



Financial Transactions and
Reports Analysis Centre
of Canada

Centre d'analyse des opérations
et déclarations financières
du Canada



RESULTS THROUGH FINANCIAL INTELLIGENCE

FINTRAC Annual
Report 2013

Canada

WHO WE ARE

OUR MISSION

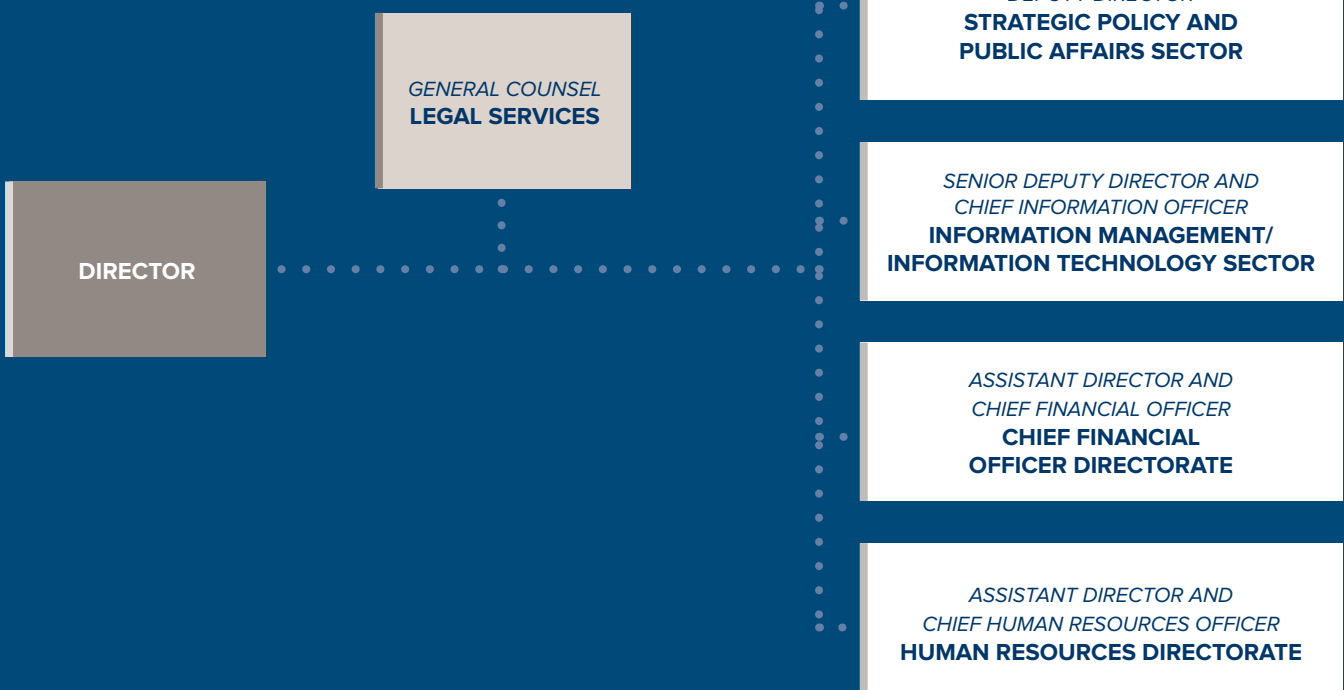
To contribute to the public safety of Canadians and to help protect the integrity of Canada's financial system through the detection and deterrence of money laundering and terrorist activity financing.

OUR VISION

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

OUR ORGANIZATION

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



2012–13 HIGHLIGHTS

- **Significant contributions** to investigations of money laundering (including in the context of organized crime and other offences) and terrorist activity financing that were publicly recognized by multiple law enforcement agencies across Canada
- **Support the protection** of national security and the integrity of the Canadian financial system through the production and dissemination of classified and unclassified financial intelligence reports and assessments
- **Enhanced deterrence** throughout Canada's financial system as a result of a robust, risk-based compliance program
- **National conference hosted** on the infiltration of the legitimate economies of Quebec and Ontario by Italian organized crime for more than 120 participants representing a variety of municipal, provincial, federal and international agencies
- **International training provided** as part of the Egmont Supervisory Course
- **Expertise shared** during key witness testimony at the Standing Senate Committee on National Finance and the Standing Senate Committee on Banking, Trade and Commerce review of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*
- **Strategic report published** on Canada's securities industry

BY THE NUMBERS

- **19,744,923** financial transaction reports received from reporting entities across the country
- **8,163** telephone and email enquiries answered
- **1,157** compliance examinations conducted
- **919** case disclosures of actionable financial intelligence assisting money laundering, terrorist financing and/or national security threat investigations in Canada and around the world
- **316** money services business registration renewals
- **245** policy interpretations provided to Canadian businesses and other stakeholders
- **184** new money services businesses registered with FINTRAC
- **12** administrative monetary penalties issued to encourage change in the non-compliant behaviour of reporting entities
- **4** issues published of the *Money Laundering and Terrorist Activity Financing Watch*, a review of international reporting on emerging trends in money laundering and terrorist financing

OUR RELATIONSHIPS

DOMESTIC

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

INTERNATIONAL

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



Financial Transactions and
Reports Analysis Centre
of Canada

Centre d'analyse des opérations
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September 27, 2013

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 subsection 71(1) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, I am pleased to present you with the twelfth Annual Report for the Financial Transactions and Reports Analysis Centre of Canada. This report provides details of our operations and activities for the period from April 1, 2012 to March 31, 2013.

We remain committed to providing high-quality financial intelligence to our regime partners, while ensuring compliance with Canada's anti-money laundering and anti-terrorist activity financing legislation. In fulfilling our mandate, we are equally determined to protect the personal and sensitive information under our control.

Yours sincerely,

Gérald Cossette
Director

Canada



TABLE OF CONTENTS

3

MESSAGE FROM THE DIRECTOR

5

WHAT WE DO

- 5 FINTRAC'S MANDATE
- 5 STRATEGIC PRIORITIES
- 7 PROTECTING THE PRIVACY OF CANADIANS

9

WHAT WE HAVE ACHIEVED

- 9 OVERVIEW OF FINANCIAL TRANSACTION REPORTS
- 12 FINANCIAL INTELLIGENCE—DISCLOSURES
- 18 A SNAPSHOT OF A CASE
- 19 FINANCIAL INTELLIGENCE—STRATEGIC ASSESSMENTS AND REPORTS
- 21 POLICY COORDINATION AND CROSS-GOVERNMENT COLLABORATION
- 22 COMPLIANCE PROGRAM
 - 23 RISK-BASED COMPLIANCE
 - 23 COMPLIANCE ASSESSMENT AND ENFORCEMENT
 - 24 COMPLIANCE RELATIONS AND SUPPORT
- 25 OUR GLOBAL CONTRIBUTION
 - 25 BILATERAL ENGAGEMENT
 - 25 MULTILATERAL ENGAGEMENT

27

WHAT WE ARE SEEING—THE COST OF LAUNDERING MONEY IN CANADA

29

OUR CORPORATE STRENGTH

- 29 HUMAN RESOURCES
- 31 INFORMATION MANAGEMENT AND INFORMATION TECHNOLOGY
- 32 SECURITY
- 32 RESOURCE MANAGEMENT
- 33 2012–13 BUDGET HIGHLIGHTS

34

ANNEX : WHAT A FINTRAC CASE DISCLOSURE MAY CONTAIN

36

GLOSSARY

MESSAGE FROM THE DIRECTOR

As this report is tabled in Parliament, I will be completing my first year as FINTRAC's Director. I am pleased to detail the activities and operations the Centre carried out in 2012–13 to help protect Canadians and the integrity of our financial system.



FINTRAC produces financial intelligence that assists Canada's law enforcement and national security agencies in fighting money laundering, terrorist activity financing and threats to the security of Canada. While our work and our results are not often publicized, they are fundamentally important to Canadians.

We have seen how corruption and organized crime threaten our economy and our communities. The connections between organized crime, money laundering and drug trafficking, fraud and other crimes are obvious, as is the harm to Canadians caused by these offences. As we have seen at the Charbonneau Commission, organized crime often corrodes the very institutions it infiltrates. It can influence how we do business, which businesses succeed and which fail, who wins and who loses. This threatens the integrity of our financial system and affects the type of society in which we live.

With the terrorism-related arrests here in Canada, the bombing in Bulgaria, the hostage taking in Algeria and the actions of Al Qaida in Africa, we have also seen evidence of a persistent terrorist threat both in Canada and globally.

Over the past twelve months, FINTRAC provided 919 disclosures of actionable financial intelligence to our regime partners to assist their investigations of money laundering, terrorist activity financing and threats to the security of Canada. Demand for our financial intelligence has increased significantly over the past five years and it has benefited thousands of criminal investigations. Given our assistance in these cases, we have been welcomed as members of the Canadian Association of Chiefs of Police and its committees dealing with organized crime and national security, as well as the Canadian Integrated Response to Organized Crime committee.

FINTRAC also produces strategic financial intelligence analysis and assessments on various groups, countries and activities of interest to Canada's security and intelligence community, as well as to government decision-makers. We are increasingly sought out by our partners to share financial intelligence and to advance the government's knowledge of the financial dimensions of threats, organized crime and terrorism.

Our ability to produce financial intelligence is inexorably linked to the information we receive from Canada's business sectors on the front lines in the fight against money laundering and terrorist activity financing. Their efforts in identifying risks, training staff, keeping records, monitoring clients

and filing nearly 20 million transaction reports every year are essential to our ability to provide financial intelligence to our law enforcement and national security partners. Canada's anti-money laundering and anti-terrorist financing regime simply does not work without them.

Our first priority in relation to the reports we receive from Canada's business sectors is the protection of Canadians' personal information. The protection of privacy is a key element of FINTRAC's mandate and is embedded in the way we carry out our work, the way we handle information, and the way it is analyzed and disclosed. We understand that, in order to maintain our credibility and the confidence of Canadians, we need to demonstrate that we take the protection of private information and the limits of our mandate seriously.

FINTRAC's compliance program helps to ensure that individuals and businesses meet their legal obligations and provide the data we need to assist our regime partners in protecting Canada and Canadians. Last year, we completed 1,157 compliance examinations. In most instances, these examinations allow for a discussion of how reporting entities are better able to meet their obligations. In other cases, our compliance program issues administrative monetary penalties to address non-compliance. In 2012–13, FINTRAC issued 12 such penalties, bringing the total to 41 since 2008.

As part of our ongoing efforts to strengthen our compliance program, we have enhanced our examination process to align assessment and enforcement activities with the level of non-compliance observed and to communicate exam results in a more transparent manner. These changes will allow us to use our resources most effectively while achieving the greatest impact on the compliance levels of the various sectors covered under the legislation.

We have also been working to establish a new 'major reporters' team as part of our compliance program. Beginning in the fall of 2013, this team will be responsible for managing FINTRAC's relationship with the largest entities in Canada's financial sector. Through tailored engagement and regular supervision, we will provide these organizations with the tools they need to facilitate better reporting to FINTRAC.

A significant priority going forward is the modernization of our information technology systems that support our analytical work. The sheer volume of data in FINTRAC's holdings, coupled with the everyday influx of new information and the knowledge that we are constantly developing through our intelligence work, presents an enormous challenge from an analysis perspective. In order to maximize the value of our data holdings, the Centre requires increasingly sophisticated technology and tools.

Finally, we are always looking to the challenges we may confront in the future—particularly changes in emerging technologies and methods for conducting transactions. New payment systems can present opportunities for those who are seeking to avoid detection by converting the value of criminal assets in new ways. The attraction of criminals to these new technologies and services is a significant challenge as we continue to improve detection and deterrence in the current financial system.

Canada's anti-money laundering and anti-terrorist financing regime is producing real and significant results for Canadians: deterrence, detection, charges, convictions, seizures and forfeitures. Working together, government, intelligence and national security agencies, law enforcement, prosecutors and thousands of businesses across the country are creating an environment that is increasingly hostile to those who seek to abuse our financial system or who threaten the safety of Canadians.

Gérald Cossette
Director

FINTRAC'S MANDATE

FINTRAC facilitates the detection, prevention and deterrence of money laundering and the financing of terrorist activities, while ensuring the protection of personal information under our control. The Centre fulfills this mandate by:

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

STRATEGIC PRIORITIES

FINTRAC's strategic priorities are as follows:

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

FINTRAC is an independent agency governed by the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) and reports to Parliament through the Minister of Finance. The Centre produces financial intelligence that helps law enforcement and national security agencies in fighting money laundering, terrorist activity financing and threats to the security of Canada. FINTRAC's financial intelligence assists hundreds of criminal investigations every year, including those where the alleged laundered proceeds were linked to drug offences, fraud, tax evasion, customs and excise offences, corruption and human smuggling and trafficking. Our intelligence also informs police and national security agencies of current and emerging trends and techniques used to launder money and raise funds for terrorist activities to help them stay ahead of criminals.

FINTRAC's mandate includes ensuring compliance with the PCMLTFA by reporting entities, which consist of more than 31,000 businesses across the country with legal obligations under the Act. Sectors covered under the legislation include accountants, British Columbia notaries, casinos, dealers in precious metals and stones, financial entities, life insurance, money services businesses, real estate, and securities dealers. Ensuring these entities comply with their legal obligations helps to deter money laundering and terrorist activity financing. It also generates the financial transaction reports that serve as the foundation for our analysis and intelligence.

COMBATTING MONEY LAUNDERING AND TERRORIST ACTIVITY FINANCING IN CANADA

According to Statistics Canada's Centre for Justice Studies, there were 936 charges of money laundering in Canada from 2005 to 2010. These charges resulted in 134 convictions.

The 936 charges represent a minimum of what has taken place over five years, as this number excludes cases in some provincial courts, as well as federal cases where the money laundering charge was not one of the first four charges listed in a criminal case.

During the same period, there were also five terrorist activity financing charges laid and 271,745 charges of possession of proceeds of crime.

Under the law, entities must report to FINTRAC large cash transactions and international electronic funds transfers of \$10,000 or more. In addition, financial transactions, whether they are completed or attempted, must be reported if the reporting entity has reasonable grounds to suspect that the transaction is related to the commission or attempted commission of a money laundering offence or a terrorist activity financing offence. Casinos have the obligation to report their disbursements of \$10,000 or more. Reports of terrorist property that are sent to the Royal Canadian Mounted Police and the Canadian Security Intelligence Service must be sent to FINTRAC as well. Information is also forwarded by the Canada Border Services Agency on the cross-border movement of currency and monetary instruments of \$10,000 or more and currency and monetary instruments that have been seized because they were not reported.

FINTRAC also receives information provided voluntarily by law enforcement and security agencies, often as a result of their investigations. In 2012–13, the Centre received 1,082 voluntary information records from regime partners and the public. FINTRAC also receives queries from foreign financial intelligence units. We search the data in our holdings, as well as information we have the authority to access in law enforcement and national security databanks, for connections to the information received.

A FINTRAC case disclosure may provide links among hundreds or even thousands of financial transactions. It may show financial links between individuals and businesses that may not have otherwise been identified in an investigation, and help investigators refine the scope of their cases and shift their sights to different targets. Our disclosures are also used by law enforcement in putting together the affidavits necessary to obtain search warrants and evidence. FINTRAC does not conduct investigations or lay charges. These activities are the responsibility of law enforcement agencies and prosecutors.

When FINTRAC has determined 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, the Centre is required to make financial intelligence disclosures to the appropriate police service(s). When separate thresholds of relevance are also met, FINTRAC is required to make disclosures to Communications Security Establishment Canada, the Canada Revenue Agency and the Canada Border Services Agency. In addition, FINTRAC is obliged to make disclosures to the Canadian Security Intelligence Service when it has reasonable grounds to suspect that the information would be relevant to the Service's work regarding threats to the security of Canada. At the international level, we have a number of memoranda of understanding with foreign financial intelligence units which allow us to disclose our intelligence to them when the money laundering or terrorist activity financing threshold is met.

In November 2012, the Calgary RCMP Integrated Market Enforcement Team laid additional charges on three individuals following their arrest in a case relating to a Ponzi scheme of over \$1 million the year before. In total, 16 charges were laid relating to fraud, theft, money laundering and the possession of proceeds of crime. FINTRAC's collaboration in the case was recognized by the RCMP.

With the roughly 20 million financial transaction reports received every year, FINTRAC also produces valuable strategic financial intelligence in the fight against money laundering and terrorist activity financing. By applying sophisticated analytical techniques to our data holdings, we are able to identify emerging characteristics, trends and patterns used by criminals to launder money or fund terrorist activities. This intelligence is then shared domestically and internationally in the form of classified assessments, briefs and reports that identify threats, risks and vulnerabilities. Our strategic financial intelligence helps our regime partners understand how money launderers and terrorist financiers are trying to use the legitimate financial system to hide their money. It also increases our collective awareness and understanding of the broader issues and changes that may become a concern in an ever-evolving and unpredictable threat environment.

PROTECTING THE PRIVACY OF CANADIANS

Safeguarding the information entrusted to FINTRAC is an overarching and fundamental consideration in all aspects of our operations. We understand the protection of privacy is critical to maintaining Canadians' confidence in FINTRAC and the broader anti-money laundering and anti-terrorist financing

regime. Clear principles for the protection of privacy are set out in our governing legislation, which respects the *Canadian Charter of Rights and Freedoms* and the *Privacy Act*, and are reinforced by our own operational policies and security measures.

Under the PCMLTFA, the Centre can only make a disclosure of designated information to prescribed law enforcement and security agencies. Furthermore, the legislation clearly states what information may be disclosed (see Annex for a list of designated information) and sets out specific thresholds that must be met before we are able to disclose it. Any other disclosure of information is prohibited and can result in severe penalties, including a fine of up to \$500,000 and/or up to five years' imprisonment.

FINTRAC's *Code of Conduct, Values and Ethics* serves to reinforce the legal obligations of employees to protect information under the PCMLTFA. Adherence to this code is a condition of employment for every FINTRAC employee.

Over the past year, we formalized our privacy management framework, consolidating the full suite of operational policies and security measures that control access and limit the use of the information to the purpose for which it was received or collected. The privacy framework also outlines how FINTRAC organizes, through governance and accountability, the delegation of privacy responsibilities, the coordination of privacy work, the management of privacy risks and compliance with privacy legislation. This comprehensive framework, overseen by a Chief Privacy Officer, helps to ensure a holistic approach to the Centre's management of personal information.

As established in the PCMLTFA, the Office of the Privacy Commissioner of Canada also carries out examinations of FINTRAC's information protection framework.

"I'm often asked what FINTRAC does with all of the financial transaction reports it receives every year. My immediate response to this is that we protect them! For me, what we do not disclose to Canada's law enforcement and national security agencies is just as important as what we disclose."

Gérald Cossette, Director of FINTRAC
Speech to the Association of Certified Anti-Money Laundering Specialists

Following a theft of compliance-related information from a FINTRAC employee in October 2012, the Centre's privacy management framework was tested to good effect. FINTRAC immediately reported the incident to local police and informed the affected businesses, the Office of the Privacy Commissioner and the individuals whose information was stolen. Following an internal investigation, the Centre strengthened its policies, procedures and training program related to the storage and transportation of third-party information. Technological enhancements were also completed to further reduce risks associated with storing and transporting information in the context of compliance examinations.

FINTRAC's premises and information systems in Ottawa, Montréal, Toronto and Vancouver are protected by multi-layered and integrated security systems. Employees have access to sensitive information on a need-to-know basis. They must maintain a high-level security clearance as a condition of employment and are trained in their responsibilities involving the protection of personal information.

WHAT WE HAVE ACHIEVED

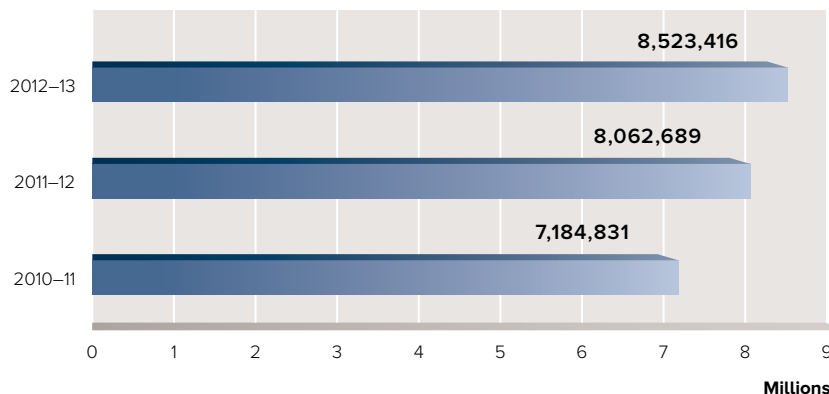
FINTRAC provides financial intelligence to police and other designated authorities under the PCMLTFA to assist the investigation and prosecution of money laundering, the financing of terrorist activities, or other threats to the security of Canada. In fulfilling this mission, the Centre makes a significant contribution—along with our regime partners—to the safety and security of Canadians.

OVERVIEW OF FINANCIAL TRANSACTION REPORTS

At the heart of our ability to carry out our mission is the financial transaction data that we receive from reporting entities. Without this transaction information, we would not be able to produce financial intelligence that assists police, law enforcement and national security agencies in their investigations of activities that put Canada's financial system and the safety of Canadians at risk.

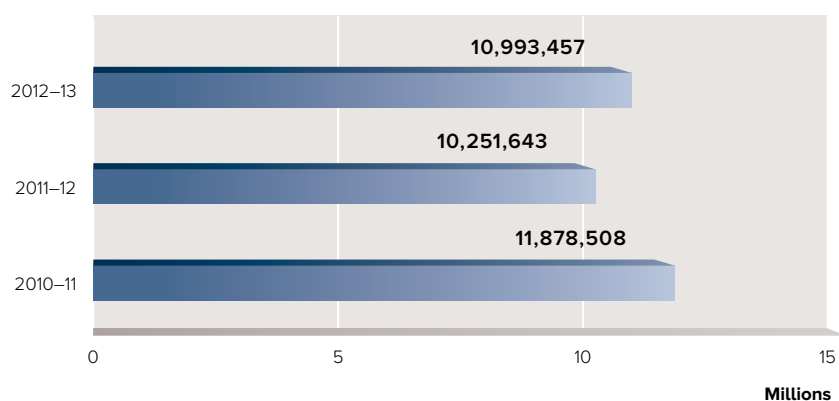
In 2012–13, FINTRAC received 19,744,923 financial transaction reports. The large number of reports added to our holdings each year underscores the importance of modernizing our information technology analytical systems, which are vital to ensuring the effective analysis of the voluminous financial data. The following charts illustrate the trends for various reports over the past three years.

Large Cash Transaction Reports



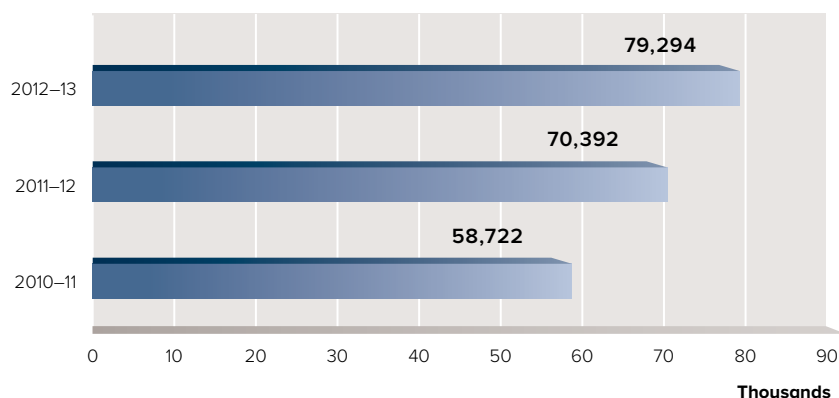
A large cash transaction report is submitted to FINTRAC when a reporting entity receives \$10,000 or more in cash in the course of a single transaction, or when it receives two or more cash amounts totalling \$10,000 or more made within 24 consecutive hours by or on behalf of the same individual or entity.

Electronic Funds Transfer Reports



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

Suspicious Transaction Reports



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

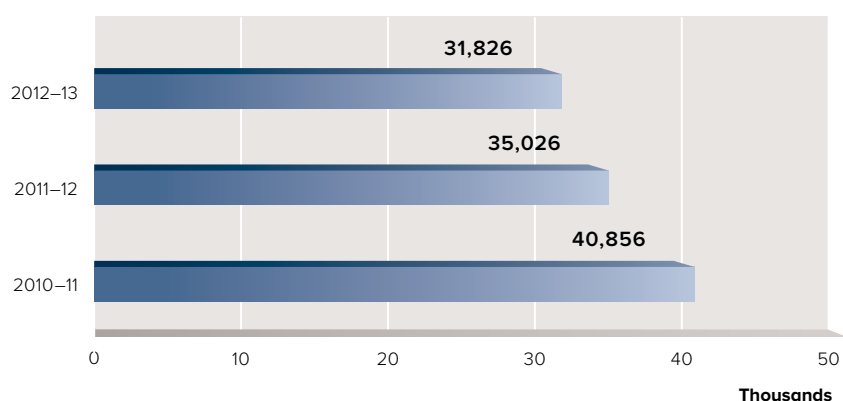
WHAT IS MONEY LAUNDERING?

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

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

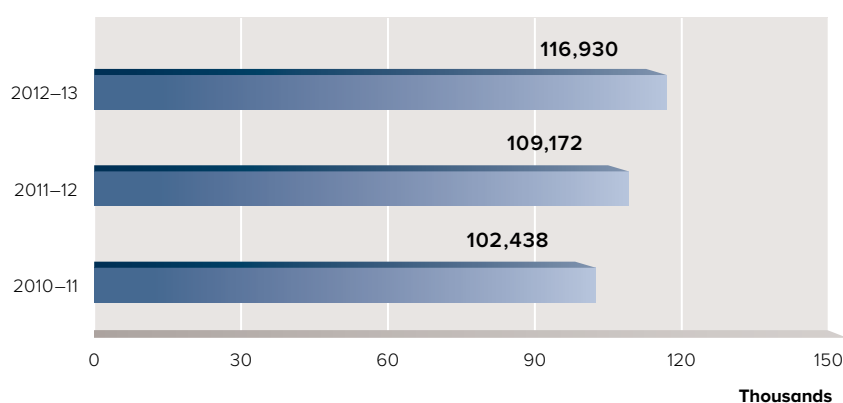
The money laundering process is continuous, with new “dirty” money constantly being introduced into the financial system. It is also changing dramatically due to significant advances in technology.

Cross-Border Currency Reports/Cross-Border Seizure Reports



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

Casino Disbursement Reports



A casino disbursement report must be submitted to FINTRAC by a casino when it makes a disbursement of \$10,000 or more in the course of a single transaction, or upon making two or more disbursements totalling \$10,000 or more within 24 consecutive hours on behalf of the same individual or entity. The obligation to report casino disbursements came into force in September 2009.

FINTRAC's reporting volumes can vary from year to year due to many factors, including economic trends and customer preference in financial instruments.

The Sûreté du Québec recognized the assistance that FINTRAC provided to the investigation of the theft of six million pounds of maple syrup—worth an estimated \$18 million—from a commercial warehouse over the course of 2011 and 2012. In total, 23 people faced charges of conspiracy, theft, receiving stolen goods and fraud as part of the case.

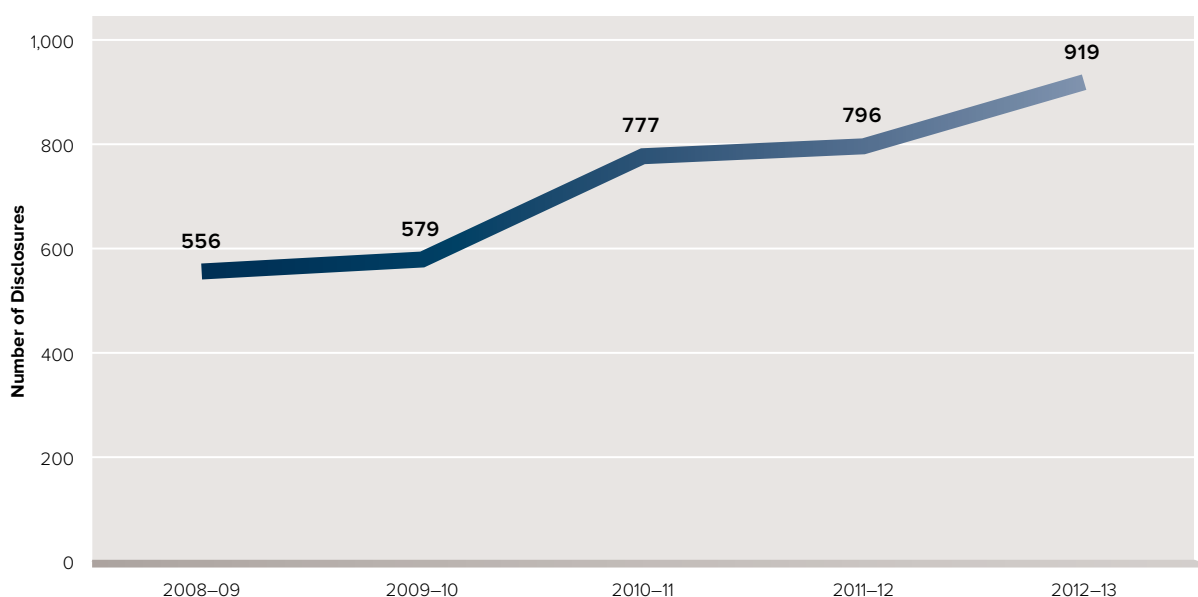


FINANCIAL INTELLIGENCE—DISCLOSURES

FINTRAC's financial intelligence plays a key role in helping to combat money laundering and terrorist activity financing. Our disclosures contain designated information that identifies individuals and entities, as well as account and transaction information, where FINTRAC has reasonable grounds to suspect that it would be relevant to the investigation and prosecution of money laundering and terrorist activity financing offences or the investigation of other threats to the security of Canada. In 2012–13, FINTRAC made 919 such disclosures. Of these, 719 were associated to money laundering, while 157 dealt with cases of terrorist activity financing and other threats to the security of Canada. Forty-three disclosures had associations to all three areas.

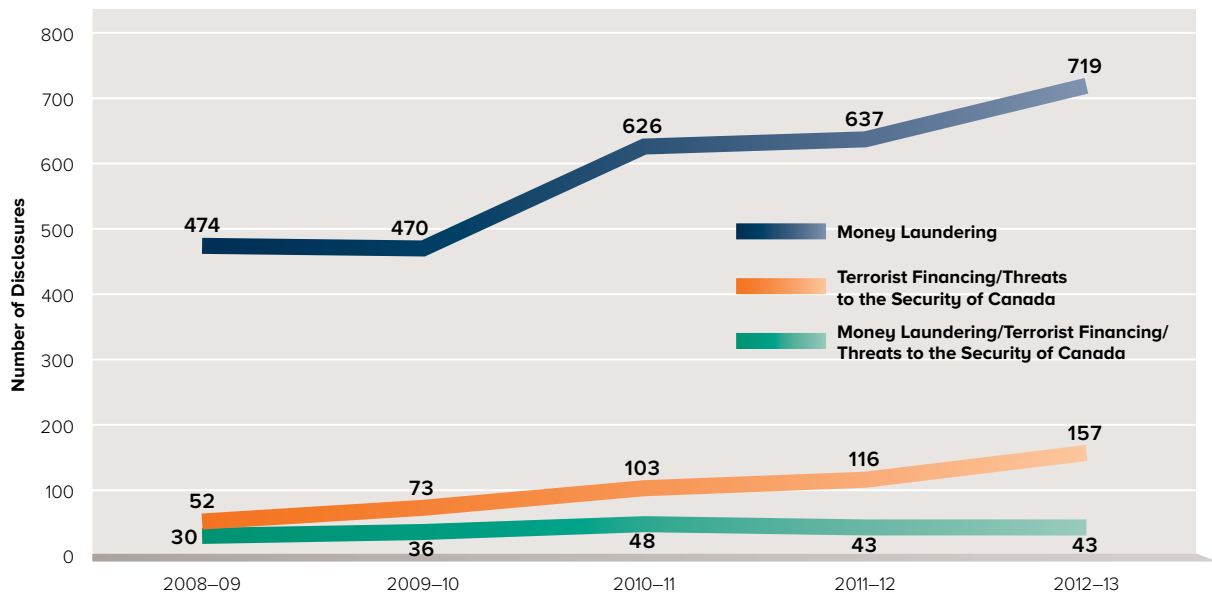
FINTRAC has significantly increased the number of financial intelligence disclosures provided to law enforcement and national security partners over the past five years.

FINTRAC Case Disclosures from 2008–09 to 2012–13



In April 2013, FINTRAC's contribution to the Unité permanente anticorruption's Project Lauréat was recognized by the Sûreté du Québec. Five people were named in arrest warrants that cited charges relating to fraud, bribery and money laundering arising from a contract to build the McGill University Health Centre superhospital.

Disclosures by Type from 2008–09 to 2012–13



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

Through this ongoing engagement, FINTRAC was able to gain access to additional law enforcement databases over the past year, providing valuable new sources of information to further assist our analyses and production of actionable financial intelligence.



On March 27, 2013, the Sûreté du Québec executed 11 arrest warrants in the regions surrounding Montréal and the city of Québec, as part of an investigation of tax and investment fraud totalling more than \$14.5 million and spanning four continents. The scheme involved over 300 investors who benefited by putting money in locked-in retirement accounts managed by front companies and then withdrawing the funds without paying taxes. A percentage was paid to the network's administrators in return for facilitating the scheme. The Sûreté du Québec conducted this investigation over a two-year period and recognized the assistance provided by FINTRAC, the Autorité des marchés financiers and Revenu Québec.

Photo: Mario Beauregard

WHAT IS TERRORIST ACTIVITY FINANCING?

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

Three main differences distinguish terrorist activity financing from money laundering:

- Terrorists must initially obtain or source their funds;
- Funds can be from legitimate sources, not just criminal acts; and
- Money is the means, not the end—the goal is to use funds to facilitate or implement terrorist activities.

Canadian police forces are the main recipients of FINTRAC's disclosures. Our disclosures are often sent to more than one recipient, when appropriate thresholds are met, if they can facilitate the work of multiple agencies.

In 2012–13, we disclosed 919 cases to regime partners to help with investigations at the municipal, provincial and federal levels across the country. This includes 149 disclosures made to the Canada Revenue Agency and 96 to the Canada Border Services Agency once FINTRAC reached its threshold for disclosure to police.

Number of Disclosures by Recipient (2012–13)

Recipients	Disclosures
Royal Canadian Mounted Police	580
Municipal police	182
Canadian Security Intelligence Service	164
Canada Revenue Agency	149
Provincial police	144
Foreign financial intelligence units	131
Canada Border Services Agency	96
Communications Security Establishment Canada	32

In 2012–13, FINTRAC's financial intelligence was used to assist money laundering investigations in the context of a wide variety of criminal investigations, where the origins of the suspected criminal proceeds were linked to investigations of drug offences, fraud, tax evasion, customs and excise offences, corruption, and human smuggling and trafficking. It is important to bear in mind that, with these types of crimes, there are victims, there is often violence, and there is real social harm. FINTRAC is assisting investigations that matter. Based on information provided to the Centre, the following predicate offences generated suspected criminal proceeds that were captured in our disclosures related to money laundering or terrorist activity financing.

In February 2013, the RCMP credited FINTRAC for its instrumental role in a year-long investigation by the Calgary Integrated Proceeds of Crime Unit that resulted in four search warrants being executed, which led to seizures of marijuana, firearms, documents, a vehicle and proceeds of crime valued at \$294,000 USD and \$5,000 CDN.

Types of Predicate Offences Related to Case Disclosures¹

Predicate Offence Category	2010–11	2011–12	2012–13
Fraud	33%	35%	34%
Drugs	26%	27%	27%
Unknown	14%	11%	8%
Tax Evasion	5%	9%	13%
Customs/Excise	5%	5%	4%
Corruption	5%	5%	5%
Human Smuggling/ Trafficking	4%	3%	3%
Theft	3%	6%	5%
Illegal Gambling	1%	1%	2%

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

In June 2012, the Royal Canadian Mounted Police Integrated Proceeds of Crime Unit in Toronto executed search warrants connected with the laundering of several million dollars of proceeds of crime through a Toronto law office. The RCMP credited FINTRAC with making a significant contribution to the success of its investigation.

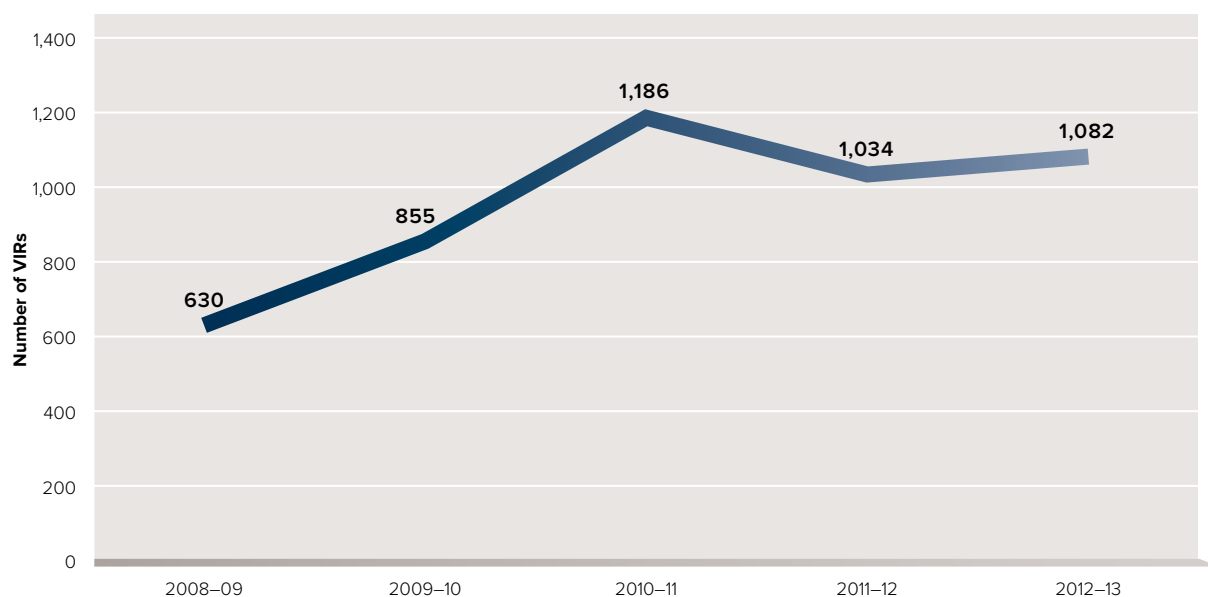
WHAT ARE THREATS TO THE SECURITY OF CANADA?

FINTRAC provides financial intelligence relevant to the investigation of threats to the security of Canada, including:

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

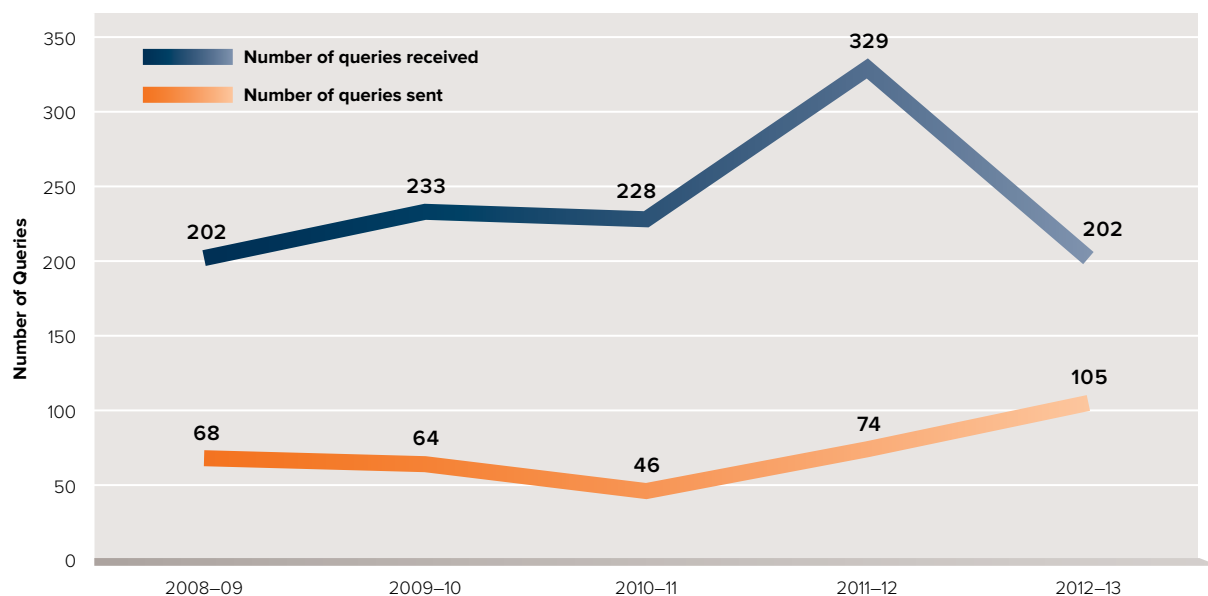
¹ A FINTRAC disclosure may relate to proceeds of crime flowing from multiple predicate offences; therefore, the percentages in this table may not add up to 100 percent.

Number of Voluntary Information Records Received from 2008–09 to 2012–13



FINTRAC recognizes the transnational nature of money laundering and terrorist activity financing and is committed to working with international allies and partners to protect Canadians and the integrity of Canada's financial system. In 2012–13, the Centre received 202 queries for information from foreign financial intelligence units. For our part, we sent 105 requests to foreign financial intelligence units to broaden our own analysis of international financial transactions.

Working Relationships Internationally from 2008–09 to 2012–13



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

THE VALUE OF FINTRAC DISCLOSURES: WHAT OUR PARTNERS SAY

The disclosure provided has to date been the best package of relevant information I have received from FINTRAC. It is truly exceptionally well prepared and summarized what was suspected as having been taking place and confirmed the investigators' belief. In addition, two additional accounts held by financial institutions outside of Ontario and the top five chartered banks were identified. Additional production orders/search warrants will be sought as a result of the information provided by FINTRAC.

— RCMP Ottawa Integrated Proceeds of Crime Unit

The information received helped us to consolidate seizures of criminal property. FINTRAC's information proved to be relevant in several aspects [of our investigation]. This information helped us to evaluate the "proceeds of crime" angle [of the investigation]. We also used the information to draft our warrant and production orders. Moreover, the information received was useful during questioning. [Translation]

— Service de police de la Ville de Montréal

The FINTRAC disclosure was crucial to the file. At the start of the file I was the affiant, and I relied on the disclosure in every court order, including mutual legal assistance treaties, on the file. It also was used to corroborate information from witnesses, and was instrumental in explaining the flow of funds from Company X to Company Y. Furthermore, our ability to share this detailed information with our partners enhanced our credibility, and helped improve our relationships with our foreign colleagues. Frankly, I don't know if we would have been able to put this case together without FINTRAC's help.

— RCMP Calgary International Anti-Corruption Unit

The suspicious transaction report gave new insight into the financial operations of Person X. The information was timely and substantive...The disclosure was positively received by other law enforcement agencies. The timeliness of the disclosure was excellent. The disclosure contained very relevant information which generated several new leads and assisted in the location of assets.

— Financial Crimes Enforcement Network (FinCEN)—United States

FINTRAC requests are becoming an invaluable part of most of my investigations, particularly those which involve money laundering. I now consider a FINTRAC voluntary information record as one of the first steps in any investigation of mine, as it streamlines investigations and the applications for judicial authorizations.

— Toronto Police Service

Quick turnaround time was appreciated. The disclosures provided new information of potential interest along with account numbers not previously known. The Service was further able to identify additional relationships which assisted our national security investigation. The information in the electronic funds transfers was found to provide valuable intelligence.

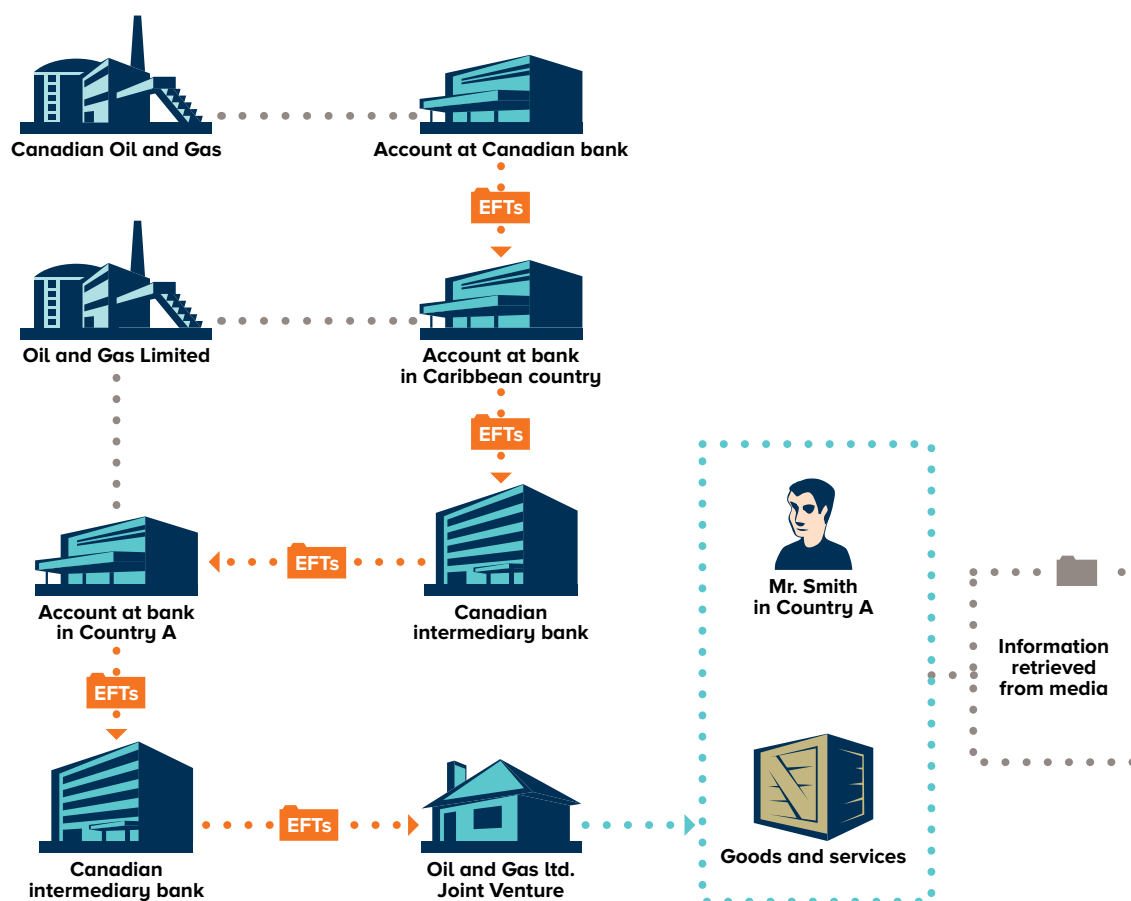
— Canadian Security Intelligence Service

The disclosure permitted us to confirm numerous links between individuals and corporations; it greatly increased the potential scope of the fraud; and it demonstrated that the participants in the fraud were using many different strategies that generated liquid funds. There were very quick results from the disclosure. The information obtained from the disclosure allowed us to increase greatly the scope of the investigation, to establish the person who appeared to be the head of the [fraud] network, to establish the links between individuals and to demonstrate that the strategies used generated cash. [Translation]

— Canada Revenue Agency

A SNAPSHOT OF A CASE

The following sample case illustrates how FINTRAC is able to contribute to an investigation by law enforcement authorities into the potential corruption of foreign public officials by a Canadian person or entity.



Media reports from “Country A” indicated that *Oil and Gas Limited* was believed to have purchased goods and services for Mr. Smith, a local public official, in order to influence his decisions regarding an incident involving that company. Located in Country A, *Oil and Gas Limited* is a subsidiary of *Canadian Oil and Gas*.

A Canadian police service sent voluntary information to FINTRAC concerning both *Oil and Gas Limited* and *Canadian Oil and Gas* as part of an investigation into money laundering involving the corruption of a foreign public official.

With this voluntary information, FINTRAC conducted a search of its data holdings which revealed a flow of funds indicative of money laundering.

The flow of money showed that *Oil and Gas Limited* was being financed by its parent company, *Canadian Oil and Gas*, with funds flowing from Canada to a Caribbean bank account through a Canadian intermediary bank and ultimately to a bank account in Country A. The Caribbean bank account is held in an area known to be used for money laundering purposes in order to obscure the origin of funds.

It was also determined that, on 21 occasions, the same amounts were transferred from the *Oil and Gas Limited* Caribbean account to its bank account in Country A within one day of the fund arriving from *Canadian Oil and Gas* accounts.

The Financial Action Task Force considers funds being transferred in and out of an account, often called a flow through account, on the same day or within a relatively short period of time to be an indicator of money laundering. According to the Egmont indicators, this is considered an atypical or uneconomical transfer of funds to or from a foreign jurisdiction as there was no financial benefit to conducting transactions this way in this particular case.

FINTRAC was able to uncover this information because the Centre is one of the few financial intelligence units in the world with access to reports of international funds transfers (to or from Canada) of \$10,000 or more within a 24 hour period.

FINTRAC was also able to identify an account held by *Oil and Gas Limited Joint Venture* at a bank in Canada to which *Oil and Gas Limited* had transferred funds from its accounts in Country A.

FINTRAC made a disclosure to the police service that had submitted the voluntary information. Without the financial intelligence information provided by FINTRAC linking the finances of the subjects back to Canada, it would have been difficult for the investigation to proceed.

FINANCIAL INTELLIGENCE—STRATEGIC ASSESSMENTS AND REPORTS

FINTRAC produces strategic financial intelligence from extensive reviews and analyses of our data holdings and other sources of information to uncover trends in criminal activity and shifting mechanisms used to launder money and finance terrorist activity. The goal of this intelligence is to identify threats, risks and vulnerabilities, and to assist in the formulation of policy and counter-measures that constrain the operating environment for money launderers and terrorist financiers.

The Centre prepares and provides various types of strategic intelligence to support the priorities of the national security policy-making community, our domestic regime partners, and the broader security and intelligence community. We also share research findings and expertise, engage with partners to further joint interests, and provide support as needed on ad hoc priority requests from federal government departments and agencies and allied partners. For example, in 2012–13, we completed a strategic assessment of the financial dimensions of a leading migrant smuggling source, providing analytic insights on the subject that were well received by our regime partners.

FINTRAC also hosted a conference in March entitled *Italian Organized Crime: Infiltration of the Legitimate Economy in Quebec and Ontario*. Attended by more than 120 participants from the Italian Embassy and Italian federal organizations, as well as municipal, provincial, federal and international agencies, this conference facilitated a better understanding of the issue through a sharing of lessons learned within the security and intelligence community.

FINTRAC's Trends and Typologies reports assess the latest patterns characterizing money laundering and terrorist financing. To that end, the Centre produced a report in 2012 on the securities industry, outlining how its products and services may be used to launder money. The report also called on the securities sector to implement a stronger compliance regime that will be more adept at detecting money laundering and terrorist activity financing, as more services and products become available to consumers.



“In a stock manipulation case, after the share price was artificially increased, the perpetrators of the fraud used nominees to deposit physical certificates of that company into brokerage accounts. It is suspected that the physical certificates were given to the nominees in an off-market transaction. The shares were sold on the open market shortly after the deposits. The funds were quickly removed from the brokerage accounts and wired offshore to individuals suspected to be responsible for the stock manipulation scheme.”

Money Laundering Trends and Typologies in the Canadian Securities Sector

In 2012–13, the Centre’s strategic analysts also identified leading indicators of risk within the various reporting sectors. As well, FINTRAC produced strategic intelligence on financing trends and patterns linked to listed and regionally focused terrorist organizations, including an analysis of financial implications emerging from political instability in the Middle East.

FINTRAC’s strategic intelligence expertise on terrorist financing was used to support policy-making through the Interdepartmental Coordinating Committee on Terrorist Listings. We also provided expertise to the Department of Foreign Affairs, Trade and Development with respect to Canada’s sanctions regime, and contributed to intelligence assessments undertaken by the Intelligence Assessment Secretariat, the Canadian Security Intelligence Service, the Integrated Terrorism Assessment Centre, as well as other joint assessments with various Canadian and allied partners. In addition, FINTRAC participated in international standard-setting activities with respect to the global counter-terrorism financing regime.

FINTRAC’s expertise in terrorist activity financing was also used in public education efforts, including those related to the Government of Canada’s Kanishka Project, which encourages and invests in research on issues related to counter-terrorism. In addition, we continued to produce the quarterly open-source *Money Laundering and Terrorist Financing Watch* for the benefit of both government and non-government readership.

Alongside the range of activities outlined above, FINTRAC also conducts broader strategic research and analysis to challenge its assumptions in certain key areas, including how the Centre conceptualizes money laundering and terrorist activity financing and how it responds to these threats. To this end, and in collaboration with the Integrated Terrorism Assessment Centre, we hosted a workshop for 13 government departments and agencies on the Terrorist Resourcing Model to explore its application, strengths and challenges. Recognizing that terrorist activity financing differs from money laundering, FINTRAC will continue to work with our partners to understand and analyze the viability of the Terrorist Resourcing Model going forward.

THE VALUE OF STRATEGIC FINANCIAL INTELLIGENCE: WHAT OUR PARTNERS SAY

This is an excellent paper on [terrorist group] financing. It really fills an important intelligence gap. Kudos to you and your team for such robust analysis.

— **Canadian Security Intelligence Service**

We greatly appreciate the FINTRAC product that has come to us. It has not only informed our outlook but also shaped the way we are crafting the current terrorist financing assessment. In content, tone and analytical judgement, [FINTRAC's strategic analysis products] are of a very high order. For me, they helped crystallise the way I had envisaged our current TF national assessment would be written up: tight and punchy with key judgements and supporting intelligence presented concisely, for busy consumers to both digest easily and be able to form their own views.

— **Strategic Assessments and Typologies Intelligence Branch, Australian Transaction Reports & Analysis Centre (AUSTRAC)**

I think you captured the [terrorist group] funding situation perfectly.

— **Integrated Terrorism Assessment Centre**

The fifth edition of our International Summer School on terrorism has just come to an end. The students, through the evaluation they filled, told us that they were very pleased by the level of expertise and by the communication skills you demonstrated. Because of you and your colleagues, they feel that they are now better informed of the many challenges that terrorism poses.

— **Director, Hautes Études Internationales, Université Laval**

I found that FINTRAC's paper clearly and concisely illustrates the different mechanisms this [terrorist] group has been using to finance its activities and how Canadian organizations have contributed in supporting it. Furthermore, I deem useful the forecast analysis on how [terrorist group] financing strategies may evolve depending on the outcome of recent political events and on how these political events may impact the flow of financial assistance from Canada to [terrorist group] and other [related] organizations.

— **CRA Charities Directorate**

POLICY COORDINATION AND CROSS-GOVERNMENT COLLABORATION

Our strategic work also encompasses strategic policy and public affairs. We work closely with the Department of Finance Canada and other key partners, sharing our expertise and insight on money laundering and terrorist activity financing to identify enhancements to the legislation with a view to strengthening Canada's anti-money laundering and anti-terrorist financing regime.

In 2012–13, the Standing Senate Committee on Banking, Trade and Commerce conducted a second, five-year legislated Parliamentary Review of the PCMLTFA. Over the course of the Parliamentary Review, FINTRAC testified before the committee on three separate occasions. On March 20, 2013, the Senate Committee tabled its report, which included 18 recommendations that the Government of Canada is reviewing. FINTRAC continues to work with the Department of Finance, the regime policy lead, to identify several proposed amendments as part of the legislative review of the PCMLTFA.



COMPLIANCE PROGRAM

As the first-line of defence in deterring, detecting and preventing money laundering and terrorist activity financing, reporting entities across the country have a central role to play in protecting Canadians and the integrity of Canada's financial system. As they identify risks, educate and train their staff in compliance, keep records and identify clients, businesses across the country make it much more difficult for criminals and terrorists to operate in Canada. At the same time, in producing high-quality transaction reports, reporting entities supply FINTRAC with the data needed to develop actionable financial intelligence for our law enforcement and national security regime partners.

SECTORS COVERED UNDER THE PCMLTFA

- Accountants
- British Columbia notaries
- Casinos
- Dealers in precious metals and stones
- Financial entities
- Life insurance
- Money services businesses
- Real estate
- Securities dealers

OBLIGATIONS FOR SECTORS

- Client identification
- Record keeping
- Reporting
- Third party determination
- Compliance regime
- Registration of money service businesses with FINTRAC

Through the delivery of an effective national risk-based compliance program, the Centre ensures that reporting entities comply with their legal obligations, which helps to create a deterrent effect for those intending to launder money or raise funds for terrorist activities. The compliance program also enables the collection of financial transaction reports that serve as the foundation for our analysis and financial intelligence.

The Centre's compliance program, led by headquarters in Ottawa, retains operational offices in Montréal, Toronto and Vancouver. These offices provide on-the-ground presence, ensuring that reporting entities have the requirements in place to effectively and efficiently detect and deter money laundering and terrorist activity financing. FINTRAC uses a variety of assessment and enforcement activities to determine whether entities are complying with their obligations under Part 1 of the PCMLTFA. The exact approach varies from year to year, with some activities used more prominently than others, including:

- Ensuring that individuals and businesses covered under the PCMLTFA understand their legal obligations and implement the required controls.
- Providing technical and other support services to facilitate quality reporting.
- Building relations with regulators and key stakeholders.
- Monitoring the quality of report data.
- Carrying out compliance assessments, which include various types of examinations.
- Maintaining a money services business registry.
- Taking appropriate remedial action when non-compliance is detected, which, in some cases, results in administrative monetary penalties or disclosures of suspected criminal non-compliance to police.

Risk-based Compliance

For the purposes of assessing and enforcing compliance, the PCMLTFA authorizes FINTRAC to examine the records and inquire into the business of a reporting entity subject to the Act.

Given the overall number and diversity of reporting entities, FINTRAC uses a risk-based approach in administering its compliance program across all sectors. This approach ensures that compliance activities are commensurate with the risk of non-compliance of reporting entities by taking into account the likelihood and impact of non-compliance, as well as sector-specific characteristics.

As part of a new initiative, FINTRAC recently created a major reporters team to better manage FINTRAC's relationship with the largest of the reporting entities in the financial sector. Beginning in 2013–14, this team will provide tailored engagement activities as well as regular supervision as part of FINTRAC's ongoing efforts to enhance compliance and facilitate improved reporting.

Compliance Assessment and Enforcement

While the Centre uses a suite of assessment and enforcement activities, examinations are the primary instrument used to determine whether reporting entities are complying with their legal obligations.

In 2012–13, FINTRAC conducted 1,157 examinations, exceeding the original planned objective for the year.

WHAT IS REPORTED?

Suspicious transactions related either to money laundering or to terrorist activity financing regardless of dollar value, as well as suspicious attempted transactions

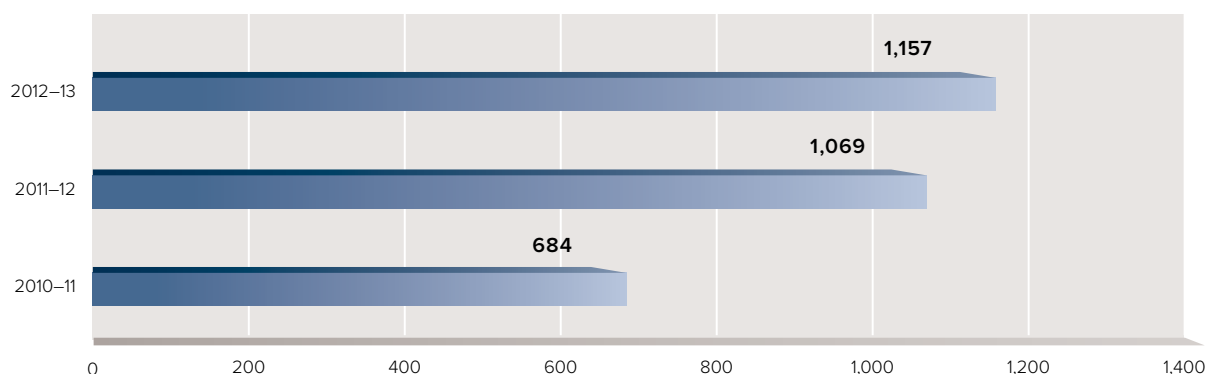
The existence of property in the possession or control of terrorists, or information about a transaction or proposed transaction in respect of such property

International electronic funds transfers involving \$10,000 or more

Large cash transactions of \$10,000 or more

Disbursements of \$10,000 or more made by casinos

Examinations



FINTRAC reviews its processes on an ongoing basis to ensure that its compliance program is clear, appropriate and forward-looking. To that end, we have enhanced our examination process to align assessment and enforcement activities with the level of non-compliance observed and to communicate examination results in a more transparent manner. In turn, this will ensure that we are able to use our resources most effectively while achieving the greatest impact on the compliance levels of the various sectors covered under the legislation.

Where significant non-compliance is identified during an examination, FINTRAC undertakes tailored enforcement actions, which may include the issuance of an administrative monetary penalty to encourage change in non-compliant behaviour. In 2012–13, FINTRAC issued 12 such penalties, bringing the total to 41 since 2008 when administrative monetary penalties were first introduced.

Where there is severe non-compliance, or little expectation of immediate or future compliance, we might consider disclosing this information to law enforcement. Since 2004, FINTRAC has made 39 disclosures to law enforcement related to non-compliance.

Over the past year, FINTRAC also issued 4,008 compliance assessment reports across several sectors in order to help assess compliance regime obligations, better inform our risk assessment of sectors, and broaden our knowledge of the reporting entity populations. In 2013–14, we will review the functionality of the system used to administer compliance assessment reports with the aim of streamlining the process for respondents while ensuring that it continues to provide us with the information we need for our compliance program.

FINTRAC has in place 20 memoranda of understanding with provincial, national, and international supervisors and regulators in order to increase the efficiency of our operations and reduce the regulatory burden on individuals and entities with reporting obligations under the PCMLTFA. In 2012–13, the Centre completed a framework with the Office of the Superintendent of Financial Institutions Canada to conduct concurrent examinations of federally regulated financial institutions. These examinations will leverage the complementary efforts of the two agencies and reduce the potential for administrative overhead for the reporting entities.

Compliance Relations and Support

Reporting entities provide FINTRAC with the necessary information to produce financial intelligence by submitting accurate and high quality reports. FINTRAC is committed to supporting reporting entities in understanding their obligations by developing and maintaining relationships with them and their respective regulators and associations.

In 2012–13, we responded to 8,163 telephone and e-mail enquiries and 245 policy interpretation requests. We delivered numerous information sessions and presented on key topics at several events, including the FINTRAC Workshop in Toronto in April 2012 where the need for data quality improvements was emphasized.

In accordance with legal obligations for the money services business sector, 184 new money services businesses registered with FINTRAC this year. In addition, 316 renewed their registration as required, making it 788 money services businesses currently registered with FINTRAC. Money services business registration is the first step in ensuring that this sector complies with the PCMLTFA.

Over the past year, FINTRAC also published sector-specific brochures for dealers in precious metals and stones and money services businesses. To meet the needs of the diverse money services businesses sector, the brochure clearly explains, in eight languages, their obligations under the PCMLTFA. This brochure was published on our public website, along with a comprehensive new plain language section.

In February 2013, the government published regulatory amendments to enhance existing obligations related to customer due diligence and record keeping. In advance of these amendments coming into force in February 2014, FINTRAC prepared revised guidance for reporting entities.



OUR GLOBAL CONTRIBUTION

Given the transnational scope of money laundering and terrorist activity financing, FINTRAC participates actively alongside our allies and partners in global efforts to combat these threats. Financial intelligence is key to tracking international movements of illicit funds. Through bilateral memoranda of understanding, we are able to disclose our intelligence to more than 80 financial intelligence units worldwide. At the same time, foreign financial intelligence units are able to share their intelligence with FINTRAC, thereby broadening our analyses of international financial transactions. Multilaterally, we also work with the Department of Finance, other regime partners, the private sector and international organizations to conduct research, develop common policies and standards, and share best practices.

Bilateral Engagement

Since its creation in 2000, the Centre has entered into information sharing agreements with a number of foreign financial intelligence units to allow for the exchange of financial intelligence when appropriate thresholds are met. In 2012–13, FINTRAC signed memoranda of understanding with the financial intelligence units of Honduras and Paraguay and continued negotiations with a number of other jurisdictions.

The Centre also organized a number of bilateral meetings and outreach visits throughout the year where we exchanged knowledge and expertise with international partners. In January 2013, FINTRAC's Director met with a number of his counterparts in Washington D.C., including representatives from the United States Financial Crime Enforcement Network, the United States Treasury, the World Bank and the International Monetary Fund, to discuss priorities and plans for future collaboration. In 2012, FINTRAC officials also visited the United States, United Kingdom and Australia to discuss information technology issues relating to analytic systems modernization. Additionally, FINTRAC officials met with their counterparts from Albania, Armenia, Nigeria and the United Kingdom to exchange knowledge, perspectives and lessons learned.

Multilateral Engagement

In our relationships with multilateral bodies such as the Financial Action Task Force, the Egmont Group, the World Bank, the International Monetary Fund and the United Nations Office on Drugs and Crime, FINTRAC helps to develop and shape policy and training that strengthen anti-money laundering and anti-terrorist financing regimes worldwide.

In 2012–13, FINTRAC participated as a subject matter expert in Canada's delegation to the Financial Action Task Force, led by the Department of Finance. In this role, we assisted in the development of the evaluation methodology that will be used to assess the anti-money laundering and anti-terrorist financing regimes of all jurisdictions in the coming years.

FINTRAC also participated in three Financial Action Task Force Plenary Meetings, contributing to the efforts of the Working Group on Evaluation and Implementation, the Working Group on Typologies, the Working Group on Terrorist Financing and Money Laundering, and the International Cooperation Review Group. Following plenary meetings, the Centre published advisories informing the public of jurisdictions that have strategic deficiencies in combatting money laundering and terrorist activity financing.

In January 2013, a representative from FINTRAC became Co-Chair of the Financial Action Task Force's Working Group on Typologies.

In April 2012, a representative from FINTRAC assumed the position of Co-Chair of the Americas Regional Review Group, reviewing the anti-money laundering and anti-terrorist financing frameworks of a number of countries. Trinidad and Tobago and Venezuela improved their regimes and were removed from the International Co-operation Review Group process during this period. The Americas Regional Review Group also engaged with Cuba and was able to negotiate an action plan that will help that country improve its regime. Over the past year, FINTRAC also contributed to the Caribbean Financial Action Task Force mutual evaluation of Curaçao.

The Egmont Group, a network of financial intelligence units, encourages international collaboration in the global fight against money laundering and terrorist activity financing. As in previous years, FINTRAC was involved in a number of the group's initiatives in 2012–13. We took a leadership role in a major Egmont Charter Review Project, which included the drafting of key documents that will define Egmont's future direction. We also oversaw the transition of responsibility to the new Chair of the Egmont Training Working Group, provided a third consecutive annual training program at the July 2012 Egmont Plenary, and assisted the delivery of eight sessions of the Egmont Tactical Analysis and Strategic Analysis courses.

In 2012–13, FINTRAC also developed the Egmont Supervisory Course, in collaboration with counterparts from Australia, Malaysia and Lebanon, who reviewed the course material to ensure that the curriculum will be effective in reaching an international audience. The course provides global authorities with the basic skills and knowledge required to undertake supervisory examinations. In January 2013, our compliance officers successfully delivered a pilot course to twelve participants from Afghanistan, Australia, Barbados, Belize, Guatemala, India, Lebanon, Mexico, Peru and the United States. In addition to sharing best practices with these supervisory bodies, this course also strengthened our bilateral and multilateral relationships.

In the coming year, FINTRAC will continue to work with the Department of Finance to present Canada's final follow-up report on its most recent Financial Action Task Force evaluation. As a partner in Canada's anti-money laundering and anti-terrorist financing regime, FINTRAC will also begin to prepare the groundwork with our domestic partners for the next round of evaluation. At the same time, we remain committed to our role in the America's Regional Review Group in coordinating the review of jurisdictions with significant deficiencies and developing action plans to help them address these deficiencies. Finally, we will continue to contribute as part of the Canadian delegation to discussions at Financial Action Task Force Plenary and Working Group meetings, including in the review of Mutual Evaluation Reports and in helping to set the priorities related to typologies work.



WHAT WE ARE SEEING— **THE COST OF LAUNDERING MONEY IN CANADA**

In their attempts to circumvent controls in Canada and throughout the world, criminals and terrorists often look to exploit vulnerabilities within or outside the legitimate financial system.

The societal costs of money laundering are significant. For example, as highlighted by the Financial Action Task Force, “organized crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and indeed governments.” The corruption of public officials, committed domestically or internationally, has been an issue of concern for the Centre over the past few years. Since 2010, corruption has been identified as a predicate offence in five percent of FINTRAC disclosures.

As we work with our international partners to combat money laundering, FINTRAC’s strategic analysis suggests that Canada’s anti-money laundering and anti-terrorist financing regime has created a more complicated operating environment for criminals attempting to place their proceeds of crime into the Canadian financial system. Specifically, the Centre has observed changes in the money laundering methods commensurate with a given criminal enterprise’s understanding of the regime’s reporting requirements. These changes in methods impose a cost on criminal operations ranging from inconvenience, to enhanced risk of detection by law enforcement, to a monetary cost that cuts into criminal profits.

With the introduction of the PCMLTFA and its mandatory reporting requirements, criminal behaviour changed immediately. For example, the large cash transaction report, through which cash transactions equal to or above \$10,000 are automatically reported to FINTRAC, forced criminals to “structure” their cash deposits by breaking large sums of money into smaller sums for introduction into the financial system to avoid reporting requirements.

At a minimum, structuring requires a criminal to hold on to a portion of the cash for a longer period of time than may be desired. It also forces criminals to make multiple trips to a deposit-taking institution, increasing the likelihood that questions may be asked about the source of the funds and/or forcing criminals to adapt their explanations regarding the same. Finally, structuring requires a criminal to be involved in the transportation of criminal proceeds, particularly where multiple deposit-taking institutions are used. All of these activities impose burden on criminals and increase the chances of detection.

The widespread reports to FINTRAC of suspected structuring activity suggests, however, that such an inconvenience is one which Canadian criminals are willing and able to endure—it adds to the overhead cost of doing business, but is not prohibitive.

Conversely, the use of third parties, nominees and lawyers to avoid a paper trail resulting from Canada's reporting regime presents a greater level of risk to criminal operations. FINTRAC's strategic analysis of suspicious transaction reports found that third party involvement was the single concept most often reported to the Centre as being suspicious. The use of nominees and third parties introduces additional actors to the criminal activity and, whether they are aware of their complicity in criminal activities or not, their involvement presents a potential cost for the criminal. For example, third parties present an additional avenue for law enforcement to obtain information or evidence of criminal activity. They may not be as careful as the criminal actor in disguising the source of funds, and may be more likely to make mistakes upon which the regime can capitalize.

The use of third parties may also require payment, cutting into the criminal profits and their involvement may, if they are family members or close associates of the criminal actor, place greater personal pressures on the criminal in addition to the aforementioned costs.

Other methods employed by criminals to evade Canada's regime include the use of legitimate business as well as professional money launderers. These methods come at a steeper monetary cost to criminal organizations. For example, purchasing and operating a legitimate business requires capital and ongoing operating expenses, even if the business is only intended to act as a front for the introduction of criminal proceeds. Professional money launderers often receive a percentage of the criminal proceeds to be laundered. Therefore, while more elaborate options can assist a criminal's attempts to circumvent Canada's regime, these options come at a higher cost and cut into criminal proceeds.

In order to combat money laundering and increase the cost of doing business with criminal proceeds, Canada's Prime Minister announced measures at a G-8 meeting in June 2013 to prevent and detect the illicit use of corporations and trusts, including the development of a new money laundering and terrorist financing risk assessment framework; the coming into force of new customer due diligence measures; and consultations on the issue of corporate transparency.

Canada's anti-money laundering and anti-terrorist financing regime must continually adapt to keep pace with the changes to the criminal landscape and the methods used to launder money. We have seen, for example, an increase in electronic/non-cash-based transactions as well as in criminal activities such as credit card and debit card fraud. Our collective understanding of money laundering and the challenges and threats we may face in the future has a direct impact on how we arrange our reporting and analysis regime in support of our law enforcement and national security partners.



OUR CORPORATE STRENGTH

FINTRAC's operations have grown enormously over the past decade in both scope and complexity. Our ability to deliver on our mandate is linked directly to the adaptability of our organization, the skills and dedication of our employees, and the tools and resources we are able to provide them to accomplish their work. As an organization that always strives for excellence, FINTRAC places a strong focus on the effective management of our human, technological, security and financial resources.

HUMAN RESOURCES

At FINTRAC, we pride ourselves on the talent, professionalism and commitment of our workforce. We are, as a priority, focused on maintaining a positive working environment that allows our employees to excel in Canada's fight against money laundering and terrorist activity financing.

Anchoring our professionalism is the new *FINTRAC Code of Conduct, Values and Ethics*. Released in June 2012, our new code harmonizes the *Values and Ethics Code for Public Sector* with our own expectations for behaviour that upholds the highest professional and ethical standards.

Over the past year, we continued to establish linkages between leadership competencies and various people management components including staffing, learning and development, performance management and recognition. A Leadership Forum held in February for the executive cadre further reinforced the importance of leadership in business transformation.

Using the results of the Public Service Employee Survey from 2011, which provided us with concrete measures for evaluating the effectiveness of our people management, we developed a two-year action plan focused on continued improvement in areas such as employee development, bilingualism and prevention of harassment and discrimination.

A new Policy on Learning and Development and a new directive on professional membership fees were finalized this year to ensure our investments in these areas support the current and emerging business priorities of the Centre as well as the professional development of employees. Key among our learning tools is the FINTRAC 101 series, launched to increase employees' understanding across the range of FINTRAC's operations. Sessions included an interactive financial intelligence case

workshop, as well as presentations on financial intelligence unit models, information flows and business tools, conflict and harassment and staffing for employees. Further to the implementation of the Centre's new staffing policy last year, training sessions continued in 2012 for managers and team leaders to promote understanding of staffing at FINTRAC.

Bilingualism continues to be an important focus at the Centre where 65 percent of employees occupy bilingual positions. Following the expansion of the Centre's Second Language Training Program and the launch of the Language Buddy System, a formal Language Training Directive was implemented. Additional initiatives will be identified in an upcoming Official Languages Action Plan that will take into account the Centre's business needs as well as Public Service Employee Survey results.

Employment equity at the Centre was formally assessed this year when FINTRAC undertook an independent Employment Systems Review, including a detailed workforce analysis. Although this review found no substantial employment gaps and no indications of systemic employment barriers for the designated employment equity groups, the Centre is committed to continuous improvement. Based on a number of recommendations highlighted in the review, as well as feedback received through the Public Service Employee Survey engagement sessions, FINTRAC is currently developing a comprehensive Employment Equity and Multiculturalism Action Plan in order to sustain and even augment positive employment equity results and cultural diversity in the future.

On an operational front, we continued to deliver efficient staffing, employee relations, classification and compensation operations on a daily basis. Analysis of staffing data for 2012–13 showed an average completion time of three months for advertised processes.

Moving towards a more proactive approach to staffing along with a more integrated approach to planning at FINTRAC, we initiated a staffing plans exercise to better connect this activity with other business planning exercises. Looking ahead, work will continue across the corporate domain to further develop integrated business planning and reporting mechanisms that provide effective support to decision-making across the Centre.

FINTRAC Demographics (March 31, 2013)

Number of Employees¹: 384

Designated Group Representation	FINTRAC Employees	Workforce Availability ²	Federal Public Service ³
Women	56.3%	48.1%	55.3%
Visible minorities	18.8%	16.5%	13.3%
Persons with disabilities	4.4%	4.2%	5.7%
Aboriginal peoples	1.0%	1.6%	4.5%
Official Languages Representation	FINTRAC Employees	Canadian Population ⁴	Federal Public Service ³
First official language—English	62.0%	74.8%	71.1%
First official language—French	38.0%	23.6%	28.9%

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

2. Source: Canadian Citizen Workforce Population; 2006 Employment Equity Data Report, Table 13, HRSDC

3. Source: Office of the Chief Human Resources Officer, Treasury Board Secretariat, March 31, 2012: "Federal Public Service" includes the core public administration and separate agencies

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

INFORMATION MANAGEMENT AND INFORMATION TECHNOLOGY

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

Over the past year, the Centre conducted extensive research and analysis of its existing analytical systems and data mining tools. As an intelligence agency, FINTRAC must continually invest in information management technology that allows us to undertake effective analysis of the voluminous financial data within our ever-expanding holdings, and provide timely financial intelligence to our law enforcement and national security regime partners.

The Centre upgraded its address standardization software in order to enhance data matching capabilities. In support of our compliance program, we are also strengthening the front-end validation of reports when they are submitted to ensure that the data we receive is of the highest quality. In addition, we began the implementation of a workload delivery system to improve the efficiency of our compliance officers during the examination process by automating and assigning some of their workload.

In 2012–13, a series of projects were initiated and/or concluded to improve the Centre's interaction with money services businesses. For example, we reformatted a section of our website to ease navigation and improve accessibility and usability for these businesses. We also initiated a project to streamline the process used by money services businesses to register with FINTRAC. At the same time, work is underway to improve the current search function that allows Canadians to access publicly available information on these businesses.

We also focused on the disposition of information that we have received since 2000. Under the PCMLTFA, FINTRAC must retain for ten years all personal information contained within financial transaction reports that has not been included in a disclosure. At the same time, this information must be disposed of prior to the 15 year anniversary of its receipt. In recent years, FINTRAC has manually disposed of this information as it reached its ten year anniversary. We also began implementing systems that will automatically dispose of this information in accordance with established internal schedules. This includes information that FINTRAC has received and identified, in the course of our compliance and analytical work, as not meeting legislative reporting thresholds.

Many of FINTRAC's investments in technology are multi-year and multi-partner efforts and will continue to be a focus in 2013–14. For example, the Centre will be working with Shared Services Canada to replace ageing hardware and computer platforms in order to be able to implement new capabilities and technology. At the same time, our priority going forward will be on the modernization of our analytical systems and tools.

SECURITY

Security is central to FINTRAC's activities and operations. In 2012–13, we focused on enhancing the protection of our physical space. We also strengthened the security of our information systems and aligned our processes and procedures for monitoring and incident response to those outlined in the *Government of Canada IT Incident Management Plan*. Mandatory security awareness training was provided to all employees and additional targeted refresher training will be delivered to all staff over the next fiscal year. Finally, we updated our corporate training strategy to ensure it remains current in addressing our privacy obligations.

Over the coming year, the Centre will continue to strengthen its comprehensive security program in order to protect information, assets, and services against compromise. We will also continue to implement measures to strengthen our Emergency Management and Business Continuity programs.

RESOURCE MANAGEMENT

FINTRAC's physical and financial resources are managed on the basis of effective policies and planning, reliable financial and non-financial information, and sound analysis. With this in mind, the Centre focused on strengthening our internal controls in 2012–13. Significant initiatives included:

1. An assessment of FINTRAC's system of internal control over financial reporting to ensure that:
 - Transactions are appropriately authorized;
 - Financial records are properly maintained;
 - Assets are safeguarded; and
 - Applicable laws, regulations and policies are followed.
2. The update of policies, guidelines and procedures in the areas of procurement, and travel, hospitality and conference participation.
3. Improvements to corporate financial reporting through the implementation of a new reporting tool accessible throughout the organization, and more robust quarterly financial reports.
4. The training of FINTRAC employees on procurement, as well as financial reporting tools.

In 2012–13, the owners of FINTRAC's Ottawa headquarters building undertook a comprehensive retrofit of their premises. In addition, through the optimization and acquisition of additional floor space, FINTRAC was able to consolidate all of its Ottawa employees in one headquarters building, enhancing the Centre's operational effectiveness and fortifying its security posture.

2012–13 BUDGET HIGHLIGHTS


The following information highlights the main factors contributing to a net decrease in the total approved budget of 2012–13 compared to the previous fiscal year:

- In 2012–13, in accordance with the Government's commitments made in Budget 2010, FINTRAC received an additional \$2.3M (excluding employee benefit plans).
- FINTRAC received an additional \$1.8M via a re-profile for accommodations expenditures.
- FINTRAC received lower authorities for eligible payroll expenditures and the employee benefit plans of approximately \$4.3M and \$1.0M, respectively. (Expenditures for eligible payroll expenditures were unusually high in 2011–12 due to the immediate settlement of severance pay and termination benefits.)
- FINTRAC transferred, on an ongoing basis, \$5.0M from operations and maintenance to salaries, resulting in a reduction in these authorities of \$0.8M due to the transfer price.
- Funding of \$0.7M for the National Anti-Drug Strategy came to an end.
- FINTRAC's budget was reduced by \$0.2M related to announced Budget 2012 savings measures.
- FINTRAC transferred an additional \$2.6M to Shared Services Canada.
- FINTRAC received a lower operating budget carry-forward of \$0.5M.

History of FINTRAC's Budgets by Fiscal Year (dollars in millions)

	2009–10	2010–11	2011–12	2012–13	2013–14
Salaries	26.8	28.2	36.7	33.4	32.5
Employee benefit plans	4.5	4.6	6.1	5.1	5.7
Operations and maintenance	19.7	22.6	19.2	17.5	13.2
Grants and contributions	1.4	0.8	-	-	-
Total approved budget	52.4	56.2	62	56*	51.4
Total actual	49.9	50.9	59.2	54.0	

* Includes a reduction of \$0.2M related to Budget 2012 savings measures.



ANNEX WHAT A FINTRAC CASE DISCLOSURE MAY CONTAIN

PERSON INVOLVED

- Name (including alias), date of birth, address, telephone number, e-mail address
- Citizenship, passport number, record of landing number or permanent resident card number
- Relevant details of the criminal record and any criminal charges of a person/entity involved or acting on their behalf
- Relationships between persons/entities suspected on reasonable grounds of being involved
- Financial interest of a person in an entity on whose behalf suspected transactions were made or attempted
- Name of person suspected on reasonable grounds of directing the transaction, attempted transaction, importation or exportation
- Name and address of any person on whose behalf the transaction or attempted transaction is conducted or on whose behalf the importation or exportation is carried out

ENTITY INVOLVED

- Corporation name and number, incorporation date and jurisdiction, address, telephone number, e-mail address
- Name, address, e-mail address and telephone number for each partner, director or officer of an entity suspected of being involved
- Name of any person or entity acting on their behalf

- Address and telephone number of principal place of business
- Relevant details of the criminal record and any criminal charges of an entity involved or any person or entity acting on their behalf
- Relationships between persons/entities suspected on reasonable grounds of being involved
- Financial interest of an entity on whose behalf suspected transactions were made or attempted
- Name of entity suspected on reasonable grounds of directing the transaction, attempted transaction, importation or exportation
- Name and address of any entity on whose behalf the transaction or attempted transaction is conducted or on whose behalf the importation or exportation is carried out

ACCOUNT/TRANSACTION INFORMATION

- Transit and account number, type of transaction or attempted transaction, date and time of transaction or attempted transaction
- Value of transaction, attempted transaction or of funds that are the subject of the transaction or attempted transaction
- Name, address and telephone number of the place of business where the transaction or attempted transaction occurred
- Type of account and transaction number
- Full name of every account holder and names of parties involved in the transaction
- Name and address of all persons authorized to act in respect of the account

REPORTS

- Number, monetary value and types of reports on which a disclosure is based
- Number and categories of persons or entities that made these reports

IMPORTATION OR EXPORTATION

- Location of the customs office where the importation or exportation occurred
- Date the importation or exportation occurred
- Amount and type of currency or monetary instruments involved

OTHER INFORMATION

- Relevant grounds on which a person or entity made a suspicious transaction or attempted suspicion transaction report
- Indicators of a money laundering or terrorist activity financing offence related to the transactions, attempted transactions, importation or exportation



GLOSSARY

CANADA BORDER SERVICES AGENCY (CBSA)

The 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-asfc.gc.ca

CANADA REVENUE AGENCY (CRA)

The 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-arc.gc.ca

CANADIAN SECURITY INTELLIGENCE SERVICE (CSIS)

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

CASINO DISBURSEMENT REPORT (CDR)

A report that a casino covered by the PCMLTFA must file with FINTRAC when it makes a disbursement of \$10,000 or more in the course of a single transaction, or when it makes two or more disbursements totalling \$10,000 or more that it knows were made within 24 consecutive hours on behalf of the same individual or entity.

COMMUNICATIONS SECURITY ESTABLISHMENT CANADA (CSEC)

Canada's national cryptologic agency, which provides the Government of Canada with foreign signals intelligence and the protection of electronic information and communication. CSEC also provides technical and operational assistance to federal law enforcement and security agencies. www.cse-cst.gc.ca

CROSS-BORDER CURRENCY REPORT (CBCR)

A report that must be filed with the CBSA 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)

Information received by FINTRAC from a CBSA officer who seizes cash or monetary instruments for which reporting obligations were not met.

EGMONT GROUP OF FINANCIAL INTELLIGENCE UNITS

An international organization of over 100 FIUs, founded in 1995, whose members find ways to cooperate and share expertise, especially in the areas of information exchange, training and information technology. 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 international 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 and terrorist activity financing.

FINANCIAL INTELLIGENCE ASSESSMENT

A classified FINTRAC publication based on an extensive review of FINTRAC's data and other information sources (classified and publicly available), which provides a strategic, macro-level financial intelligence perspective on money laundering and terrorist financing issues of interest to the Canadian security and intelligence community.

FINANCIAL INTELLIGENCE UNIT (FIU)

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

LARGE CASH TRANSACTION REPORT (LCTR)

A report that a reporting entity must file with FINTRAC when it receives \$10,000 or more in cash in the course of a single transaction, or when it receives two or more cash amounts totalling \$10,000 or more that it knows were made within 24 consecutive hours of each other by or on behalf of the same individual or entity.

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

This statute establishes FINTRAC as the agency authorized to receive, analyze, assess and disclose financial information to assist in the detection and deterrence of money laundering and of the financing of terrorist activities. 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. In December 2006, the PCMLTFA was substantially amended to bring it more in line with international standards by expanding its coverage, strengthening its deterrence provisions and broadening the range of information that we may include in our financial intelligence disclosures.

REPORTING ENTITY

The businesses and individuals with legal obligations under Canada's *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) and its accompanying regulations are known collectively as reporting entities. Reporting entities fall into one of the following sectors: accountants, British Columbia notaries, casinos, dealers in precious metals and stones, financial entities, life insurance, money services businesses, real estate, securities dealers.

ROYAL CANADIAN MOUNTED POLICE (RCMP)

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

SUSPICIOUS TRANSACTION REPORT (STR)

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

VOLUNTARY INFORMATION RECORD (VIR)

A record of information voluntarily submitted to FINTRAC by law enforcement partners, intelligence partners and members of the public.



RESULTS
THROUGH
FINANCIAL
INTELLIGENCE



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ISSN: 1910-9415
Cat. No. FD1-2013E-PDF