

# Money Laundering and Terrorist Financing Overview

2008

**FINTRAC**  
**CANAFE**



Financial Transactions and  
Reports Analysis Centre of Canada

Centre d'analyse des opérations  
et déclarations financières du Canada

Canada 



# Presentation Overview

- Introduction to FINTRAC and money laundering and terrorist financing
- FINTRAC's role as Canada's financial intelligence unit (FIU)
- FINTRAC and reporting entities



# Introduction to FINTRAC and Money Laundering and Terrorist Financing



# FINTRAC

FINTRAC is Canada's financial intelligence unit. FINTRAC produces financial intelligence for law enforcement and national security agencies. The Centre is uniquely positioned to analyze millions of financial reports to produce this intelligence.

- Created in 2000 under the PCMLTFA.
- Plays an integral role in Canada's effort to combat organized crime and terrorism.
- Independent agency reporting to the Minister of Finance and Parliament.
- Operates at arm's length from law enforcement and other bodies.
- Works in partnership with reporting entities.



## **FINTRAC's Mandate**

- FINTRAC was created to detect and deter money laundering and terrorist financing by providing critical information to support the investigation or prosecution of money laundering and terrorist activity financing offences.



# What Is Money Laundering?

- The United Nations defines money laundering as “any act or attempted act to disguise the source of money or assets derived from criminal activity”.
- Essentially it is the process where “dirty money” is transformed into “clean money”.
- More than just cash, it also includes valuable items (for example real estate, diamonds) and other kinds of funds (for example electronic funds).

# Effects of Money Laundering

- Crime/Victimization
  - Increased cost for law enforcement
- Erosion of fair business practices
- Economic instability
- Undermines the social, political and economic structure
- Undermines the integrity of financial institutions

# Requirements for Money Laundering

- A progressive relationship
  - 1) From a designated offence (or predicate offence or substantive offence);
  - 2) To possession of the proceeds of crime;
  - 3) To laundering the proceeds of crime;
  - 4) To a money laundering offence.
- All previous steps are necessary for each subsequent step.



# Criminal Objectives of Money Laundering

- Possession and use of profits from crime
- Profits used for:
  - Operating capital
  - Lifestyle / Acquisition of assets
  - Power and influence
  - Developing new markets
  - Maintaining existing markets

# Methods of Money Laundering

- Use of financial system
- Physical movement of money (i.e. cash couriers)
- Movement through trade systems

# Three Stages of Money Laundering

Placement

Layering

Integration

**Placement:** introducing illegal profits into the financial system.

**Example:** breaking up large amounts of cash into less conspicuous, smaller sums that are then deposited directly into a bank account.

# Three Stages of Money Laundering

Placement

Layering

Integration

**Layering:** engaging in a series of conversions or movements of the funds to distance them from their source.

**Example:** wire transfers to multiple jurisdictions. For example, money may be wired to accounts in “tax haven countries”, with secretive banking and corporate laws.

# Three Stages of Money Laundering

Placement

Layering

Integration

**Integration:** the successful re-entry of laundered funds into the legitimate economy.

**Example:** investing the funds into real estate, luxury assets, or business ventures.



## Examples of Money Laundering Indicators

- Stated occupation of the client is not in keeping with the level or type of activity
- Client over justifies or explains the transaction.
- Client is secretive and reluctant to meet in person.
- Client is nervous, not in keeping with the transaction.
- Client admits or makes statements about involvement in criminal activities.
- Client does not want correspondence sent to home address.

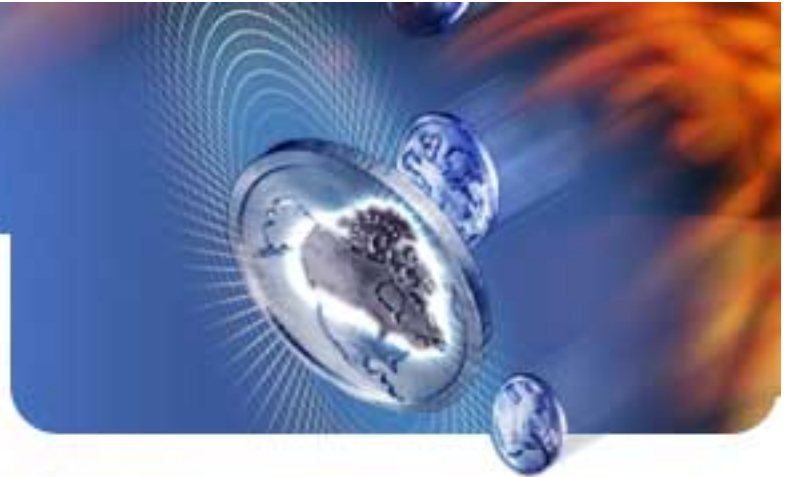


## What Is Terrorist Financing?

- The World Bank defines terrorist financing as “the financial support, in any form, of terrorism or of those who encourage, plan or engage in terrorism”.
- Essentially it is the collecting or providing of funds for terrorism.
- The sources can be either illegitimate sources (such as drug smuggling) or legitimate sources (such as charities) and the amounts are usually much smaller than money laundering.

# Stages of Terrorist Financing

- Collection
- Transmission
- Use





# Trends in Terrorist Financing

- Use of charities and non-profit organizations
- Increase in intellectual property crime (pirated DVDs)
- Various frauds



## Examples of Terrorist Financing Indicators

- Atypical business/account behaviour
- Wire transfers to or from locations of specific concern
- Large or rapid movement of funds
- Media coverage of account holder's activities
- Charity / Relief organization linked to transaction

– *For more information, please consult FINTRAC's Guideline 2*



## Main Differences Between Money Laundering and Terrorist Financing

- Money laundering is done to the proceeds of crime (illegitimate sources) while terrorist financing is funding for crime, from both legitimate and illegitimate sources.
- Money laundering involves manipulating illegal funds to disguise their source, while terrorist financing is the initial requirement to obtain funds.
- The object of money laundering is to disguise/distance the funds from their illegal sources while the object of terrorist financing is to disguise the destination and, ultimately, the point at which the funds can be used to facilitate or implement terrorist activities.



## **FINTRAC Cases**

- The PCMLTFA outlines how FINTRAC can disclose information.
- FINTRAC disclosures have assisted in not only the laying of money laundering charges, but also other predicate offences such as fraud, theft, drug trafficking, etc.
- FINTRAC is aware of numerous case disclosures that have been identified in the press.

## Public Examples of FINTRAC's Contribution

Source: Vancouver Sun, December 14, 2007

- International drug syndicate kingpin and 16 associates were charged.
- \$168 million in drugs seized and millions laundered.
- Real estate worth \$6 million was restrained.
- FINTRAC's assistance was acknowledged publicly by the police who investigated the case.

## **Public Examples of FINTRAC's Contribution (cont'd)**

- Source: Montreal Gazette, November 25, 2006
- Project Colisée – organized crime (Rizzuto family)
- 1,000 charges were filed including drug importation and extortion.
- 700 police officers executed warrants and made 73 arrests.
- FINTRAC's financial intelligence was cited as key.

## Public Examples of FINTRAC's Contribution (cont'd)

- Source: Vancouver Sun, May 20, 2006
- Frank Tran, money laundering kingpin sentenced to 10 years in prison and to pay a fine of \$423,462.
- He laundered \$201 million for Asian and Latino gangs that imported cocaine and exported marijuana.
- \$3 million in assets were forfeited.
- FINTRAC's assistance was acknowledged publicly by the police.

## Public Examples of FINTRAC's Contribution (cont'd)

- Source: Montreal Gazette, September 30, 2005
- Norbourg Asset Management
- \$115 million dollar fraud of investors' funds.
- Vincent Lacroix (founder) fined \$255,000 and sentenced to 12 years in prison.
- Reported in the media that search warrants issued were based on FINTRAC information.



# FINTRAC's Role as Canada's Financial Intelligence Unit (FIU)



## FINTRAC's Role

- **Collect, analyze, assess and disclose** information related to money laundering, terrorist activity financing and threats to the security of Canada.
- **Ensure compliance** with obligations under Part 1 of the PCMLTFA and related regulations.
- **Ensure protection of personal information** under its control.
- **Enhance public awareness** of money laundering and **terrorist financing**.



# FINTRAC – Operations

## Ensuring compliance

- partnership approach, risk-based, soon to include administrative monetary penalties.

## Tactical analysis

- analysts, disclosures, information technology

## Strategic analysis

- patterns, trends, typologies

## Partnerships

- law enforcement, other government entities, international partnerships

## Informing the public

- outreach



## Key Elements of FINTRAC's Functions

- Separation between tactical analysis and compliance functions
- FINTRAC has legislative criteria as to what, how and to whom it may disclose information



# FINTRAC's Approach to Ensuring Compliance

- FINTRAC favours a cooperative approach to ensuring compliance.
- Approach comprised of two parts:
  - Promoting compliance (through outreach, presentations, publications, etc.)
  - Monitoring compliance (through examinations, questionnaires, etc.)
- Our experience indicates that the vast majority of reporting entities wish to comply with their legislative obligations.



# FINTRAC and Reporting Entities



## **Current Sectors Subject to the PCMLTFA**

The following sectors currently have obligations:

- Accountants and accounting firms
- Financial entities (including banks, credit unions, caisses populaires, trusts and loans)
- Life insurance companies, brokers and agents
- Securities dealers
- Money services businesses
- Real estate brokers and sales representatives
- Casinos
- Agents of the Crown that sell money orders



## Obligations under the PCMLTFA

- Reporting
- Client identification
- Record keeping
- Compliance regime



## New Sectors

- Dealers in precious metals and stones \*
- British Columbia notaries (including notary corporations) \*
- Real estate developers °

\* As of December 30, 2008

° As of February 20, 2009



## **FINTRAC's Examination Process**

- FINTRAC compliance officers have the authority to “enquire into the business of” the reporting entity under section 62 of the PCMLTFA
- Can be done by :
  - Administration of a questionnaire
  - Examination
  - Request for information



# How Examinations Are Conducted

## Examination process:

- May contact reporting entity in advance to schedule meeting
- Test effectiveness of mechanisms and controls
- Exit meeting
- Findings letter

## Examination findings and follow-up action

- If compliant – report highlights scope and results
- If non-compliance detected – report identifies areas in need of corrective action
- Request action plan (if required)

# Criminal Offences and Punishments

- Failure to report suspicious transactions: up to \$2 million and/or 5 years imprisonment
- Failure to report a prescribed transaction: up to \$500,000 for the first offence, \$1 million for subsequent offences
- Disclosing the fact that a suspicious transaction was made with intent to prejudice a criminal investigation: up to 2 years imprisonment
- Failure to meet record keeping requirements, verify ID, have a compliance regime, or provide information requested by FINTRAC for compliance purposes: up to \$500,000 and/or 5 years imprisonment

## **Administrative Monetary Penalties**

- Starting December 30, 2008, FINTRAC will have the authority to issue an administrative monetary penalty as a response to non-compliance.



Please consult your regional compliance officer and the FINTRAC Web site (<http://www.fintrac-canafe.gc.ca>) for sector-specific guidance and additional information.