

An aerial photograph of a suspension bridge spanning a wide body of water. The bridge has two tall towers and numerous cables. In the background, a city skyline is visible across the water, with various buildings and a forested area in the foreground. The sky is clear and blue.

Deloitte.

**Financial Management Institute Of
Canada (FMI*IGF)**

Deloitte Presentations

June 2024

Table of Contents

Topic	Slide
Key Terms Defined	4
Predicate Offences	5
Steps involved in money laundering	6
Methods	7
Typologies	10
Regulatory landscape	12
Anti-money laundering measures	15



Table of Contents

Topic	Slide
Anti-Money Laundering in Real Estate	27
Illicit funds flows from developing to developed world	29
Beyond Money Laundering	30
US Case Study	31
Potential typologies detecting underutilized and unaffordable housing	32
Recent Canadian Headlines	33
Extent of Money Laundering & Impact on Canada	34



Key Terms Defined

The section below summarizes key terms



Scope of Money Laundering

According to the United Nations Office on Drugs and Crime , ~\$800 billion - \$2 trillion US dollars are laundered globally each year.

What is money laundering?

- **Money laundering:** The process by which individuals or entities conceal the origins of illegally obtained funds, making them appear to be derived from legitimate sources. This typically involves multiple steps designed to obscure the trail of the illicit funds and integrate them into the financial system without detection.

What is terrorist financing?

- **Terrorist Financing:** A way of taking funds (which may be legitimate, such as charitable donations, or illegitimate, such as the proceeds of crime) and using them to **finance terrorist activity**. The important distinction between ML and TF is that ML always involves illicit funds, whereas TF can be sourced from legitimate income.

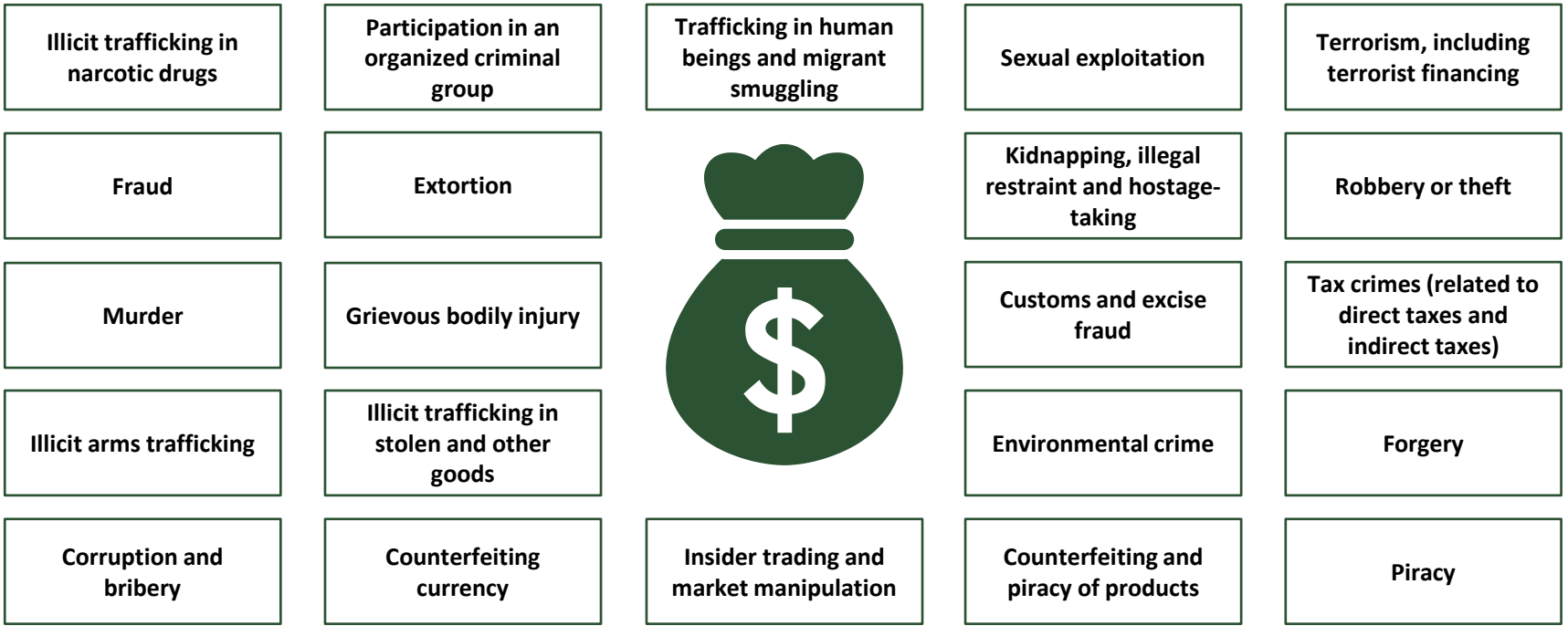
What is a predicate offence?

- **Predicate Offence:** For ML to take place, an underlying predicate criminal offence must occur. It is the **funds received from these crimes which are then laundered into the financial system**.

Predicate Offenses

Illegal activity can take many forms and can include the following:

An AML offence involves various acts committed with the **intention to conceal or convert property** or the proceeds of property knowing or believing that these were **derived from the commission of a predicate offence**.



Typical steps involved in money laundering



Placement: Introducing the illicit funds into the financial system, often through financial institutions, casinos, or other businesses. This might involve depositing cash, purchasing assets, or engaging in financial transactions. Placement is the initial phase of money laundering and is a crucial step as it involves converting large amounts of funds, which can be suspicious, into less suspicious forms.

Layering: Conducting a series of complex financial transactions designed to disguise the origin of the funds. This can include transferring funds through various accounts, often across multiple countries, and engaging in sophisticated investment or trade schemes to further obscure the trail. These complex transactions make it difficult to trace the funds back to the original source. This stage separates the criminal proceeds from their source through multiple layers of financial activities.

Integration: Re-introducing the now-laundered money into the economy in such a way that it appears to be legitimate. This is the final stage of the process and at this point laundered funds are difficult to distinguish from legitimate wealth.

Placement example

An investigation into a local nightclub was launched after it was suspected that the establishment was being used by an organized crime group to launder money from their drug trafficking activities. Law enforcement officials received intelligence that large amounts of cash were being funneled through the nightclub's operations.

Initial Cash Intake

The nightclub had a reputation as a popular establishment which provided the ideal cover for high cash flow. Authorities investigated and noted that the cash intake on any given night appeared significantly higher than what would be expected for normal business operations. Door staff and bartenders frequently handled large cash payments.

Cash Structuring

Upon closing the nightclub manager was observed gathering all the cash in their office and meticulously dividing the money into smaller amounts. Notably, each observed bundle of cash was below the \$10,000 reporting threshold to avoid triggering AML reporting requirements.

Placement of Funds

Over several days the nightclub manager and various other employees made multiple trips to deposit the cash at banks around the area. Each deposit was made at a different branch and amounts were deliberately structured below the reporting threshold (i.e., \$9,500).

Use of Front Businesses

Funds from the nightclub were also used to support several front businesses. For example, funds were taken to a restaurant believed to be owned by the same OCG which also consistently reported higher than normal cash sales. These front businesses provide an additional avenue to funnel cash into the banking system

Layering example

An investigation was conducted into a multinational corporation suspected of laundering money through a series of complex transactions. The company had legitimate business operations but was also believed to operate as a front business to support various illicit activities. The initial tip was received as a result of a suspicious transaction report (STR) filed by the bank in relation to the noted business activity. Specifically, a large transfer to a seemingly unrelated business located in a high-risk jurisdiction.

Initial Transfer

The multinational corporation conducted a transfer of approximately \$5,000,000 to a business located in the Cayman Islands for “consulting services”. It was determined that this Cayman based company had little to no business activity through their accounts.

Secondary Transfers

The Cayman based company immediately distributed the \$5,000,000 via a series of smaller transfers to other businesses located in jurisdictions known for financial secrecy. This included Belize, Panama, and Seychelles to name a few. Each transfer contained generic memos indicating the funds were for “logistics support” or “market research”.

Investments in Assets

Funds from these transfers were subsequently used to purchase various high-value assets including real-estate along with stocks and bonds through several brokerage accounts. Brokerage accounts were notably under various names and operated in various jurisdictions.

Creating a Web

Over the course of several months, funds were continuously moved through numerous accounts. Investments were frequently purchased and sold in quick succession to create a complex web of transactions.

Integration example

Authorities conducted an investigation into an individual suspected of laundering funds related to illicit arms dealing. For several years funds were layered through a series of complex transactions and law enforcement officials were ultimately responsible for identifying how these funds were integrated into the general economy.

Investment in Real Estate

The individual used laundered funds to make numerous high-end property purchases in prime locations including: Vancouver, New York, and Los Angeles. Purchases were made through legitimate real estate agencies and registered under various companies and trusts.

Business Ventures

Funds were also invested in several legitimate business ventures including various franchises and tech startups. These ventures generated substantial legitimate income which effectively masked the origin of the initial illicit funds,

Stock Market Investments

Consistent with the layering stage, funds were also used to invest in the stock market through various brokerage accounts. The returns gained on these investment provided a continuous stream of clean money.

Luxury Goods

Funds were used to purchase high-value jewelry and luxury cars. Purchases were often conducted through auctions or private sales which further added to the complexity in determining the origin of funds. Assets were later sold and the proceeds from these sales made the funds appear legitimate.

Charitable Donations

This individual was also noted for their philanthropic efforts and laundered funds were frequently used to support donations to various causes. These donations provided ultimately provided tax benefits.

Money Laundering Typologies

- **Trade based money laundering (TBML):** involves criminals disguising illegal funds through legitimate international trade transactions, manipulating the value, quantity, or nature of goods to transfer illicit funds across borders and integrating them into the legitimate financial system.
- **Smurfing (Structuring):** Involves breaking down large sums of money into smaller, less suspicious amounts that are then deposited into bank accounts to avoid detection by financial authorities.
- **Shell Companies and Trusts:** Creation of fake companies and trusts to hide the ownership and control of funds. These entities often exist only on paper and are used to obscure the trail of the money.
- **Real Estate Transactions:** Using real estate purchases and sales to launder money. Properties are bought and sold, sometimes at artificially inflated prices, to integrate illicit funds into the financial system.
- **Cash –Intensive Businesses:** Using businesses that typically handle a lot of cash, such as restaurants or car washes, to mix illicit funds with legitimate income.



Money Laundering Typologies Cont.

- **Offshore Accounts:** Moving money to offshore banks in jurisdictions with strong privacy laws to evade detection. These accounts can be used to hide the origin of funds and facilitate further laundering activities.
- **Bank Capture:** Taking control of a financial institution by purchasing a controlling interest to facilitate money laundering activities through that institution.
- **Money Mules:** Recruiting individuals (often unwillingly) to transfer money or goods on behalf of criminals, thus breaking up the laundering chain and making detection more difficult.
- **Cybercrime and Cryptocurrencies:** Using online platforms and digital currencies. Money launderers exploit the anonymity provided by these digital assets (i.e., Bitcoin) to move funds across borders without detection.
- **Gambling:** Using casinos and online gambling platforms to launder money. This can involve purchasing chips with illicit funds and then cashing those chips out as “legitimate winnings”.



Regulatory Landscape (1/2)

AML expectations for Canadian financial institutions are driven by Canadian regulatory requirements that are informed by international expectations from various multilateral bodies

International	
Financial Action Task Force (FATF)	<ul style="list-style-type: none"> • The Financial Action Task Force (FATF) is an intergovernmental body established in 1989 • The FATF has developed a series of recommendations that are recognized as the international standard for combating ML and TF
Wolfsberg Group	<ul style="list-style-type: none"> • The Wolfsberg Group is an association of thirteen global banks established in 2000 • The group has published materials to provide financial institutions (FIs) with an industry perspective on effective financial crime risk management, particularly with respect to Know Your Customer, Anti-Money Laundering and Counter Terrorist Financing policies
USA PATRIOT Act	<ul style="list-style-type: none"> • The Patriot Act was passed following the September 11, 2001 attacks • The purpose of the Act is to deter and punish terrorist acts in the United States and around the world, and to enhance law enforcement investigatory tools.

Regulatory Landscape (2/2)

AML expectations for Canadian financial institutions are driven by Canadian regulatory requirements that are informed by international expectations from various multilateral bodies

Canada	
<p>Financial Transactions and Reports Analysis Centre of Canada (FINTRAC)</p>	<ul style="list-style-type: none"> • FINTRAC is Canada's financial intelligence unit and was created in 2000 • FINTRAC is the major regulatory body for ML and TF in Canada and facilitates the detection, prevention and deterrence of ML and TF activities, while ensuring the protection of personal information under its control
<p>Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) and associated Regulations (PCMLTFR)</p>	<ul style="list-style-type: none"> • The Proceeds of Crime (Money Laundering) Act was amended in 2001 to become the PCMLTFA and associated regulations • The object of the PCMLTFA is to: <ul style="list-style-type: none"> ○ Implement specific measures to detect and deter ML and TF activities to facilitate the investigation or prosecution of these offences ○ Provide law enforcement with the information they need to investigate and prosecute ML or TF offences ○ Assist in fulfilling Canada's international commitments to participate in the fight against transnational crime, particularly ML and the fight against terrorist activities.

Types of organizations required to follow AML regulatory requirements

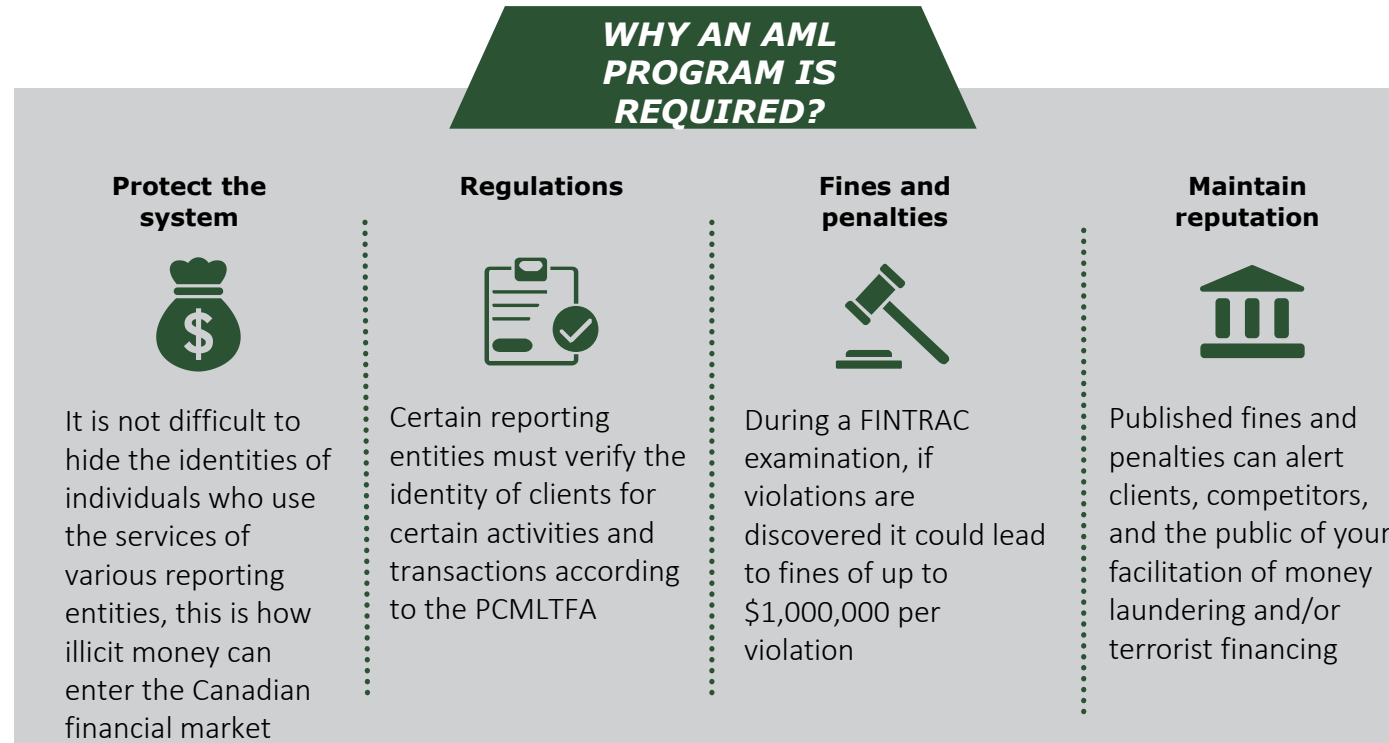
Examples of FINTRAC Reporting Entities	
• Financial entities	• Securities dealers
• Money services businesses	• Real estate brokers
• Life insurance companies, brokers and agents	• Casinos
• Accountants	• British Columbia notaries
• Agents of the crown	• Dealers in precious metals and precious stones
• Armored car businesses (New as of July 1, 2024)	
• Mortgage administrators, brokers and lenders (New as of October 11, 2024)	

An aerial photograph of a suspension bridge spanning a wide river. The bridge has two large towers and is supported by cables. Several cars are visible on the bridge deck. In the background, a city skyline is visible across the water, with various buildings and a forested area in the foreground. The sky is clear and blue.

Anti-Money Laundering Measures

The Importance of an AML Program

Protecting your brand image and mitigating regulatory compliance risk are key reasons to implement an effective AML program



Financial Entities – PCMLTFA Obligations Specified by FINTRAC

Financial entities must fulfill specific obligations as required by the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) and associated Regulations to help combat money laundering and terrorist activity financing in Canada. Some of these obligations are described below:

1

Compliance Program

Financial entities must implement a compliance program. A strong compliance program will form the basis of meeting all your regulatory requirements.

- **Appoint a compliance officer** who is responsible for implementing the program.
- Develop and applying **written compliance policies and procedures** that are periodically updated and approved
- **Conduct a risk assessment** of your business to assess and document the ML/TF risks
- Develop and maintain a written, ongoing compliance **training program**
- Institute and document a plan for a review of the compliance program at **least every two-year**

2

Know Your Customer (KYC)

Financial entities must verify the identity of persons and entities for certain activities and transactions, and carry out other customer due diligence activities such as:

- Verify **the identity of persons or entities** for certain transactions and activities
- Follow the **methods prescribed by the PCMLTFA** and associated Regulations for KYC
- Follow **Business relationship requirements** prescribed by PCMLTFA
- Follow **ongoing monitoring requirements** for business relations
- Follow third party determination requirements
- Take reasonable measures to make PEP and HIO determinations and identify relevant adverse media

3

Transaction Reporting

Financial entities are required to file certain reports to FINTRAC:

- Suspicious Transaction Reports
- Terrorist Property Reports
- Large Cash Transaction Reports
- Large Virtual Currency Transaction Reports
- Electronic Funds Transfer Reports

Transaction Reporting - FINTRAC Transaction Reporting Requirements

Canadian financial institutions are required to submit reports to FINTRAC describing financial transactions that meet certain criteria.

Report	Description
Suspicious transaction reports (STRs)	<ul style="list-style-type: none"> • Can be filed for completed or attempted transaction. There is no monetary threshold associated with the reporting of a suspicious transaction • There is reasonable grounds to suspect that the transaction is related to the commission or attempted commission of a money laundering or terrorist activity financing offence
Electronic funds transfer reports (EFTRs)	<ul style="list-style-type: none"> • Must be submitted to FINTRAC upon a transmission of instructions for the transfer of \$10,000 or more out of, or into, Canada in: <ul style="list-style-type: none"> • A single transaction; or • In two or more transactions totaling \$10,000 or more made within 24 consecutive hours by or on behalf of the same person or entity, through any electronic, magnetic or optical device, telephone instrument or computer.
Large cash transaction reports (LCTRs)	<ul style="list-style-type: none"> • Must be submitted when a reporting entity receives \$10,000 or more in cash in: <ul style="list-style-type: none"> • A single transaction; or • Two or more cash amounts totaling \$10,000 or more made within 24 consecutive hours by or on behalf of the same person or entity
Large virtual currency transaction reports (LVCTRs)	<ul style="list-style-type: none"> • Must be submitted when a reporting entity receives virtual currency in an amount equivalent to \$10,000 or more in: <ul style="list-style-type: none"> • A single transaction; or • Two or more virtual currency amounts totaling \$10,000 or more made within 24 consecutive hours by or on behalf of the same person or entity
Terrorist property reports (TPRs)	<ul style="list-style-type: none"> • Must be submitted to FINTRAC immediately once a reporting entity is required to make a disclosure under the Criminal Code or the Regulations Implementing the UN Resolutions on the Suppression of Terrorism to the RCMP or CSIS • Does not have to be based on a transaction or attempted transaction

Red flags may lead to a suspicion that transactions are related to ML or TF

A STR must be filed when an entity has reasonable grounds to suspect that a transaction is related to the commission or attempted commission of a ML or TF offense



Red flags may include but are not limited to the following:

- Inability to properly identify the client or there are questions surrounding the client's identity.
- Client refuses or tries to avoid providing information required, or provides information that is misleading, vague, or difficult to verify.
- Client produces seemingly false information or identification that appears to be counterfeited, altered or inaccurate.
- The client provides only a non-civic address or disguises a post office box as a civic address for the purpose of concealing their physical residence.
- Client conducts transactions at different physical locations, or approaches different employees.
- Client exhibits nervous behavior
- Client refuses to provide information when required, or is reluctant to provide information.
- Client has a defensive stance to questioning.
- Client refuses to identify a source for funds or provides information that is false, misleading, or substantially incorrect.
- Client makes inquiries/statements indicating a desire to avoid reporting or tries to persuade the reporting entity not to file/maintain required reports
- The transactional activity far exceeds the projected activity at beginning of the relationship. The transactional activity (level or volume) is inconsistent with the client's apparent financial standing, their usual pattern of activities or occupational information (e.g. student, unemployed, social assistance, etc.).
- The transactional activity is inconsistent with what is expected from a declared business
- Large and/or rapid movement of funds not commensurate with the client's financial profile.
- Rounded sum transactions atypical of what would be expected from the client.
- Transactions displaying financial connections between persons or entities that are not usually connected (e.g. a food importer dealing with an automobile parts exporter).
- Transaction is unnecessarily complex for its stated purpose.
- Atypical transfers by client on an in-and-out basis, or other methods of moving funds quickly, such as a currency exchange followed immediately by a wire transfer of the funds out.
- Multiple transactions conducted below the reporting threshold within a short period.

Sources:

1. FINTRAC. (n.d.). Money laundering and terrorist financing indicators—Money services businesses. https://fintrac-canada.ca/guidance-directives/transaction-operation/indicators-indicateurs/msb_mltf-eng

Considerations for CPAs

It is the obligation of every CPA to help combat ML. As such, CPABC has introduced a mandatory Continuing Professional Development requirement for all members to complete AML-related education. This was deemed necessary to:

- Raise and enhance members' awareness regarding ML and its risks
- Assist the profession to detect, prevent and combat ML
- Ensure that members understand the related obligations for CPAs under the federal AML regime.

The following is a high-level of expectations for CPAs related to AML/ATF as outlined in the **"Guide to Comply with Canada's Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) Legislation."**

Accountants and accounting firms have ongoing obligations to identify the performance of triggering activities. Triggering activities involve dealing with client assets on their behalf. The engagement in one single triggering activity gives rise to the full scope of obligations under the AML/ATF legislation applicable to accountants and accounting firms. FINTRAC distinguishes the concept of "giving instructions," which would constitute a triggering activity, from "giving advice," which would not constitute a triggering activity. Giving instructions is synonymous with "ordering" a specific transaction whereas giving advice involves a recommendation to the client or their advisors rather than giving instructions to take action with respect to their assets.

There are four categories of triggering activities which includes the following:

- Receiving or paying funds in virtual currency
- Purchasing or selling real property, or immovables or business assets, or entities
- Transferring funds, virtual currency or securities by any means
- Giving instructions in connection with any of the above

Accountants and accounting firms that engage in triggering activities are subject to the obligations of the AML/ATF legislation. There are five broad AML/ATF legislation obligations to meet:

Sources:

1. Chartered Professional Accountants Canada. (2022). *Guide to Comply With Canada's Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) Legislation.*

Considerations for CPAs cont.

1. Implement and maintain a compliance program

- Implementing and maintaining a compliance program is a preventive measure that aims to reduce the risk that the accountant or accounting firm will inadvertently be used for ML/TF purposes. It is intended to ensure compliance under the AML/ATF legislation. A compliance program forms the basis for meeting all reporting, record keeping, client identification and other know-your-client requirements under the AML/ATF legislation. The implementation and maintenance of a compliance program includes six obligatory requirements:
 - Appoint a compliance officer
 - Development and application of written compliance policies and procedures
 - An assessment and documentation of the risk of ML/TF
 - Development and maintenance of a written ongoing training program
 - Instituting and documenting a training program
 - A review and test of the effectiveness of the compliance program

2. Know your client (KYC)

- The objective of “knowing your client” is to ensure that you know who you are dealing with as a client and that you can take appropriate AML/ATF risk reduction measures if needed. It is done by identifying and verifying a client’s identity, assessing risk and monitoring the client on an ongoing basis. Key obligations include
 - Verifying the identity of a person and the existence of an entity
 - Determining business relationships and ongoing monitoring
 - Meeting beneficial ownership requirements
 - Determining if a third-party is giving instructions
 - Determining politically exposed persons and heads of international organizations requirements

Sources:

1. Chartered Professional Accountants Canada. (2022). *Guide to Comply With Canada’s Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) Legislation.*

Considerations for CPAs cont.

3. Keep records

- Accountants or accounting firms have record keeping obligations when they engage in triggering activities on behalf of any person or entity. Examples of records and reports that must be maintained by accountants and accounting firms can include, but are not limited to:
 - Receipt of funds records
 - Record of verification of the identity of the client
 - Business relationship records
 - Copy of relevant financial reports including LCTRs, LVCTRs, STRs or attempted STRs, terrorist property reports

4. File reports with FINTRAC

- The purpose of the reporting obligation is to facilitate FINTRAC's financial analysis and disclosure of information to designated law enforcement agencies and security agencies when there are **reasonable grounds to suspect** that the information would be relevant to investigating or prosecuting a ML or TF offence, or threats to the security of Canada. All reports must be maintained for at least five years. The four reports accountants and accounting firms must submit to FINTRAC are:
 - Suspicious Transaction Reports (STR); submitted as soon as possible
 - Terrorist Property Reports (TPR); submitted immediately
 - Large Cash Transaction Reports(LCTR); submitted within 15 calendar days of the transaction
 - Large Virtual Currency Transaction Reports (LVCTR); submitted within five working days

5. Follow Ministerial directives and transaction restrictions/prohibitions

- Ministerial directives are issued in special circumstances by the Minister of Finance under the authority of AML/ATF legislation including the PCMLTFA. These directives require reporting entities to apply countermeasures to transactions coming from or going to designated foreign jurisdictions or entities and recommend the introduction of regulations to restrict reporting entities from entering into a financial transaction coming from or going to designated foreign jurisdictions or entities.
 - Currently, the only directive applicable to all reporting entities including Accountants and Accounting Firms relates to the Democratic People's Republic of Korea (DPRK). This ministerial directive requires that all transactions to and from North Korea be treated as high risk, regardless of the amounts of the transactions.

Sources:

1. Chartered Professional Accountants Canada. (2022). *Guide to Comply With Canada's Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) Legislation.*

The Cullen Commission

The Commission of Inquiry Into Money Laundering in British Columbia otherwise known as **The Cullen Commission** is a money laundering inquiry established by British Columbia tasked with examining whether systemic regulatory failures allowed money laundering to take place in BC casinos and real estate. The final report by the commission was released on June 15, 2022 and found that Canada failed to stop the flow of billions in laundered cash per year. This included a significant amount of funds moving through B.C. casinos and the B.C. real estate sector. The report identified the following key areas of concern:

- The current federal AML regime is not effective
- The RCMP's lack of attention to ML has allowed unchecked growth of ML since at least 2012
- A dedicated provincial money laundering intelligence and investigation unit is needed to mount a sustained and effective response to money laundering
- For the better part of a decade, an unprecedented volume of illicit cash was laundered through BC casinos
- Money services businesses (MSBs) present a significant money laundering risk; they should be regulated by the Province
 - MSBs are non-bank entities that provide transfer and exchange services, such as transmitting or exchanging funds and issuing or redeeming money orders. MSBs are frequently used by professional money launderers, often in conjunction with other money laundering techniques. Many operate outside the traditional financial system and are difficult for law enforcement to identify and locate.
 - Although MSBs are subject to the PCMLTFA, that regime has deficiencies. Not all MSBs register with FINTRAC and this leaves FINTRAC and law enforcement in the dark about their activities.
- The BC real estate sector is highly vulnerable to money laundering
- Realtors have a poor record of anti-money laundering reporting and compliance
- The Chartered Professional Accountants of British Columbia must regulate its members for anti-money laundering purposes

Sources:

1. *Commission of Inquiry into Money Laundering in British Columbia - Final Report – Executive Summary*, Austin F. Cullen (June 2022), p. 1-31

Recommendations for CPAs from The Cullen Commission

The Cullen Commission made 13 recommendations with respect to accountants. This included the following:

1. That the Chartered Professional Accountants of British Columbia (CPABC) amend its Code of Professional Conduct to specify that members must report to CPABC a finding by FINTRAC that a member has not complied with the PCLMTFA.
2. The Province study the nature and scope of work performed by unregulated accountants in British Columbia to determine where they work, what clientele they service, what services they provide, whether those services engage a significant risk of facilitating ML, and, if so, what form of AML regulation and oversight is warranted.
3. The provincial Minister of Finance urge their federal counterpart to introduce amendments to the PCMLTFA so that accountants' reporting and other obligations arise when they prepare for and provide advice about triggering activities.
4. The CPABC implement client identification and verification requirements, as well as requirements to verify a client's source of funds
5. The CPABC promptly determine how many of its members operate trust accounts, for what purpose, and in what circumstances.
6. The CPABC implement a trust account auditing regime in which chartered professional accountants and firms that operate a trust account are audited on a regular basis...
7. The CPABC determine the circumstances in which its members accept cash from clients and in what amounts.
8. The CPABC implement a cash transactions rule limiting the amount of cash its members can receive in a single client matter
9. The CPABC determine how often its members engage in the activities specified in section 47 of the Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations.
10. The CPABC expand its practice review program to address AML issues including assessment of the adequacy of the AML policies and programs in place by the member to ensure compliance with the PCMLTFA
11. The CPABC implement a mandatory continuing professional education requirement focused on AML...
12. The Chartered Professional Accountants of Canada follow up with the FINTRAC, on an ongoing basis, to acquire and maintain insights into the level of reporting and compliance of its membership with the requirements of the PCMLTFA.
13. The CPABC pass bylaws or rules enabling it to share information with law enforcement in appropriate circumstances.

Sources:

1. *Commission of Inquiry into Money Laundering in British Columbia - Final Report – Consolidated Recommendations*, Austin F. Cullen (June 2022), p. 42 and 43

An aerial photograph of a suspension bridge spanning a wide body of water. The bridge has two tall towers and is supported by cables. Several cars are visible on the bridge deck. In the background, a dense forest of trees with autumn foliage is visible, and further back, a city skyline with various buildings is seen under a hazy sky. The overall scene is captured from a high angle, looking down at the bridge and across the water.

Money Laundering in Real Estate

Context

Legacy systems, a high number of siloed participants, obscurity of data and a lack of enforcement for AML compliance programs within the Real Estate sector, have led to an increasing volume of friction and criminal activity within the Canadian real estate market, as well as a lack of transparency and monitoring. A number of US studies, BC-focused reports by Maloney, German and Cullen, and Transparency International studies on Canadian jurisdictions have mentioned a link between money laundering in the real estate sector and unaffordable and underutilized housing.

ISSUE



The Cullen Report from BC found that the **detection of suspicious transactions** by realtors and mortgage brokers **is discretionary and unstructured**, as they are often *"not aware of their anti-money laundering obligations,... not familiar with basic customer due diligence,... [and] detection of suspicious transactions is mainly left to the 'feeling' of the individual agents, rather than the result of a structured process assisted by specific red flags."*¹

The Cullen Report also **highlighted a number of data and intelligence-related deficiencies/obscurities** that limit the province's insight into the industry and ability to conduct effective monitoring and market analysis.

These challenges remain to date, with limited access to required information and data.

The Cullen Report recommended that the province prioritizes data analysis and policy development that will further anti-money laundering objectives in the real-estate sector.

WHY NOW



Housing crisis has been a key item in the agenda for the Canadian Government in recent years. Many provinces have prioritized the issue including the Prime Minister making housing one of his focuses to *"help more Canadians find a safe and affordable place to call home"*.

Actions related to tackling beneficial ownership transparency issues via legislation have already been undertaken and efforts to expand the abilities of financial institutions to share information are ongoing.

Understanding available data and the art of the possible is a key step towards unlocking industry insight and demonstrating progress against the Cullen Recommendations which, while officially based on BC data, apply country-wide.

Sources:

1. *Commission of Inquiry into Money Laundering in British Columbia - Final Report, Austin F. Cullen (June 2022), p. 776*

Illicit funds flows from developing to developed world

Financial crime orchestrated through the mis-declared values of import and exports is an approximately \$728.4 billion USD per year issue globally. Global Financial Integrity measured value-gaps, the values “any set of two trading partners each reported about their trade with one another in a given year in order to identify any mismatches or value gaps in the officially reported trade data,” for a ten-year period to determine the value of illicit funds flowing through international trade.

Total Value Gaps Identified in Trade Between 134 Developing Countries and 36 Advanced Economies, 2009-2018, by Developing Country Region, in USD Billions

	Region	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023* extrapolated
1	Developing Asia	290.2	361.2	422.5	386.2	407.4	391.9	387.4	373.4	396.5	469.1	614.5
2	Developing Europe	114.6	137.9	165.5	158.9	170.9	172.7	148.7	151.9	171.4	193.6	261.4
3	Western Hemisphere	84.5	104.6	123.3	120.8	122.7	88.6	80.5	74.3	86.0	88.6	90.8
4	Middle East & North Africa	39.1	54.2	52.8	58.2	66.7	68.8	62.8	60.0	64.4	59.3	74.7
5	Sub-Saharan Africa	22.9	21.9	29.0	28.3	27.5	25.9	23.1	22.6	26.2	24.4	25.3

“Trade mis-invoicing activity represents a major global challenge on two fronts: for customs and tax authorities around the world, particularly in developing countries, trade mis-invoicing reflects the loss of USD billions in uncollected trade-related tax revenues every year; and for law enforcement, trade mis-invoicing facilitates illicit financial flows (IFFs) throughout the global economy.”

Source:
1. “Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018,” Global Financial Integrity (2021)

Beyond Money Laundering: How Organized Crime Groups Utilize Real Estate

There are a multitude of illicit ways organized crime groups utilize real estate in Canada.

Mortgage fraud: Organized crime groups will steal identities in order to acquire mortgage funds. These activities causes financial losses for the lenders and cause financial ruin for the identity theft victims.²

Title fraud: Similar to mortgage fraud, criminals will falsely assume the identity of a property owner and fraudulently sell the property, absconding with the profits and leaving both the sellers and buyers victimized.²

Human trafficking: Organized crime groups often purchase residential real estate with illicit funds to use for the facilitation of sex work involving trafficked individuals.

Drug manufacturing: Drug traffickers may convert properties, usually residential, obtained via money-laundering and fraud activities, into marijuana growing operations and manufacturing facilities for other illegal drugs such as methamphetamine, MDMS, and GHB.¹

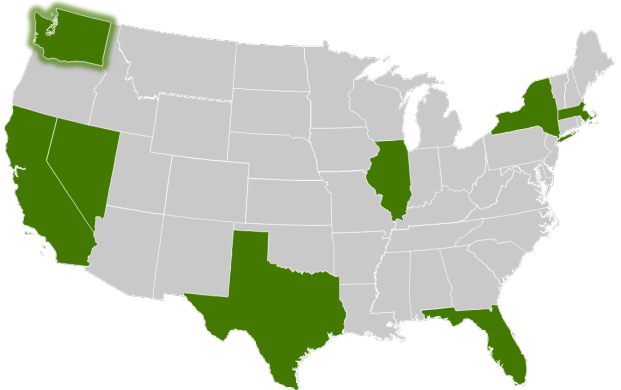
International criminals use purchases of Canadian real estate to park illicit funds offshore. Despite most famously occurring in Vancouver and Toronto, real estate throughout the Canada is used for this purpose.

Sources:

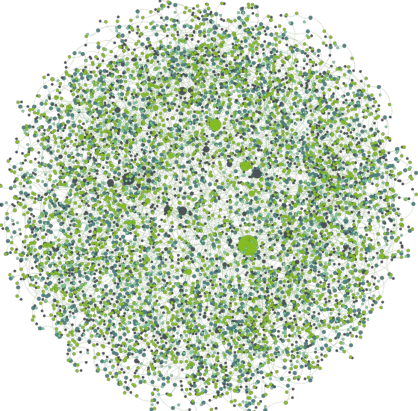
1. *Marihuana Grow Operations and Synthetic Drug Labs: What REALTORS® Need to Know*
2. *CBC News: The extent of real estate fraud and its links to organized crime*

US Case Study - Using Bulk Data Analysis to Identify Risky & Anomalous Real Estate Purchases

1) Applied Deep Analytics to Bulk Real Estate Transactions and Corporate Registrations in U.S. Jurisdictions, Including Washington State



2) Over 4,000 Individuals and 3,000 Organizations Identified Through the Analysis of Real Estate Data Using Public Records in Seattle Area



3) Identified Behavioral Activity and "Risks," Such as Irregular Reporting of Real Estate Transaction Data to County-Level Authorities Versus U.S. Federal Government Authorities

Property Owner	Property Address	Reported Price to County	Reported to USG	Delta
Harold Ramson	324 2 nd Ave S Kirkland, WA 98033	\$400,000	\$1,850,000	\$1,450,000
Norfolk Construction	1067, 11 th Ave W Seattle, WA 98102	\$920,000	\$2,300,000	\$1,380,000
Hi-Fi, L.L.C.	18 25 th Ave Seattle, WA 98122	\$875,000	\$2,051,000	\$1,176,000
The Blarney, L.L.C.	403 S 115 th St Seattle, WA 98122	\$600,000	\$903,000	\$303,000
Otis Manning Trustees	1845 NE 17 th St Seattle, WA 98125	\$500,000	\$800,000	\$300,000
Family Physicians LP	618 Rotary Ln NW Seattle, WA 98106	\$3,400,000	\$3,600,000	\$200,000
Hansen Developers Inc,	817 Ave SW Seattle, WA 98106	\$400,000	\$441,000	\$41,000
Larry Allen	8532 64 th Ave SW	\$415,000	\$448,590	\$33,590
Jimmy Teeb	103 NE 314 th St Seattle, WA 98125	\$550,000	\$580,000	\$30,000

Potential typologies detecting underutilized and unaffordable housing

It is predicted that there will be a number of typologies or indicators that can be monitored with the identified data available. The main intent is to detect underutilized properties or properties contributing to price inflation and unaffordable housing. The detection scenarios targeted will also identify potential properties with money laundering or potential criminal activity concerns. A sample of these typologies have been highlighted below:

			DATA SOURCES			
Key Intent For Detection	Detection Scenarios	Potential Indicator	Land title / Assessment authorities	Corporate Registries	Open-Source Intelligence Data (OSINT)	Public Services data e.g. Hydro
Underutilized Housing	Anomalies in Aggregated Hydro Data	<ul style="list-style-type: none"> Anomalies or noticeable unexpected differences in aggregated hydro data for a particular area or neighborhood 	●		●	●
Other scenarios potentially indicative of Underutilized Housing	Ownership by a shell company	<ul style="list-style-type: none"> Common variables between parties (e.g., same address, phone number etc.) Matches to leaked records (e.g., Panama papers) Anomalies in Hydro data at expected peak periods 	●	●	●	●
	Multiple properties with a common owner	<ul style="list-style-type: none"> One beneficial owner (same address and contact details) for two properties or more. Anomalies in Hydro data at expected peak periods 	●	●	●	●
	Beneficial owner residing outside of Canada	<ul style="list-style-type: none"> BO has self-disclosed residency outside of Canada No tax records in Canada Anomalies in Hydro data at expected peak periods 	●		●	●
Unaffordable Housing / Price Inflation	Rapidity of property transactions	<ul style="list-style-type: none"> A chain of sales on 3-year cyclical basis to avoid speculation tax 	●	●		
	Sale value variance to Provincial Assessment Value	<ul style="list-style-type: none"> Difference between Assessment data & property sale value Difference between property sale value and mean average value for that property type 	●		●	
Other related scenarios which could be linked to Price Inflation	Risk of non-arm's length transaction and price manipulation	<ul style="list-style-type: none"> Connections between parties including shareholders of corporations and mortgage lenders. 	●	●	●	
	Buyer is affiliated to a corporate real estate investor	<ul style="list-style-type: none"> Connections between parties including shareholders of corporations Ownership of several properties 	●	●	●	

Recent Canadian Headlines

"Fake Chinese income" mortgages fuel Toronto Real Estate Bubble: HSBC Bank Leaks

Police arrest four people in multimillion-dollar money laundering operation

17 suspects arrested in connection with \$5-million real estate fraud in Montreal

Accused Kelowna trafficker should hand over six properties: B.C. government

Millions in Hells Angels cash poured into southern Ontario real estate, court documents show

B.C lawyer caught in \$78M fraud case, disbarred for money laundering

FINTRAC has increased their use of financial penalties against the institutions over which it has jurisdiction.

- FINTRAC levied penalties totaling approximately \$10.12 million in 2023. In comparison, the three-year period from 2020-2022 saw just \$4.1 million in fines combined.
- Within the real estate sector over the same 2020-2023 period fine volumes also increased rapidly:
 - 2020: \$0
 - 2021: \$495,000
 - 2022: \$994,000
 - 2023: \$0

Sources:

1. Sam Cooper, "Fake Chinese income' mortgages fuel Toronto Real Estate Bubble: HSBC Bank Leaks," The Bureau (February 6, 2024)
2. Stefan Labbé, Graeme Wood, "B.C lawyer caught in \$78M fraud case, disbarred for money laundering," VancouverIsAwesome.com (November 24, 2023)
3. "Police arrest four people in multimillion-dollar money laundering operation," The City of Calgary Newsroom (December 19, 2023)
4. Paul Cherry, "17 suspects arrested in connection with \$5-million real estate fraud in Montreal," Montreal Gazette (November 2, 2023)
5. Kim Bolan, "Accused Kelowna trafficker should hand over six properties: B.C. government," The Vancouver Sun (February 12, 2024)
6. Jon Woodward, "Millions in Hells Angels cash poured into southern Ontario real estate, court documents show," CP24 (October 31, 2023)

Extent of Money Laundering Problem and Impact on Canada

Money laundering and illicit financial flows is a threat not only to national security - through links to organized crime groups (OCGs) - but the use of real estate as one of the core financial crime typologies, has been shown to have a direct impact on the real estate market, with significant implications for affordability.

Canada's Money Laundering estimates stand at \$113 Billion. Transparency International, issued its annual Corruption Perception Index in 2021, which showed Canada's score at 74 points, in 13th place, even lower in the ranking since its drop from the top 10 in 2019.

Criminal Intelligence Services Canada (CISC) assessed 176 OCGs in 2019 were involved in money laundering, 76% of which are based in Ontario, British Columbia and Quebec¹. Detection remains extremely challenging due to sophisticated methods of concealment, as well as low levels of reporting to FINTRAC. Between 2013 and 2017, 2.5 million real estate transactions occurred in Canada, with only 200 suspicious transaction reports filed².

Real Estate Sector is highly vulnerable to Money Laundering and Terrorist Financing - Real estate brokers, agents and developers provide vulnerable products and services, including the development of land, the construction of new buildings and their subsequent sale³.

The sums of money laundered through real estate is also increasing. A study by the Global Financial Integrity organization analyzed 35 cases of money laundering in Canada as reported through news stories between 2015-2020. the analysis showed that an estimated US\$626.3 million (\$822.7 million) of real estate in Canada was bought with laundered cash. Over 88% of it was residential real estate.⁴

The Province of British Columbia has estimated between C\$800 million and C\$5.3 billion was laundered through the real estate market in the province in 2018.⁵

The study also found that 48.5% of the money was of Canadian origin, and of this, 58.5% of the funds related to drug trafficking.

Sources:

1. *National Criminal Intelligence Estimate on the Canadian Criminal Marketplace:: Money Laundering and Fraud* - Criminal Intelligence Service Canada (2022), p.1
2. *National Criminal Intelligence Estimate on the Canadian Criminal Marketplace:: Money Laundering and Fraud* - Criminal Intelligence Service Canada (2022), p..24
3. *Updated Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada* - Department of Finance, Canada (March 2023) p. 48
4. *Acres of Money Laundering: Why U.S. Real Estate is a Kleptocrat's Dream* - Lakshmi Kumar & Kaisa de Bel (August 2021)
5. *Combatting Money Laundering in BC Real Estate*: - BC Expert Panel on Money Laundering in BC Real Estate (May 2019) p. 52



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the “Deloitte organization”) serves four out of five Fortune Global 500® companies. Learn how Deloitte’s approximately 312,000 people make an impact that matters at www.deloitte.com

This communication contains general information only, and none of none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organization”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.