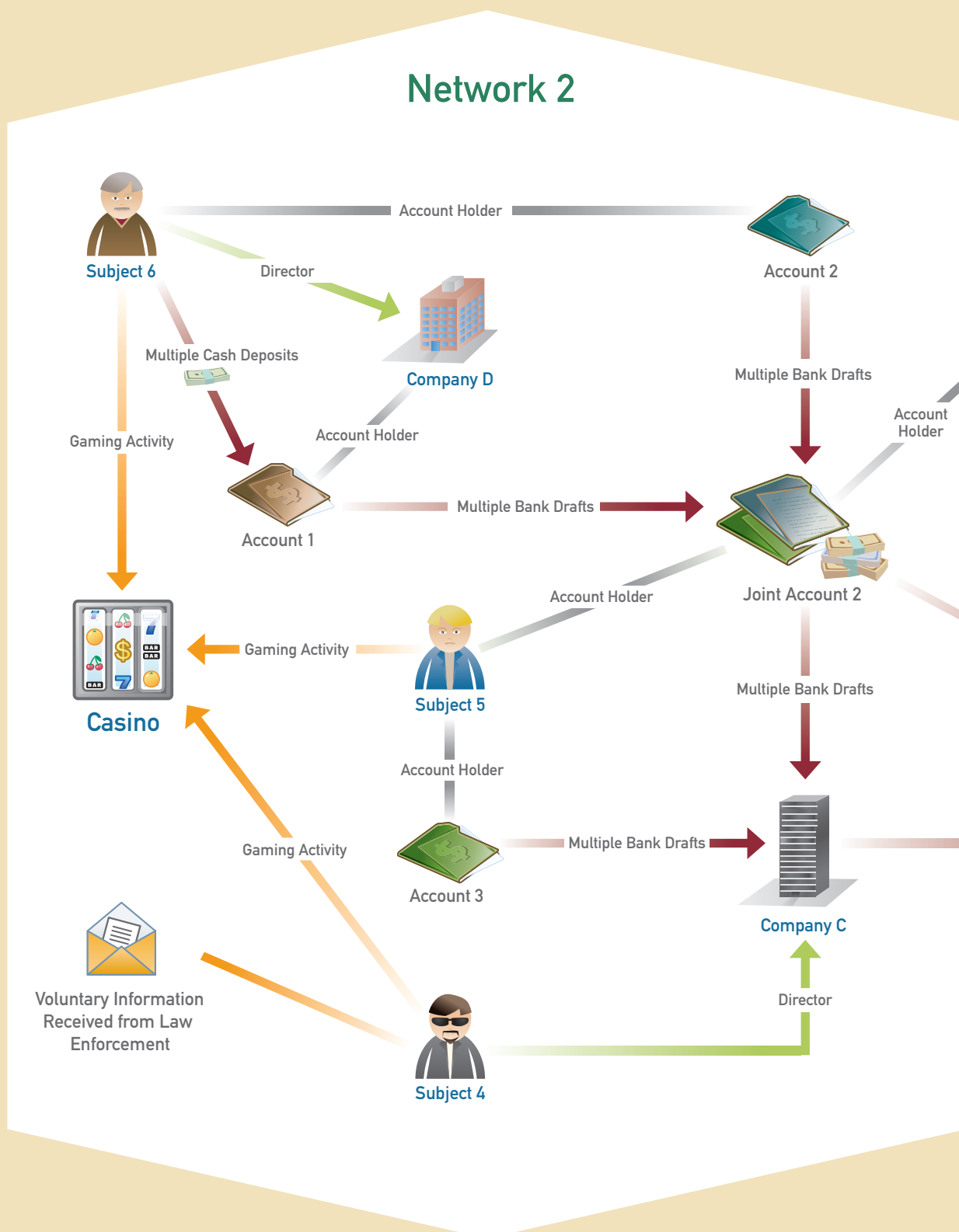
Linking It Together

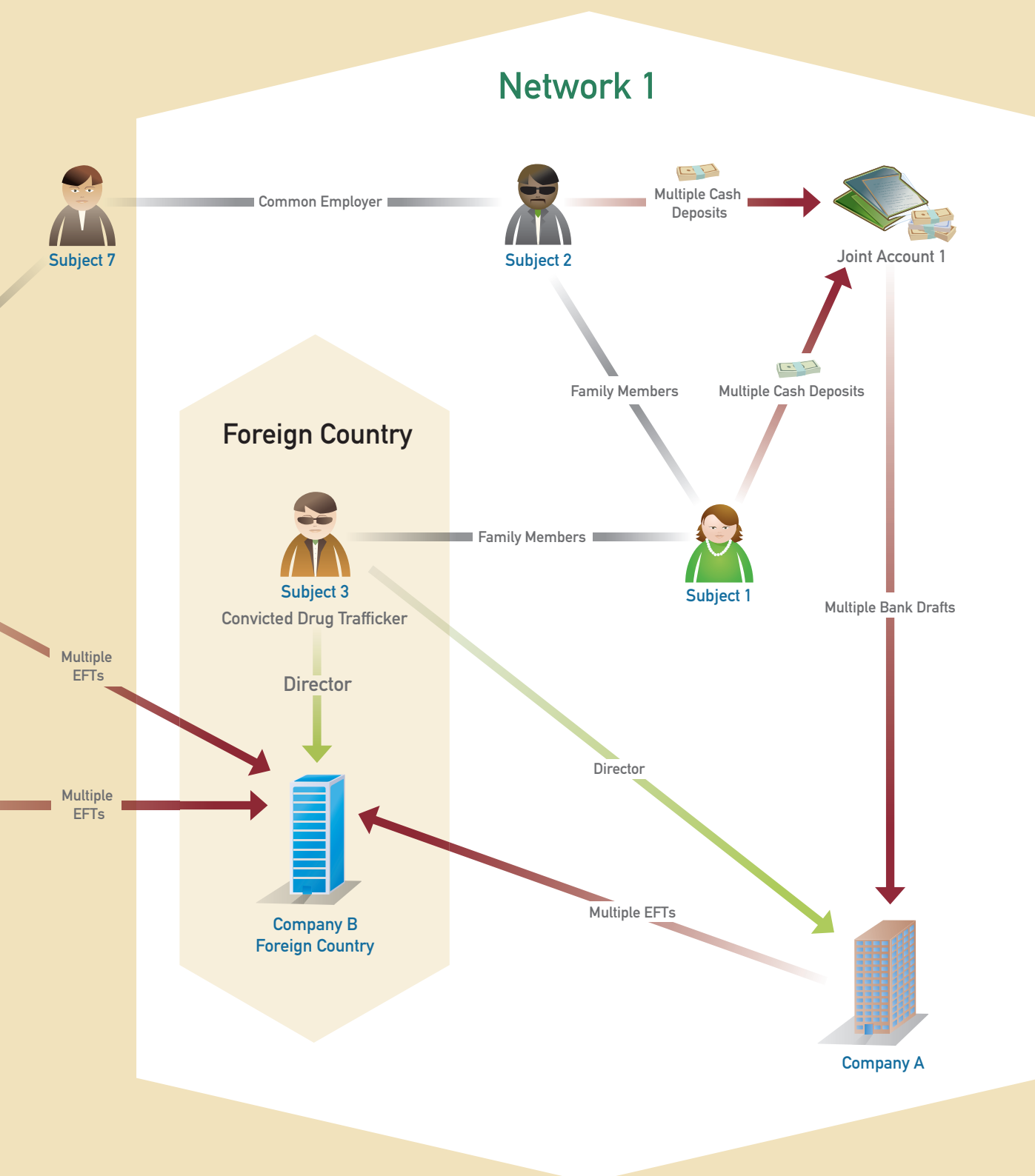
Besides the EFTs sent to **Company B**, the two components of the network were also linked through **Subject 7**, who was a co-holder of the joint account with **Subject 5** and linked to **Subject 2** through a common employer.

In this case, FINTRAC uncovered a suspicious pattern of financial activity typically associated with concealing the source of funds: multiple bank drafts made payable to various accounts in Canada, followed by the electronic transfer of funds to a foreign country.



FINTRAC Sanitized Money Laundering Case





Ensuring Compliance with the PCMLTFA

A robust compliance program is an essential component in any effort to reduce society's vulnerability to money laundering and terrorist activity financing. Good quality financial transaction reports are key to assisting in the detection of money laundering and terrorist activity financing. Good record keeping supports investigations and prosecutions, and scrutiny at the front end, for example when financial institutions request identification from clients, greatly increases deterrence.

ELEMENTS OF FINTRAC'S COMPLIANCE PROGRAM

FINTRAC's compliance program is risk-based and emphasizes the following:

- Cooperation, awareness and outreach
- Examinations to verify compliance
- Disclosures to law enforcement in cases of ongoing non-compliance
- Minimizing regulatory burden

To ensure consistency of interpretation, we created and issued a new FINTRAC Interpretation Notice (FIN), (*Large Cash Transaction and Electronic Funds Transfer Reporting Requirements: Two or More Transactions in a 24-Hour Period*). We continued to develop a national knowledge base for the use of our regional team members, who are the primary point of contact for reporting entities. And we consistently review our compliance policies and procedures.

Ensuring Quality, Timing and Volume Monitoring

Recognizing that good quality information is fundamental to effective analysis, we continued to strengthen our monitoring of the quality, timing and volume of financial transaction reports that reporting entities send to us.

Thanks to these efforts and the willing cooperation of reporting entities, the quality of reports has improved steadily from year to year. In 2006-07, FINTRAC identified over 1,300 instances where reports had to be returned for possible correction by the originator.

Working with Reporting Entities

We view our strong rapport with reporting entities and their associations as key to our success and we work diligently to foster these collaborative and cooperative relationships. This year we extended and enhanced efforts to assist reporting entities in understanding and fulfilling their obligations under the PCMLTFA. We held more than 330 information meetings and seminars, reaching over 14,000 people, and met with selected key sectors that report to FINTRAC.

As a further aid to strengthening our compliance program, FINTRAC and Statistics Canada continued to work together on a sampling exercise to enhance data quality.

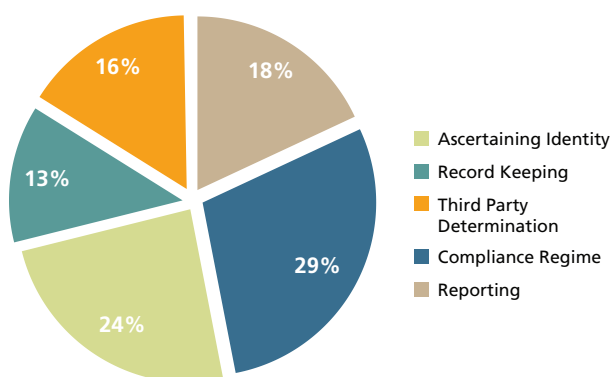
Risk Assessment

We take a risk-based approach to compliance. This is to ensure that our compliance efforts are focussed on those reporting entities and sectors at the greatest risk of not complying with their legal obligations. This past year we developed a single integrated system to guide and monitor our risk assessment program. We also initiated a review of our risk assessment model in order to ensure its effectiveness.

Assessing Compliance through Questionnaires and Examinations

The use of questionnaires is a key tool for us to assess and increase compliance. This year, we sent almost 4,500 questionnaires to reporting entities in real estate, money services businesses, life insurance and accounting. The response rate was 63 per cent.

Deficiencies Identified through Examinations



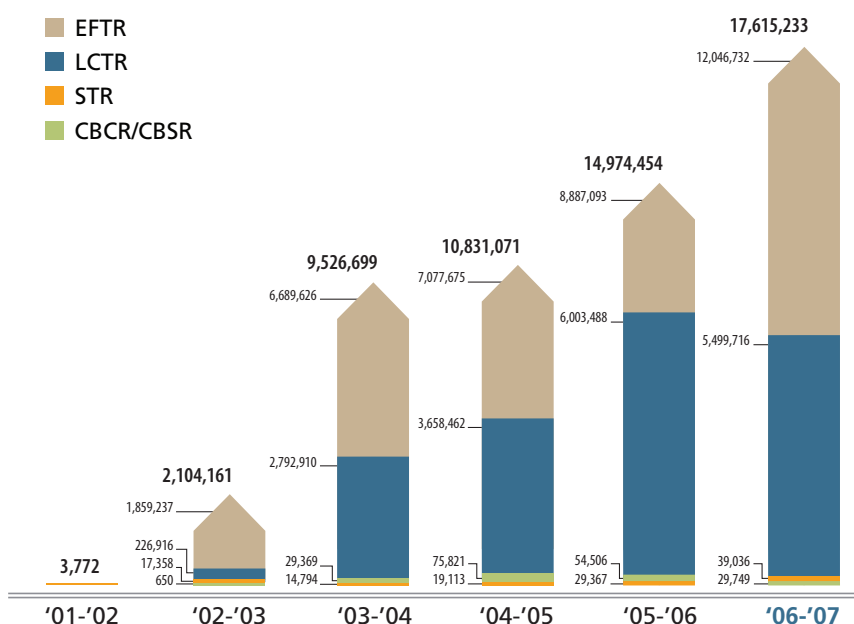
FINTRAC conducted 237 on-site examinations across all reporting sectors (41 more than last year) and our MOU partners conducted a further 189 examinations (93 more than last year). Of the examinations that revealed deficiencies, the average was three per examinee. The deficiencies were of several types: inadequate record keeping, inadequate determination of third party involvement, deficiencies in the entity's overall compliance regime, deficiencies in transaction reporting, and failure to ascertain the client's identity.

When deficiencies are found, a reporting entity must submit an action plan describing how the issues will be addressed.

FINTRAC signed two new MOU during the year, allowing us to share compliance information with regulators, thus enhancing relationships and reducing the regulatory burden on reporting entities. The MOU also allow the regulators and FINTRAC to share information to maximize resource utilization and effectiveness in assisting reporting entities where the need exists.

It is clear from the examinations that the vast majority of reporting entities want to comply with the law and are successful in doing so. However, in the few instances where we find persistent non-compliance, we report these to law enforcement. This year, two cases of non-compliance were disclosed to law enforcement for possible investigation and prosecution. In addition, four cases were disclosed in the first quarter of 2007-08, bringing to 11 the number of such cases since FINTRAC's compliance program came into force in 2004.

Reports Received by Fiscal Year and Type (millions)



What Are Reporting Entities?

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

- 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

Who Must Report

- Financial entities of all types (banks, credit unions, caisses populaires, 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 involved in certain client-related activities such as receiving or paying funds on behalf of a client
- Casinos (except some temporary charity casinos)

What Is Reported

- Suspicious transactions related either to money laundering or to terrorist activity financing regardless of dollar value
- 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
- Cross-border movements of \$10,000 or more in currency or monetary instruments

Strengthening the Regime

Bill C-25 and subsequent amendments to the regulations under the PCMLTFA brought in changes to strengthen and broaden Canada's AML/ATF regime and FINTRAC's ability to ensure compliance, thereby improving the regime's detection and deterrence capacity.

Enhancements include the following:

- Suspicious attempted transactions will now be reportable.
- Correspondent banking relationships will be subject to greater scrutiny.
- Transactions conducted by politically exposed foreign persons will be subject to enhanced monitoring.
- Real estate agents and brokers, as well as accountants, will be required to ascertain their client's identity more frequently.
- All reporting entities will be required to conduct a risk assessment of their activities and establish mitigation measures for those activities deemed to be at higher risk for money laundering and terrorist financing.
- Requirements for non face-to-face client identification requirements will be expanded and strengthened for all sectors.
- Financial institutions that have subsidiaries in non-FATF jurisdictions will be required to apply policies and procedures that are consistent with PCMLTFA requirements.
- Reporting entities will be required to maintain originator information for outgoing international wire transfers.
- Reporting entities will be required to obtain information on the beneficial owners of corporations and other entities.

Administrative Monetary Penalty (AMP)

Establishing an AMP regime will provide FINTRAC with an additional tool to address non-compliance by reporting entities. This will provide a broader range of sanctions for entities failing to comply as well as establishing a level playing field for those entities that have invested in establishing robust compliance regimes.

Money Services Businesses (MSB) Registration

The establishment of a registration system within Canada will assist FINTRAC's compliance function by allowing for the identification of MSBs and facilitating law enforcement's ability to identify illegal operators and take appropriate action. The increased rigour introduced by the registry will serve to make the sector less attractive to potential money launderers and terrorist activity financiers while also ensuring that Canada continues to meet its international obligations under the Financial Action Task Force.

New Sectors

The expansion of certain requirements to four new business and professional sectors will serve to further strengthen Canada's existing anti-money laundering and anti-terrorist financing regime. By bringing in new sectors that have been identified as being at potential risk, the ability for exploitation by money launderers and terrorist financiers is reduced, resulting in increased international confidence in Canada's financial system and institutions as a whole.

Memoranda of Understanding with Canadian Regulators

To facilitate our compliance verification efforts, we have entered into agreements with the following national and provincial regulatory agencies that already have responsibility for, and interest in, ensuring compliance with legislative requirements. This helps to minimize both duplication of effort and the regulatory burden on reporting entities. FINTRAC currently has MOU with the following regulators:

NATIONAL REGULATORS

- Office of the Superintendent of Financial Institutions Canada (OSFI)
- Investment Dealers Association of Canada (IDA)

PROVINCIAL REGULATORS

Alberta

- Alberta Gaming and Liquor Commission (AGLC)

British Columbia

- Financial Institutions Commission of British Columbia (FICOM)
- Gaming Policy and Enforcement Branch (GPEB)

Manitoba

- Credit Union Deposit Guarantee Corporation of Manitoba (CUDGC)

New Brunswick

- Brunswick Credit Union Federation Stabilization Board Limited ("Risk Management Agency" (RMA))
- New Brunswick Department of Justice and Consumer Affairs, Insurance Branch
- Office de stabilisation de la Fédération des caisses populaires acadiennes

Newfoundland and Labrador

- Credit Union Deposit Guarantee Corporation of Newfoundland and Labrador (CUDGC)

Nova Scotia

- Nova Scotia Environment and Labour, Alcohol and Gaming Division
- Nova Scotia Credit Union Deposit Insurance Corporation (NSCUDIC)

Ontario

- Alcohol and Gaming Commission of Ontario (AGCO)
- Deposit Insurance Corporation of Ontario (DICO)

Quebec

- Autorité des marchés financiers (AMF)

Saskatchewan

- Credit Union Deposit Guarantee Corporation
- Saskatchewan Liquor and Gaming Authority (SLGA)

Disseminating Strategic Information

Macro-analysis of our financial intelligence is a key aspect of FINTRAC's work. By looking at aggregated data from disclosures and associated reports, our analysts draw valuable inferences about patterns and typologies of money laundering and terrorist financing. The results of this analysis support further refinement of our analytical process and inform the efforts of our domestic and international partners. They also contribute to policy development.

Trends and Patterns in 2006-07

In 2006-07, we undertook an analysis of our case disclosures and associated transaction reports. Here are some highlights of our findings:

- In contrast to previous years, when most money laundering cases involved suspected drug-related offences, fraud-related predicate offences (e.g. credit and debit card fraud, and telemarketing fraud) were more prevalent in 2006-07.
- Businesses were increasingly involved in drug-related cases (three-quarters, as opposed to half last year). Reflecting our earlier findings, they were also involved in four out of five fraud-related cases.
- Likewise, businesses were frequently involved in terrorist financing cases, where non-profit organizations (NPOs) were involved in 20 per cent of the cases. Individuals associated with these businesses and NPOs often belonged to the same ethno-cultural community or family.
- Organized criminal groups and entities involved in various activities, such as securities fraud and drug trafficking, appeared to use investment and trust businesses (sometimes themselves controlled by criminals) to layer proceeds of crime.
- Smaller money services businesses (MSBs) were also used as intermediaries in money laundering schemes. One method was for small MSBs to deposit cash from suspected criminals in business accounts, and subsequently to issue cheques to larger MSBs, which then sent electronic funds transfers (EFTs) to other countries.
- The most common transactions observed in our 2006-07 case disclosures consisted of EFTs, usually conducted through deposit-taking institutions. MSBs were responsible for conducting a smaller number of EFTs. The next most observed transaction type in our disclosures was large cash deposits into business and personal accounts.
- In addition, "structuring" and "smurfing" continued to be the most observed laundering methods. Typically, the amounts transacted fell just short of the reporting threshold. Equally, seemingly unrelated individuals or groups conducted transactions, such as third party cash deposits, currency exchanges or wires to common beneficiaries on the same day, or at the same time or place.

Emerging Areas of Concern

Criminals and terrorist financiers continue to search for innovative ways to circumvent existing AML/ATF controls. This past year, we have noted the increased involvement of Internet payment systems and white label ATMs in our disclosures.

The user anonymity offered by some Internet payment systems makes them particularly vulnerable to money laundering. These informal remittance systems also function as international person-to-person payment systems, often in parallel to regulated financial and banking channels, making them suitable for layering.

White label ATMs, in contrast to standard bank or credit union ATMs, offer only cash dispensing services. These ATMs can be “self-loaded” with illicit funds, increasing the potential for money laundering. The involvement of organized crime was a key characteristic of disclosure cases involving white label ATMs this year.

In consultation with our partners, FINTRAC will continue to search out and analyze emerging laundering techniques that may have the potential to undermine Canada’s AML/ATF regime.

Sharing our Results with our Partners

In addition to sharing our most recent strategic intelligence and perspectives with law enforcement and intelligence partners, we met requests for high-level analyses from various agencies, including CSIS’s Integrated

Threat Assessment Centre (ITAC) and the Criminal Intelligence Service Ontario (CISO).

Macro-analysis contributed to feedback provided to several reporting sectors, notably banks, credit unions, money services businesses and foreign exchange dealers.

We continued to engage with our international counterparts in various fora aimed at promoting the development and dissemination of strategic intelligence. FINTRAC’s contribution to research at the international level is bolstered by the fact that we are one of several FIUs worldwide that receives reports on international electronic funds transfers. Our ability to analyze such reports enables us to acquire and share important insights into global patterns of money laundering and terrorist activity financing.

In 2006-07, macro-analysis also contributed to the development of policies to meet domestic and international commitments. These included support given to the Department of Finance in preparation for the Financial Action Task Force’s evaluation of Canada’s AML/ATF regime.

ENABLING OUR ANTI-MONEY LAUNDERING AND ANTI-TERRORIST ACTIVITY FINANCING EFFORTS

Investing in Technology

At FINTRAC, technology is part of all our business processes, and effective use of advanced technology is a vital ingredient in every facet of our operations. Increasingly, we are reaping the benefits from our automated analytical tools and information systems that are critical to carrying out our mandate.

FINTRAC uses state-of-the art data capture and mining software tools to comb our databases, looking for evidence of money laundering and terrorist activity financing.

This year, we completed a large-scale project to overhaul our data capture and analysis software. Our goals were to improve the timeliness and quality of the data we receive and to give our analysts better tools to uncover and analyze suspect financial activity. The project was a collaborative undertaking with Australia's financial intelligence unit, AUSTRAC, on an initiative known as Base Mining Technology (BMT).

Leveraging AUSTRAC's intellectual assets in processes and systems, we produced new business and technology solutions. This international collaboration is a hallmark of how financial intelligence units worldwide have been helping each other to improve our collective efforts in common cause against money launderers and terrorist financiers.

The impact of BMT on our operations has been sweeping. It has enabled us to streamline our business processes and create a new set of information technology foundation products and services. In particular, it has helped us to improve significantly the timeliness and quality of the data we receive from reporting entities. As a result, such data is now ready for analysis in close to real time.

We have been very encouraged by the degree of international interest in FINTRAC. Since September 2006, we have had eight visits from international colleagues, including a World Bank delegation with representatives from 11 jurisdictions, many with fledgling FIUs. More visits are on the horizon and it should be noted that every visit includes a review of some aspect of the results of the BMT project.

Other initiatives, similarly aimed at increasing FINTRAC's analysis capabilities, included the implementation of a suite of applications that facilitate tactical analysis to build and modify case disclosures.

Contributing to Domestic Anti-Money Laundering and Anti-Terrorist Activity Financing Efforts

FINTRAC is one of a large cast of federal departments and agencies who work together with municipal and provincial police forces in support of Canada's anti money laundering and anti-terrorist activity financing regime. Being an effective player in this endeavour means forging and developing strong working relationships with all our partners. We have continued to do so at both operational and policy levels through the sharing of information and expertise.

Collecting and Providing Feedback

For our part, it is important that we receive regular feedback from our partners, whether they be reporting entities from which we receive information, or law enforcement and national security agencies to whom we provide financial intelligence.

FINTRAC held sessions in several major cities to promote understanding of its operations and to educate partners about its mandate. These sessions were also an opportunity for FINTRAC to obtain insight into the issues of interest to key partners and to discuss how we might assist them further. We also participated in interdepartmental committees and working groups related to organized crime, money laundering and terrorist activity financing with entities such as the National Coordinating Committee on Organized Crime and the Canadian Association of Chiefs of Police.

Commissions, Reviews and Inquiries

A major initiative this past year was the parliamentary review of our legislation and the subsequent development of Bill C-25, which strengthened and broadened our governing legislation. FINTRAC provided support to the Department of Finance in developing both the amendments and the regulations associated with the legislative changes, and we continue to play a major role in preparing to implement the changes.

In the last year, FINTRAC was also called upon to participate in the review of the *Anti-terrorism Act*, as well as in the O'Connor Commission and the Air India Inquiry. In these initiatives, we provided documentation and background information on FINTRAC's mandate and operations.

Supporting the Global Fight Against Money Laundering and Terrorist Activity Financing

Money laundering and terrorist activity financing are transnational in scope, and therefore strong and sustained international cooperation and leadership are essential to combat them. That is why FINTRAC places a high priority on information exchange and on working with international partners.

The Egmont Group—Closing the Gaps

The Egmont Group is an international organization of more than 100 FIUs dedicated to information exchange, and to assisting FIUs worldwide to improve their operations. FINTRAC benefited from this assistance in its first few years. Now, as a well-established FIU, we are able to make a contribution in return; for example, when we chair both Egmont's Information Technology Working Group and the Funding and Administration Sub-committee.

Last year, FINTRAC's Director became the Vice-Chair of the Egmont Committee, the organization's steering group, and chaired the Egmont Transition Sub-committee, whose aim was to establish a permanent Secretariat for Egmont.

FINTRAC was pleased that Egmont selected Toronto as the home of its permanent Secretariat. The federal government provided seed money to establish the Secretariat and to have it staffed during the summer of 2007.

During the year, FINTRAC participated in Egmont Group meetings held in Cyprus, Poland, Liechtenstein and the United States.

Financial Action Task Force

Another key mechanism in the fight against money laundering is the international Financial Action Task Force, which was established to develop and promote policies, both at national and international levels, and to combat money laundering and terrorist activity financing.

Notably, 2006 was the year in which Canada assumed the one-year rotating presidency of the FATF. And early in 2007, Canada began to undergo an evaluation by the FATF. The Mutual Evaluation is expected to culminate in a report early in 2008.

FINTRAC also works on the international front by contributing to the efforts of the Caribbean Financial Action Task Force (CFATF) and the Asia/Pacific Group on Money Laundering.

Financial Intelligence Units—Working Together

This year, FINTRAC broadened its international links by signing 15 new MOU with foreign counterparts, now allowing FINTRAC to query and disclose information to a total of 45 FIUs. We built and enhanced our operational relationships by conducting outreach visits and receiving delegations, and by providing assistance to many FIUs at various stages of their development. Throughout the year, FINTRAC was also an active participant in various multilateral fora.

Meeting our Communications Mandate

The aim of FINTRAC's communication activities is to inform the Government of Canada, the Canadian public and other stakeholders on matters relating to money laundering and terrorist activity financing, and to assist reporting entities in fulfilling their obligations.

Reporting to Parliament

The Annual Report, tabled in Parliament by the Minister of Finance and widely distributed in hard copy to our partners both domestically and internationally, describes our activities and achievements, and sets out our goals for the next fiscal year. It is also made available through our Web site.

In the 2006-07 fiscal year, we made five presentations to parliamentary committees, in which we accounted to Parliament for our results and explained our processes and operations. These included a presentation to parliamentarians on the process by which we build a case.

As part of our outreach to reporting entities, we made presentations and held seminars and meetings across the country, reaching over 14,000 stakeholders.

Web Site

Visits to FINTRAC's Web site increased to 662,738 this year. Reporting entities in particular find the site useful because it provides them with valuable tools and information.

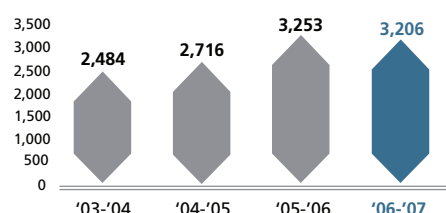
We have made several enhancements to the site's contents. These include a series of publications made available for specific

reporting entity sectors to provide feedback on transaction reports submitted to FINTRAC. We have also posted sanitized money laundering cases as illustrations of the way reported data leads to the connection of suspicious money movements, and eventually to case disclosures.

Toll-free Information Service (1-866-FINTRAC)

This year, our bilingual information officers answered 3,206 enquiries from reporting entities and individuals. The service is available within Canada, Monday to Friday from 8 a.m. to 8 p.m., and provides information on FINTRAC and its operations.

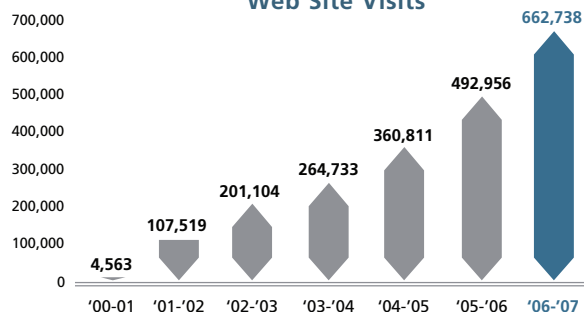
Toll-free Telephone Enquiries



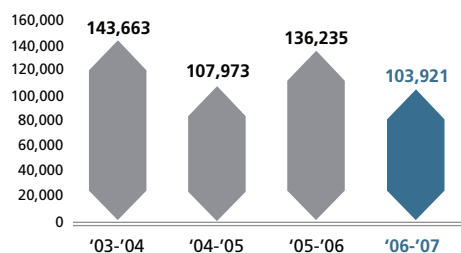
Printed Information

During this fiscal year, we printed and distributed 103,921 pamphlets and other materials to reporting entities, other stakeholders and the public.

Web Site Visits



Publications Distributed



Public Opinion Research

In 2006, FINTRAC conducted public opinion research to measure public awareness and understanding of money laundering and terrorist activity financing in Canada. The results were as follows:

MONEY LAUNDERING (ML)

Have some understanding of ML	90%
Believe ML is a problem	49%
Believe ML affects them personally	41%
Believe ML has an impact on the economy	83%
Believe ML has an impact on financial institutions	79%

TERRORIST ACTIVITY FINANCING

Believe terrorist financing occurs in Canada	81%
Believe such activity is supported by crime	31%
Believe such activity is supported by donations	10%
Believe such activity is supported by business	8%

When FINTRAC surveyed Canadians on the types of criminal activity they associated with money laundering, 56% said drug trafficking, 25% said organized crime and 16% said fraud.

Public awareness of money laundering in Canada will benefit FINTRAC's efforts to detect and deter this criminal activity. Greater awareness of money laundering and terrorist activity financing will allow suspicious transactions to be recognized at the point of transaction and properly reported to FINTRAC.

Maintaining Organizational Excellence

FINTRAC is, above all, an organization that depends on the intellectual capital of its workforce. Our priority is to create a work environment that encourages a high standard of commitment, creativity and performance.

FINTRAC'S WORKFORCE

- 264 employees
- Average age of 38
- 50% female
- 17% visible minorities
- 55% have a private sector background
- 45% have a public sector background

During 2006-07, FINTRAC devoted considerable energy to preparing for legislative and regulatory change while continuing to ensure a high level of operational performance. We were able to meet these challenges successfully largely because of our dynamic, highly skilled workforce, and an effective corporate planning and management framework.

Operational Planning

Also during this year, we worked to strengthen our corporate systems for managing and reporting on FINTRAC's performance. Through an agency-wide operational planning exercise, we revised the processes by which our resources are allocated to activities, and linked to results and priorities. This exercise provided us with an even stronger accountability framework to ensure that we can fully demonstrate our efficiency and effectiveness to Parliament, and to Canadians.

People and Performance

In the past year, we maintained a strong focus on human resource issues. In the Federal Budget 2006 FINTRAC received increased funding to expand our operations and our IT/IM capabilities and to prepare for a range of new demands anticipated by Bill C-25. To meet the demands of a continued expansion of our operations, we undertook an intensive recruitment effort, increasing the number of full-time employees by some 25 per cent. We have likewise invested heavily in on-the-job learning initiatives and other training events, including leadership training for existing and prospective managers. We have also introduced Campusdirect, an on-line tool which provides a wide array of bilingual self-directed learning resources to all our employees.

Our compensation system promotes skill development and encourages excellent performance. We constantly review our compensation strategies, and have made significant improvements in the past year to ensure we remain competitive with private and public sector employers.

To create an integrated, forward-looking organization that embraces continuous learning and organizational health, we introduced a corporate orientation program as well as personnel wellness workshops to assist and support employees in achieving balance between work and personal commitments.

Protecting Personal Information

The Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA), the Access to Information and Privacy Act and the Canadian Charter of Rights and Freedoms provide the framework for the protection of personal information entrusted to FINTRAC. Our security measures are rigorous and they address all areas of our operations, including the physical environment, personnel, and the safeguarding of information.

The PCMLTFA sets out the limitations on the information FINTRAC can receive and disclose. It requires that FINTRAC act at arm's length from law enforcement and other departments and agencies to which it discloses information. The PCMLTFA further specifies that reports and information received or collected by FINTRAC must be destroyed within a specified period.

All of FINTRAC's employees undergo reliability screening and must have a high security clearance. Our employees receive ongoing training on their responsibilities regarding the protection of personal information entrusted to FINTRAC.

FINTRAC's physical environment has a rigorous and integrated security program to protect against unauthorized access to facilities.

Internal electronic systems used for our analytical functions are not accessible through the Internet and no one outside FINTRAC has access to our databases. Internally, access to our databases is limited to those employees whose functions make access essential, and who have the appropriate security clearance.

Access to facilities and information is controlled and monitored by authentication and biometric software. Sophisticated perimeter defence technologies, such as firewalls and intrusion detection monitoring, are in place to further protect our systems from unauthorized access.

We are building a comprehensive business continuity plan to ensure FINTRAC's ability to continue its critical functions, including the protection of personal information, in the event of an emergency. This plan will be effective whether the emergency is temporary and localized (as with a power outage) or longer term and widespread.

Our standard risk management tools such as threat and risk assessments and privacy impact assessments ensure that our systems and processes meet or exceed government standards. We continually review our security policy to ensure that it remains consistent with the overall Government Security Policy and Management of Information Technology Security standard established by the Treasury Board.

PCMLTFA amendments that came into force in February 2007 include a provision for a review of FINTRAC's privacy protection measures by the Privacy Commissioner every two years. The expertise of the Office of the Privacy Commissioner (OPC) will help us to ensure the continued protection of personal information. We met with the OPC to begin the review process, which will be undertaken in 2007-08.

PRIORITIES FOR 2007-08



FINTRAC'S PRIORITIES FOR 2007-08

- Deliver timely and high-quality financial intelligence to law enforcement, security and intelligence agencies and foreign financial intelligence units.
- Ensure compliance with the PCMLTFA.
- Disseminate strategic information on money laundering and terrorist activity financing to partners, stakeholders and the general public.

Deliver Timely and High-Quality Financial Intelligence to Law Enforcement, Security and Intelligence Agencies and Foreign Financial Intelligence Units

ANTICIPATED RESULT: Financial intelligence analyses and case disclosures that are widely accepted by law enforcement, security and intelligence agencies, and by foreign financial intelligence units, and which are used in investigations.

Bill C-25 amendments will allow FINTRAC to disclose additional information to law enforcement and security agencies, and will extend disclosures to a wider range of recipients. This will further enhance the value of our financial intelligence. Changes to our disclosure procedures will reflect the new provisions while continuing to maintain the highest standards of privacy protection and information security.

We will be implementing a workbench of tools designed to strengthen FINTRAC's tactical analysis. By providing additional support for all stages of case management, from initial analysis through to disclosure, these tools promise to increase further our quality and efficiency in producing financial intelligence.

Ensure Compliance with the PCMLTFA

ANTICIPATED RESULT: More robust detection and deterrence of non-compliance to increase compliance with the law by reporting entities. Our risk-based compliance program will comprise awareness activities, monitoring of data quality, compliance questionnaires and examinations, and taking appropriate remedial action when non-compliance is detected.

We are also preparing to implement changes brought about by Bill C-25 and related regulatory amendments. These include the addition of several new sectors and a registry of money services businesses, for which FINTRAC will act as registrar. In this capacity, FINTRAC will be responsible for accepting, verifying, approving or denying applications for registration. In addition, FINTRAC will be responsible for maintaining the registry information and for ensuring compliance. This will assist in identifying the businesses that operate in the sector.

We will work towards establishing the Administrative Monetary Penalty (AMP) regime. This regime will allow FINTRAC greater flexibility to impose graduated and proportional penalties for compliance infractions.

To make our compliance program even more comprehensive and effective, we are enhancing the tools available to support our compliance function. Our objective is an integrated foundation for managing all compliance-related information such as inputs, searches and analyses.

Disseminate Strategic Information on Money Laundering and Terrorist Activity Financing to Partners, Stakeholders, and the General Public

ANTICIPATED RESULT: Enhance awareness and understanding of money laundering and the financing of terrorist activity by providing strategic intelligence, advice and analysis, which then informs the development of effective Canadian and multilateral counter-strategies.

FINTRAC will extend the depth and breadth of the strategic intelligence that it produces both for its key stakeholders and for internal use. Through continued investment in technology, we will develop the means to enhance our analyses of trends, patterns and typologies in suspicious money movements.

We will work closely with domestic law enforcement and intelligence agencies, and with other partners, both domestic and international, to tailor our products more closely to their priorities and information requirements. We will continue to collect feedback from them on the usefulness of those products.

As part of FINTRAC's mandated responsibility to increase awareness of money laundering, we plan to make significant enhancements to our Web site and to continue to use publications, presentations and other media to reach our partners and the public.

The background of the entire page is a dark, grayscale image of a 100 Canadian dollar bill. The bill is oriented vertically, with the top of the page showing the upper portion of the currency. The intricate patterns, including the portrait of Queen Elizabeth II and the '100' denomination, are visible but faded into the dark background.

APPENDIX I

FINANCIAL STATEMENTS

FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS
CENTRE OF CANADA (FINTRAC)

Unaudited

For the Year Ended March 31, 2007

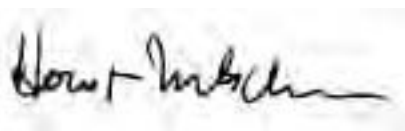
MANAGEMENT RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2007 and all information contained in these statements rests with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) management. These financial statements have been prepared in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of FINTRAC's financial transactions. Financial information submitted to the *Public Accounts of Canada* and included in FINTRAC's *Departmental Performance Report* is consistent with these financial statements.

Management maintains a system of financial management and internal control designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are in accordance with the *Financial Administration Act*, are executed in accordance with prescribed regulations, within Parliamentary authorities, and are properly recorded to maintain accountability of Government funds. Management also seeks to ensure the objectivity and integrity of data in its financial statements by careful selection, training and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, and by communication programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout FINTRAC.

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



Horst Intscher
Director
FINTRAC
Ottawa, Canada



Alfred Tsang
A/Senior Financial Officer
FINTRAC
Ottawa, Canada

STATEMENT OF OPERATIONS (UNAUDITED)

For the year ended March 31, 2007

(In dollars)	2007	2006
Operating Expenses		
Salaries and employee benefits	\$24,227,064	\$19,776,933
Repairs and maintenance	2,989,222	2,122,319
Accommodations	2,795,981	2,616,843
Professional and special services	2,619,624	2,106,956
Amortization of tangible capital assets	2,297,119	3,297,513
Machinery and equipment	1,906,387	360,527
Travel and relocation	1,427,872	1,064,808
Telecommunication services	775,969	735,104
Utilities, materials and supplies	408,363	407,998
Communication services	310,368	253,064
Other expenditures	3,563	70,916
Loss on disposal and write-down of tangible capital assets	-	326,199
Net Cost of Operations	\$39,761,532	\$33,139,180

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

STATEMENT OF FINANCIAL POSITION (UNAUDITED)

At March 31, 2007

(In dollars)	2007	2006
Assets		
Financial assets		
Accounts receivable and advances (Note 4)	\$404,978	\$71,773
Non-financial assets		
Prepaid expenses	25,925	70,353
Tangible capital assets (Note 5)	15,708,203	13,381,193
	15,734,128	13,451,546
Total Assets	\$16,139,106	\$13,523,319
Liabilities and Equity of Canada		
Liabilities		
Accounts payable and accrued liabilities	\$6,402,257	\$2,890,544
Vacation pay and compensatory leave	1,045,888	785,579
Employee severance benefits (Note 6)	4,690,581	4,017,978
	12,138,726	7,694,101
Equity of Canada	4,000,380	5,829,218
Total Liabilities and Equity of Canada	\$16,139,106	\$13,523,319

Contractual obligations (Note 7)

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

STATEMENT OF EQUITY OF CANADA (UNAUDITED)

At March 31, 2007

(In dollars)	2007	2006
Equity of Canada, Beginning of Year	\$5,829,218	\$3,941,212
Net cost of operations	(39,761,532)	(33,139,180)
Current year appropriations used (note 3)	39,419,959	32,360,449
Refund of previous year expenditures	(107,216)	(80,333)
Change in net position in the Consolidated Revenue Fund (note 3)	(2,764,071)	1,527,420
Services received without charge from other government departments (Note 8)	1,384,022	1,219,650
Equity of Canada, End of Year	\$4,000,380	\$5,829,218

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

STATEMENT OF CASH FLOW (UNAUDITED)

For the year ended March 31, 2007

(In dollars)	2007	2006
Operating Activities		
Net cost of operations	\$39,761,532	\$33,139,180
Non-cash items:		
Amortization of tangible capital assets (note 5)	(2,297,119)	(3,297,513)
Loss on disposal and write-down of tangible capital assets	-	(326,199)
Services provided without charge by other government departments (note 8)	(1,384,022)	(1,219,650)
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	333,205	(376,132)
Increase (decrease) in prepaid expenses	(44,428)	(19,205)
Decrease (increase) in accounts payable and accrued liabilities	(3,511,713)	1,488,046
Decrease (increase) in vacation pay and compensatory leave	(260,309)	(35,986)
Decrease (increase) in employee severance benefits	(672,603)	(73,412)
Cash used by operating activities	31,924,543	29,279,129
Capital Investment Activities		
Acquisitions of tangible capital assets (note 5)	4,624,129	4,528,407
Financing Activities		
Net cash provided by government	\$36,548,672	\$33,807,536

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

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31, 2007

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, and assessing financial information and, where appropriate, disclosing information relevant to the investigation and prosecution of money laundering offences and the financing of terrorist activities.

FINTRAC's strategic outcome is "Financial Intelligence that contributes to the detection and deterrence of money laundering and terrorist activity financing in Canada and abroad" with one program being "Collection, Analysis and Dissemination of Financial Information".

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

Significant accounting policies are as follows:

(a) Parliamentary appropriations

FINTRAC is financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to FINTRAC do not parallel financial reporting according to Canadian 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 3 provides a high-level reconciliation between the bases of reporting.

(b) Net cash provided by Government

FINTRAC operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by FINTRAC is deposited to the CRF and all cash disbursements made by FINTRAC are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the Federal Government.

(c) Consolidated Revenue Fund

Change in net position in the Consolidated Revenue Fund is the difference between the net cash provided by Government and appropriations used in a year. It results from timing differences between when a transaction affects appropriations and when it is processed through the CRF.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31, 2007

(d) Expenses

Expenses are recorded on an accrual basis:

- Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment.
- Services provided without charge by other government departments for employer's contributions to the health and dental insurance plans are recorded as operating expenses at their estimated cost.
- Legal fees incurred and paid by FINTRAC to Justice Canada are recorded as operating expenses in these financial statements.

(e) Employee future benefits

- i. Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multi-employer plan administered by the Government of Canada. FINTRAC's contributions to the Plan are charged to expenses in the year incurred and represent the total of FINTRAC's obligation to the Plan. Current legislation does not require the Centre to make contributions for any actuarial deficiencies of the Plan.
- ii. Severance benefits: Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

(f) Accounts receivable and advances

Accounts receivable are stated at amounts expected to be ultimately realized; a provision is made for receivables where recovery is considered uncertain.

(g) Contingent liabilities

Contingent liabilities are potential liabilities which 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. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

(h) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of \$5,000 or more are recorded at their acquisition cost. FINTRAC does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian Reserves and museum collections. Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the tangible capital asset as follows:

Asset Class	Amortization Period
Machinery and equipment	5 years
Informatics hardware	3 to 5 years
Informatics software	3 to 5 years
Other equipment, including furniture	3 to 10 years
Leasehold improvements	Lesser of remaining lease term and 10 years
Work in progress	Once in service in accordance to asset type

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31, 2007

(i) Measurement uncertainty

The preparation of these financial statements in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities 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 items where estimates are used are contingent liabilities, the liability for employee severance benefits and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

3. Parliamentary appropriations

FINTRAC receives most of its funding through annual Parliamentary appropriations. Items recognized in the Statement of Operations and the Statement of Financial Position in one year may be funded through Parliamentary appropriations in prior, current or future years. Accordingly, FINTRAC has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

(a) Reconciliation of net cost of operations to current year appropriations used:

(In dollars)	2007	2006
Net cost of operations	\$39,761,532	\$33,139,180
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Services provided without charge by other government departments	(1,384,022)	(1,219,650)
Amortization of tangible capital assets	(2,297,119)	(3,297,513)
Gain (loss) on disposal and write-down of tangible capital assets	-	(326,199)
Legal fees paid to Justice Canada	(414,437)	(415,506)
Refund of previous year expenditures	107,216	80,333
Increase in vacation pay and compensatory leave liability	(260,309)	(35,986)
Increase in employee severance benefits liability	(672,603)	(73,412)
	(4,921,274)	(5,287,933)
Adjustments for items not affecting net cost of operations but affecting appropriations:		
Add (Less):		
Acquisitions of tangible capital assets	4,624,129	4,528,407
Increase (decrease) in prepaid expenses	(44,428)	(19,205)
Current year appropriations used	\$39,419,959	\$32,360,449

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31, 2007

(b) Appropriations provided and used:

(In dollars)	2007	2006
Appropriations provided:		
Vote 30 – Operating expenditures	28,110,000	27,663,000
Vote 30a – Supplementary	8,990,349	-
Vote 5 – Transfer from Treasury Board	-	3,236,875
Vote 15 – Transfer from Treasury Board	7,000	-
Statutory amounts	3,155,680	3,082,784
Less: Lapsed appropriations – Operating	(843,070)	(1,622,210)
Current year appropriations used	\$39,419,959	\$32,360,449

c) Reconciliation of net cash provided by Government to current year appropriations used:

(In dollars)	2007	2006
Net cash provided by Government	\$36,548,672	\$33,807,536
Revenue not available for spending	107,216	80,333
Change in net position in the Consolidated Revenue Fund		
Variation in accounts receivable and advances	(333,205)	376,132
Variation in accounts payable and accrued liabilities	3,511,713	(1,488,046)
Legal fees paid to Justice Canada	(414,437)	(415,506)
	2,764,071	(1,527,420)
Current year appropriations used	\$39,419,959	\$32,360,449

4. Accounts receivable and advances

(In dollars)	2007	2006
Receivables from other federal government departments and agencies	\$346,535	\$60,743
Receivables from external parties	52,693	5,280
Employee advances	5,750	5,750
	\$404,978	\$71,773

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31, 2007

5. Tangible capital assets

(In dollars)		Cost		
	Opening balance	Acquisitions	Disposals and write-offs	Closing balance
Machinery and equipment	\$633,102	\$104,883	-	\$737,985
Informatics hardware	13,500,172	3,514,709	-	17,014,881
Informatics software	9,334,173	5,779,822	-	15,113,995
Other equipment, including furniture	3,400,783	34,281	-	3,435,064
Leasehold improvements	5,714,194	106,638	-	5,820,832
Work in progress	4,916,204	(4,916,204)	-	
	\$37,498,628	\$4,624,129	-	\$42,122,757

(In dollars)		Accumulated amortization		
	Opening balance	Amortization	Disposals and write-offs	Closing balance
Machinery and equipment	\$540,718	\$70,902	-	\$611,620
Informatics hardware	12,453,573	353,305	-	12,806,878
Informatics software	7,665,753	1,060,482	-	8,726,235
Other equipment, including furniture	1,592,523	286,586	-	1,879,109
Leasehold improvements	1,864,868	525,844	-	2,390,712
	\$24,117,435	\$2,297,119	-	\$26,414,554

(In dollars)		Net book value		
			2006	2007
Machinery and equipment			\$92,384	\$126,365
Informatics hardware			1,046,599	4,208,003
Informatics software			1,668,420	6,387,760
Other equipment, including furniture			1,808,260	1,555,955
Leasehold improvements			3,849,326	3,430,120
Work in progress			4,916,204	-
			\$13,381,193	\$15,708,203

Amortization expense for the year ended March 31, 2007 is \$2,297,119 (\$3,297,513 in 2006)

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31, 2007

6. Employee benefits

(a) Pension benefits:

FINTRAC's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of two per cent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to inflation.

Both the employees and the department contribute to the cost of the Plan. The 2006-07 expense amounts to \$2,696,580 (\$2,774,505 in 2005-06), which represents approximately 2.2 times (2.6 times in 2005-06) the contributions made by employees.

FINTRAC's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

(b) Severance benefits:

FINTRAC provides severance benefits to its employees based on eligibility, years of service and final salary as per Treasury Board policy. These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, 2007 is as follows:

(In dollars)	2007	2006
Employee severance benefit liability, beginning of year	\$4,017,978	\$3,944,566
Expense for the year	922,665	412,060
Benefits paid during the year	(250,062)	(338,648)
Employee severance benefit liability, end of year	\$4,690,581	\$4,017,978

7. Contractual obligations

The nature of FINTRAC's activities can result in some large multi-year contracts and obligations whereby FINTRAC will be obligated to make future payments when the services are received. FINTRAC has entered into lease agreements with Public Works and Government Services Canada for office space in five locations across Canada. The minimum aggregate annual payments for future fiscal years are as follows:

(In thousands of dollars)	
2007-2008	\$2,963
2008-2009	1,236
2009-2010 and thereafter	-
	\$4,199

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

For the year ended March 31, 2007

8. Related party transactions

FINTRAC is related as a result 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. Also, during the year, FINTRAC received services which were obtained without charge from other Government departments as presented below.

(a) Services provided without charge:

During the year FINTRAC received without charge from other departments the employer's contribution to the health and dental insurance plans in the amount of \$1,384,022 (\$1,219,650 in 2005-06). The Government has structured some of its administrative activities for efficiency and cost-effectiveness purposes so that one department performs these on behalf of all without charge. The costs of these services, which include payroll and cheque issuance services provided by Public Works and Government Services Canada and audit services provided by the Office of the Auditor General, are not included as an expense in FINTRAC's Statement of Operations.

(b) Payables and receivables outstanding at year-end with related parties:

(In dollars)	2007	2006
Accounts receivable with other government departments and agencies	\$346,535	\$60,743
Accounts payable to other government departments and agencies	\$644,828	\$175,606

9. Comparative information

Comparative figures have been reclassified to conform to current year's presentation.

APPENDIX II

GLOSSARY OF TERMS AND ACRONYMS

Canada Border Services Agency (CBSA)

A federal government agency responsible for providing integrated border services that support national security priorities and facilitate the free flow of persons and goods, including animals and plants, which meet all requirements under the program legislation. www.cbsa.gc.ca

Canada Revenue Agency (CRA)

A federal government agency that administers tax laws for the Government of Canada and for most provinces and territories, as well as various social and economic benefit and incentive programs delivered through the tax system. www.cra.gc.ca

Canadian Security Intelligence Service (CSIS)

Canada's national security agency that has the mandate to investigate and report on threats to the security of Canada. www.csis.gc.ca

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 (CBSR)

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

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

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 \$10,000 or more out of or into Canada in a single transaction or in two or more transactions 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, 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 activity financing. www.fatf-gafi.org

Financial Intelligence Unit (FIU)

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

FINTRAC Interpretation Notice (FIN)

A document that provides technical interpretations and positions regarding certain provisions contained in the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and associated Regulations.

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.

Memorandum of Understanding (MOU)

A document that outlines each party's roles and responsibilities with regard to the sharing of information.

National Coordinating Committee on Organized Crime

A federal group composed of law enforcement agencies and federal, provincial and territorial policy makers. The Committee determines national policy priorities and assesses emerging concerns in the area of organized crime.

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 activity financing to FINTRAC's mandate.

Reporting Entities

Entities that must report suspicious and certain other transactions to FINTRAC. Reporting entities include the following:

- financial entities
- life insurance companies, brokers, and agents
- securities dealers
- foreign exchange dealers
- money services businesses
- agents of the Crown that sell or redeem money orders
- accountants
- real estate brokers or sales representatives; and
- certain casinos

Royal Canadian Mounted Police (RCMP)

Canada's national police force. www.rcmp.gc.ca

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.

Threat and Risk Assessment (TRA)

An assessment that each federal department and agency is required to carry out in order to identify operations and data whose protection is essential and to determine an appropriate level and scope of controls required.

APPENDIX III

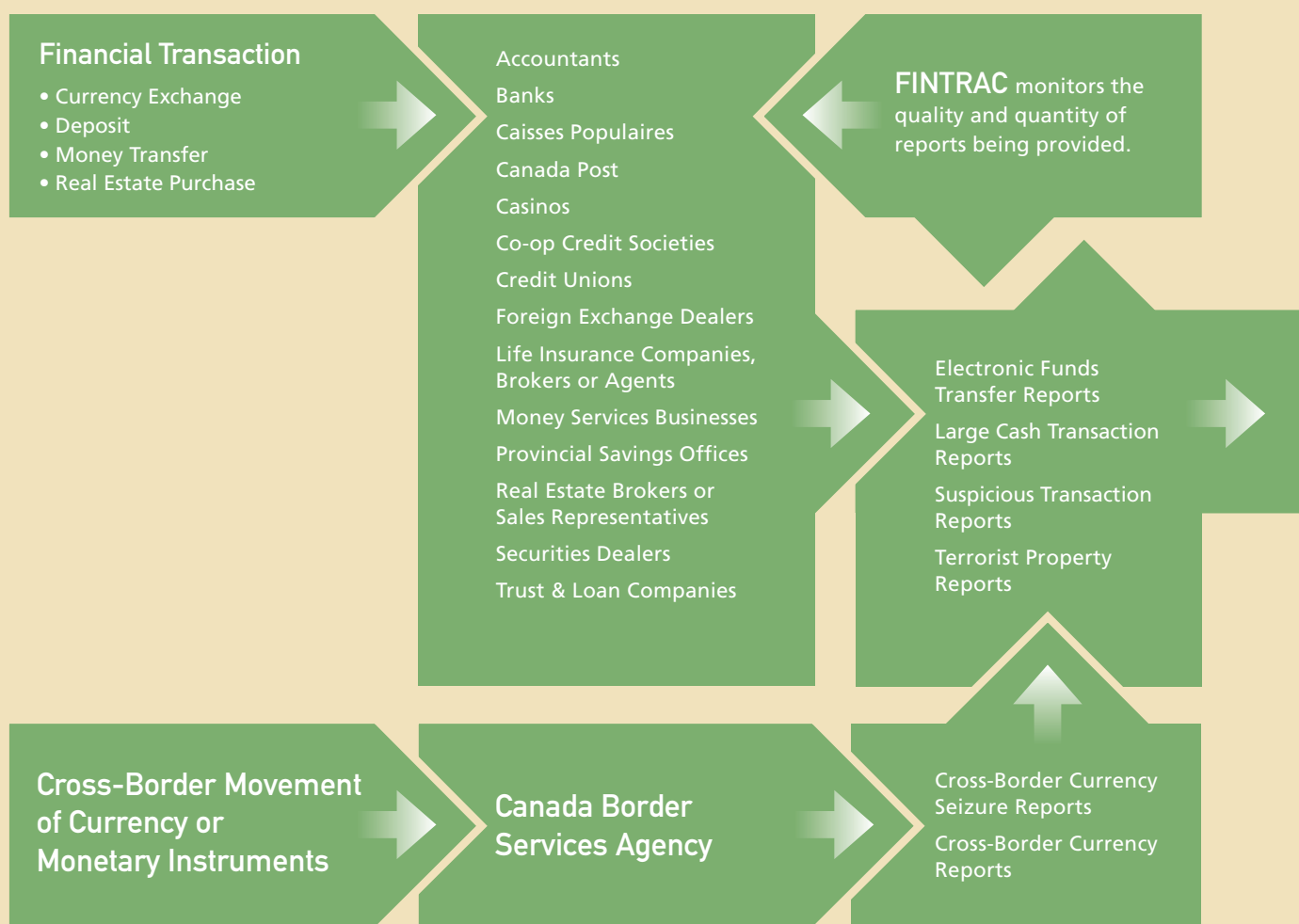
AGREEMENTS WITH FOREIGN
FINANCIAL INTELLIGENCE UNITS

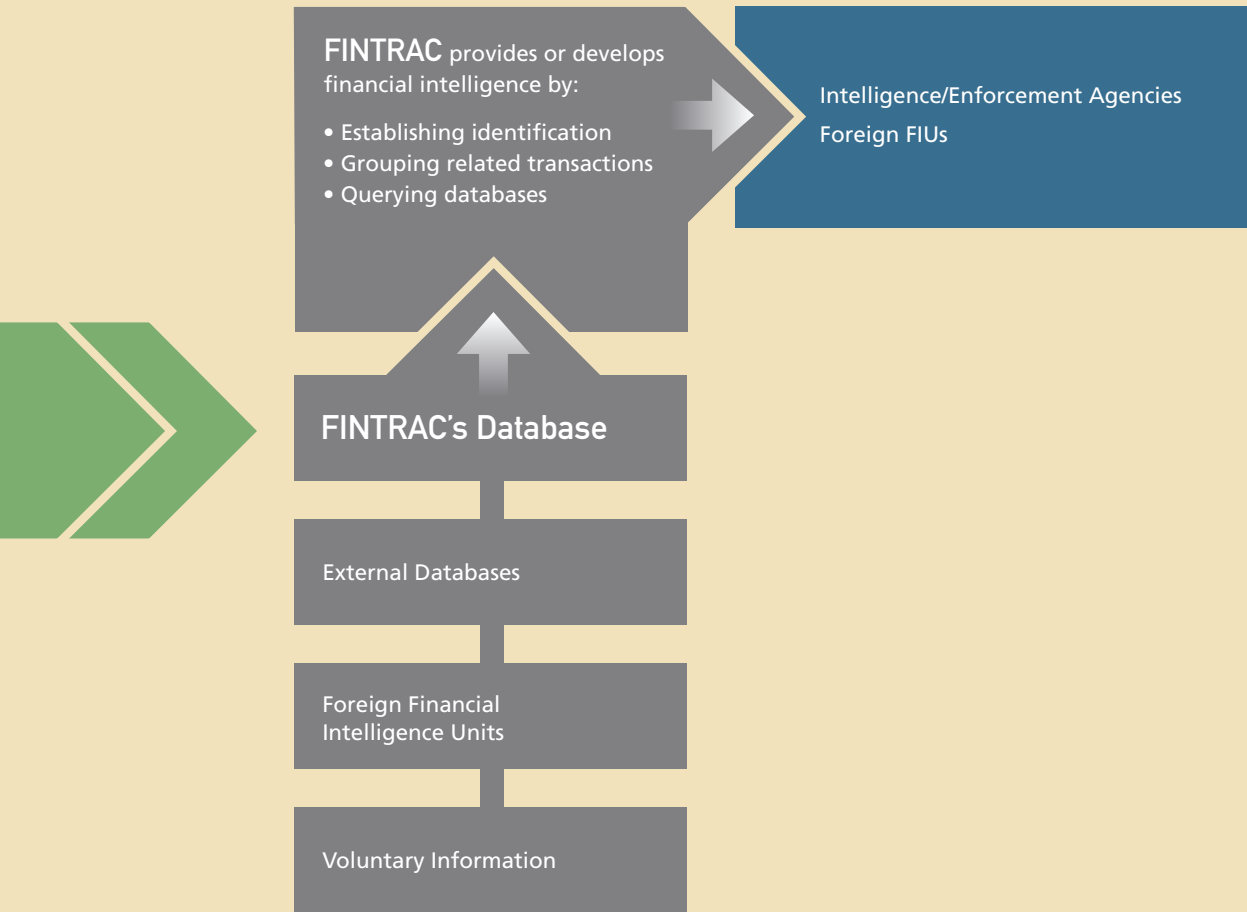
APPENDIX IV

FINTRAC'S BUSINESS PROCESS

RECEIVING INFORMATION

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







CONTACT INFORMATION

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