



Financial Transactions and
Reports Analysis Centre
of Canada

Centre d'analyse des opérations
et déclarations financières
du Canada

Feedback on Suspicious Transaction Reporting

MSB/FX Sector

FEEDBACK ON SUSPICIOUS TRANSACTION REPORTING: MSB/FX SECTOR

1.0 Introduction

This report has been prepared for the Canadian Money Service Business and Foreign Exchange (MSB/FX) sector with the objective to provide feedback on financial transaction reports that have been submitted to FINTRAC. The Centre regularly provides feedback on issues relating to this reporting, including timeliness, volume, quality of reports and areas for improvement. This document provides additional feedback to the MSB/FX sector on FINTRAC's use of the transaction reports they have provided, with particular emphasis on suspicious transaction reports (STRs). Guidance and sanitized samples of completed STRs are also provided. Additional guidance on suspicious transaction reporting can be found in *Guideline 2: Suspicious Transactions* from the Guidelines page of FINTRAC's Web site (www.fintrac.gc.ca).

1.1 Reporting Volumes

The *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) and its Regulations oblige the following persons and entities (known as "reporting entities") to make reports to FINTRAC:

- financial entities (includes banks, credit unions, trust and loan companies, etc.);
- life insurance companies, brokers or agents;
- securities dealers;
- persons engaged in the business of foreign exchange dealing and money services businesses;
- agents of the Crown that sell money orders;
- accountants and accounting firms;
- real estate brokers and sales representatives; and
- casinos.

In addition to meeting client identification and record keeping requirements, these reporting entities must provide the following information to FINTRAC:

- suspicious transaction reports (STRs) related either to money laundering or to terrorist activity financing regardless of dollar value;
- international electronic funds transfer reports (EFTRs) involving \$10,000 or more;
- large cash transaction reports (LCTRs) of \$10,000 or over; and
- terrorist property reports (TPRs) that report the existence of terrorist property in their possession or control, or information about a transaction or proposed transaction in respect of such property.

The MSB/FX sector reported over 8,000 STRs, over 25,000 LCTRs and over 171,000 EFTRs in 2005-06. A detailed breakdown on reporting volumes is included in Annex 1.

1.2 How Reports are Used in FINTRAC Cases

Reporting entities are critical partners in Canada's efforts to detect and deter money laundering and terrorist financing. Success in combating these crimes depends, to a considerable degree, on their vigilance in complying with the reporting, record keeping and client identification requirements of the PCMLTFA. The accuracy, completeness and timeliness of reports are fundamental to FINTRAC's effectiveness.

A main product of FINTRAC's analysis of the reports received from reporting entities is the case disclosure to law enforcement. Reports, along with other information available, are analysed to uncover connections among parties and to identify financial activity associated with patterns of suspected money laundering and terrorist activity financing. Once FINTRAC determines there are reasonable grounds to suspect that the information would be relevant to the investigation or prosecution of a money laundering or terrorist activity financing offence or threats to the security of Canada, FINTRAC must disclose "designated information" to the appropriate police force or security agency.

A case disclosure includes the following types of information:

- name and address of companies or individuals involved in the transactions;
- date, time and amount of the transaction;
- citizenship;
- transaction, transit and account numbers; and
- relevant publicly available information.

As shown in Figure 1, reports from the MSB/FX sector were included in 33% of money laundering and terrorist activity financing case disclosures in 2005-2006.

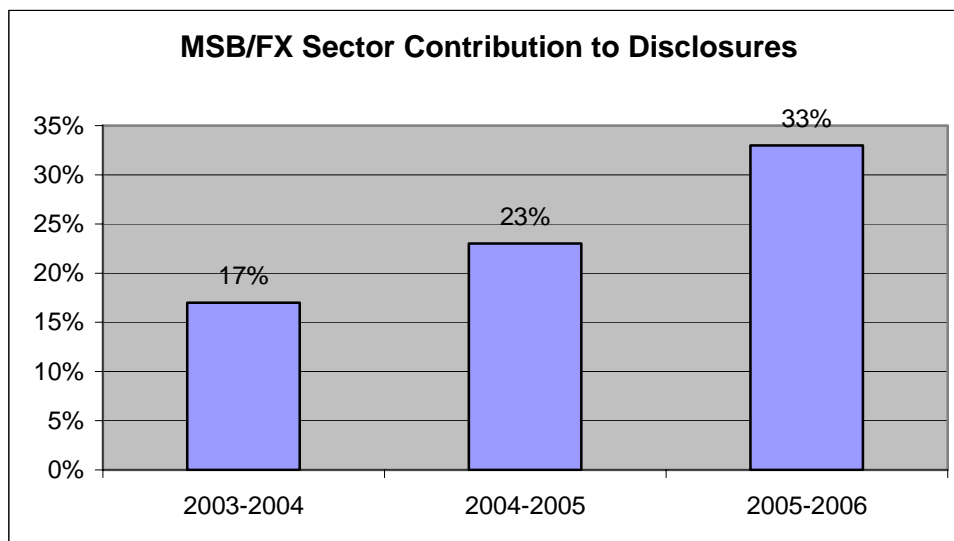


Figure 1

2.0 Tips on Reporting

2.1 The Value of an STR

Reporting entities are required to send an STR to FINTRAC when there are reasonable grounds to suspect that a transaction is related to the commission of a money laundering offence or a terrorist activity financing offence. The STR contains specific information about financial transactions and must be sent within 30 calendar days after a reporting entity has become suspicious. A suspicion in relation to a money laundering or terrorist activity financing offence may also be related to more than one transaction. In this case, all transactions that contributed to the suspicion should be included in the same report.

STRs assist FINTRAC to identify patterns of suspect financial transactions and can support identifying links and connections among individuals, entities and accounts that may otherwise not have been known. STRs, in conjunction with the LCTRs and EFTRs, provide context for the overall flow of funds. In the case of a suspicious transaction report, a detailed explanation of what led to the suspicion is also extremely important to FINTRAC's analysis. For a detailed discussion of how different report types contribute to a case disclosure, please see "Building a Case Disclosure" from the Publications page of the FINTRAC Web site (<http://www.fintrac.gc.ca>).

Completing all applicable fields in the STR makes an important contribution to FINTRAC's ability to isolate activity pointing to possible money laundering or terrorist activity financing. While STRs account for less than 0.25% of all reports

the Centre receives, they represent 16% of all of the reports disclosed to law enforcement and security agencies for investigation and possible prosecution.

2.2 What Makes a Good STR?

In addition to the reporting entity's reasons for suspicion, STRs provide valuable analytical information, such as the following:

- the names of individuals and entities involved in transactions;
- directorships and signing authorities for business entities;
- account numbers and other key identifiers (e.g. date of birth, government issued ID, addresses, telephone numbers);
- the flow of funds;
- historical transaction activity; and
- associated entities and individuals and relationships between them (e.g. family members, business associates).

The complete and consistent reporting of client details (name, address, identification documentation, date of birth, etc.) will ensure that FINTRAC has accurate information to search and verify its data holdings. Using the information on an STR, FINTRAC can also refer to open source information (e.g. media) to identify and verify links.

2.3 Reasons for Suspicion in FINTRAC's Case Disclosures

FINTRAC conducted a review of the STRs provided by the MSB/FX sector that appeared in case disclosures and extracted reasons for suspicion from Part G of these reports. In isolation, each of the reasons below may be insufficient to raise a suspicion of money laundering or terrorist activity financing, however the broader context of the entire information contained in the case disclosure allows this association to be made. Many of the reasons reported are also internationally recognized money laundering or terrorist activity financing indicators.

Common reasons that the MSB/FX sector provided for submitting STRs included in FINTRAC case disclosures include:

Money laundering

- Structuring transactions to evade reporting thresholds;
- Couriers/straw men working on behalf of unidentified ordering parties to conduct transactions;
 - Seemingly unconnected individuals conducting similar transactions;
 - Client instructs that funds are to be picked up by a third party on behalf of the payee;
 - Multiple incoming wire transfers followed by cheques written to cash by the account holder;

- Improper identification/customer due diligence;
 - Client is evasive about the source of funds and the nature of the business that generated the funds;
 - Client refuses to renew his know your customer application form upon request;
 - Customer provides false identification or does not provide any identification;
 - Discrepancy between the client's given identification and the identification information provided on the source of funds declaration form;
- Unusual character of transactions;
 - Client lives in one region but goes to another to conduct currency exchange transactions;
 - Large exchanges of currency atypical for client's financial standing;
 - Economic logic for the transactions performed hard to understand (i.e., client unconcerned about fees);
 - Client transacts with a numbered company located in a country with a weak AML regime;
 - Purchase of traveller's cheques inconsistent with travel plans;
 - Personal wire transfers sent outside migrant remittance "corridors" and/or do not have an apparent family or business link;
 - Client indicates that funds are to finance a particular project, yet wires them to multiple beneficiaries;
 - Unusual character of the exchange transaction compared with the transactions usually performed by the client;
 - Multiple deposits and exchanges of combinations of cash, money orders, or third-party cheques on the same day or within the same period of time;
 - Client orders several wire transfers from different locations payable to the same person;
 - Money orders being purchased for specific currencies bundled into stacks;
 - Client regularly submits same currency in specific denominations (\$20, \$50) and then exchanges it for another currency;
 - Client talks about currency conversion as a regular line of business;
 - Client exchanges large quantities of small denomination bills for large denominations in the same currency.

Terrorist activity financing

- Client is reluctant/unwilling to provide personal information about the individual on the receiving end of the wire transfer;
- Wire transfer is sent to a location of concern;
- Client is listed on a Terrorist Watch-list;
- Frequent large wire transfers are sent, just under the \$10,000 reporting threshold.

When completing an STR, it is important for reporting entities to describe, using narrative, why a transaction is suspicious and not to rely solely on the types of indicators set out above. The complete context of why transactions seem suspicious is key for FINTRAC's analysis as it can assist in reaching the threshold of reasonable grounds to suspect that the information would be relevant to a money laundering or terrorist financing activity investigation or prosecution.

2.4 Sample Suspicious Transaction Reports

The following are some sanitized samples from the STR's *Part G: Description of the Suspicious Activity* submitted by the MSB/FX sector. General observations on the usefulness of the information are also provided.

It is important to note that, in addition to *Part G* of the STR, FINTRAC also relies on the complete and accurate identification of individuals and entities (e.g. address, date of birth, complete name) in other sections of the STR (*Parts A to F*) to identify links and connections.

Suspicious Transaction Report # 1
PART G: Description of suspicious activity
<ul style="list-style-type: none"> ▪ Client exchanged a bank draft for several money orders, payable to various individuals and businesses. ▪ Client converted several bank drafts into CAD and USD cash in a short period of time. This was unusual in comparison to the client's normal behaviour. ▪ Client was reluctant to disclose the source of the drafts. Client claimed to be involved in an industry which deals with large amounts of cash and a constant flow of funds.

The key information provided in this STR that assisted FINTRAC to develop a case includes the following:

- narrative provided context information for the suspicious transactions, compared the client's behaviour to past behaviour, and described client's reaction to routine questioning;
- narrative also provided the names of additional individuals and businesses, to whom the money orders had been ordered, which were included in the case disclosure.

Suspicious Transaction Report # 2
Part G: Description of suspicious activity
<ul style="list-style-type: none"> ▪ Client frequently exchanged a large amount of USD cash in \$20 bills. Client claimed it came from a family member in a foreign jurisdiction. ▪ Transactions were consistently under the reporting threshold, leading to a suspicion of structuring. Client also appeared very knowledgeable about the reporting requirements. ▪ It was unusual for the client to be unconcerned about the exchange rate, considering the amount of cash being exchanged and the frequency of the exchanges.

The key information provided in this STR that assisted FINTRAC to develop a case includes the following:

- narrative supported the use of an internationally recognized indicator (structuring), and provided a description as to why the economic rationale of the transaction was in question;
- the individual reported in this STR had the same telephone number as five other individuals and one entity in FINTRAC's database. When analysing STRs about these other individuals, it came to our attention that Part G in most of the STRs described very similar suspicious activities. These links helped us reach the reasonable grounds of suspicion needed to disclose the case.

Suspicious Transaction Report # 3
Part G: Description of suspicious activity
<ul style="list-style-type: none"> ▪ Over a short period of time, one individual sent several transfers to two other individuals at the same agent location (situated in a country of concern). ▪ It was determined that all transactions were under the \$10,000 reporting threshold, leading to a suspicion that the transactions were structured. ▪ A description of each transfer was included in the narrative, listing the amount sent, the originator, the receiving person and the receiving agent location.

The key information provided in this STR that assisted FINTRAC to develop a case disclosure includes the following:

- narrative provided a description of the suspicious activity, drew attention to funds flowing to a country of concern, supported the use of an internationally recognized indicator (structuring), and provided a breakdown of the transactions involved;
- narrative also provided the names of two additional individuals (on the receiving end of the transactions) who were included in the case disclosure.

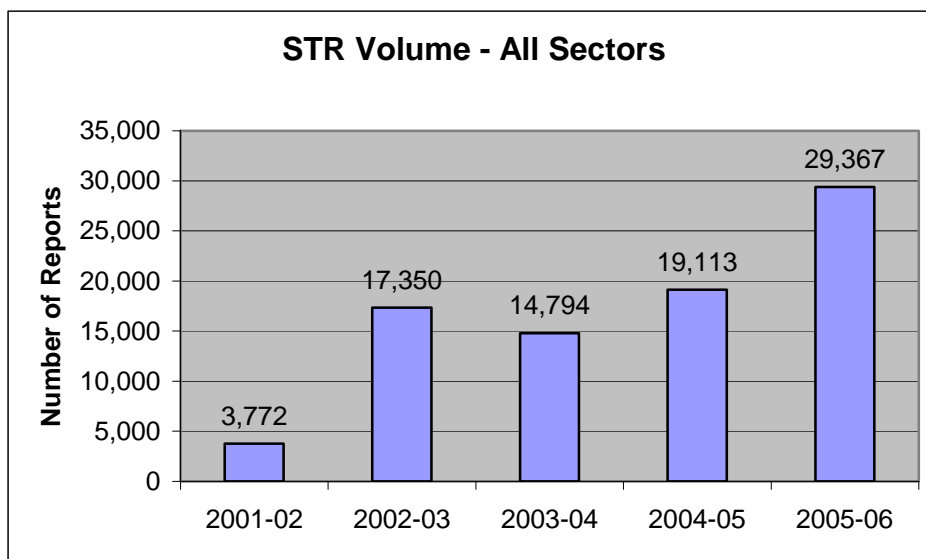
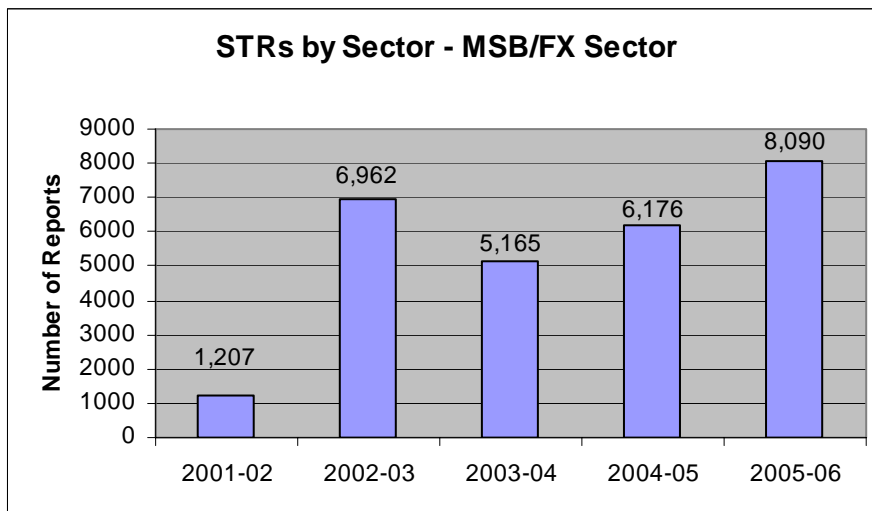
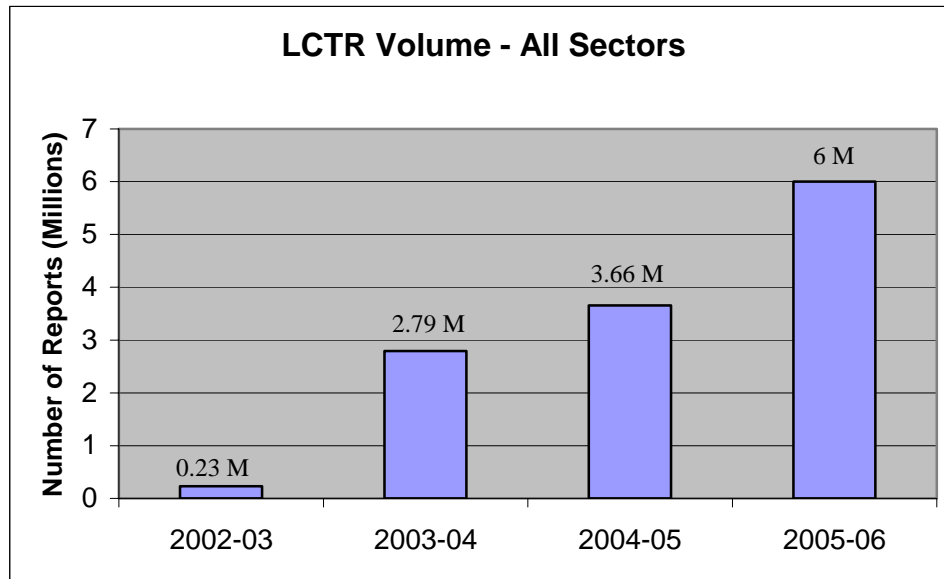
Annex 1 – REPORTING BREAKDOWN FOR THE MSB/FX SECTOR**Figure 2**

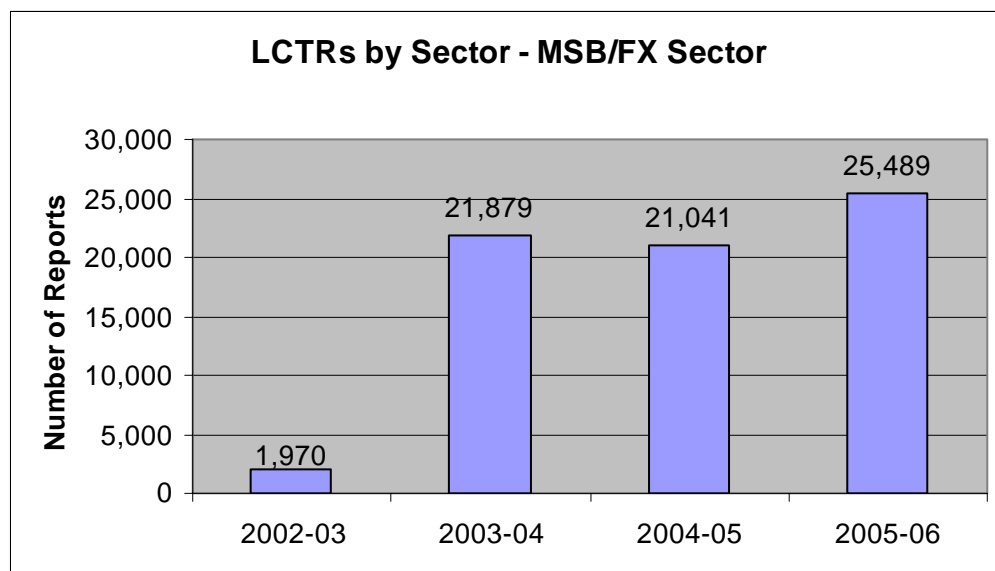
Figure 2 above illustrates that suspicious transaction reporting levels have, for the most part, steadily increased since FINTRAC first became operational in fiscal year 2001-2002.

**Figure 3**

Between 2001 and 2006, the number of STRs reported by the MSB/FX Sector increased from over 1,000 to just over 8,000.

**Figure 4**

The number of LCTRs received by FINTRAC has also increased steadily since the Centre began receiving LCTRs in fiscal year 2002-2003, reaching 6 million reports in 2005-2006.

**Figure 5**

LCTR reporting from the MSB/FX sector has increased since 2002-2003. FINTRAC received over 25,000 LCTRS from the sector in fiscal 2005-2006.

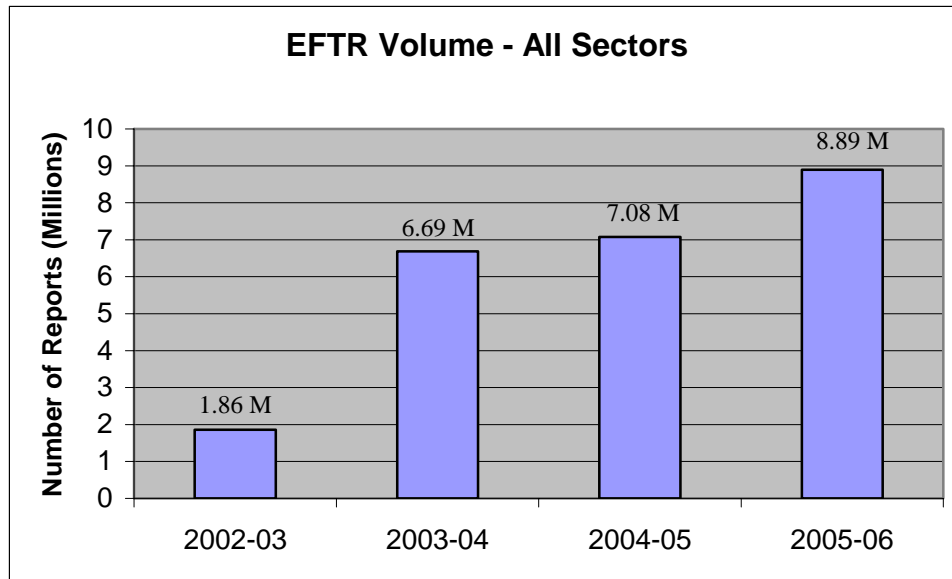


Figure 6

The volume of EFTRs received has steadily increased since FINTRAC began receiving EFTRs in fiscal year 2002-2003.

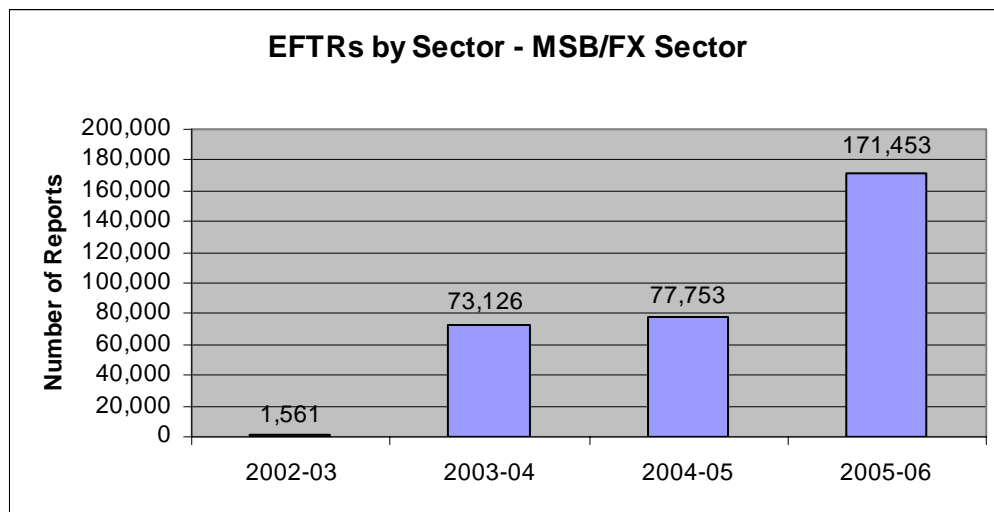


Figure 7

The MSB/FX Sector more than doubled the number of EFTRs it submitted in the past year, submitting over 77,000 reports in fiscal year 2004-2005 and over 171,000 reports in fiscal 2005-2006.